



standard  
chartered

Annual Report 2020

# Supporting our clients, colleagues and communities

Here for good



# Standard Chartered is a leading international banking group

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

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## About this report

### Sustainability reporting

We adopt an integrated approach to corporate reporting, embedding non-financial information throughout our Annual Report.



More information is also available in our Sustainability Summary at [sc.com/sustainabilitysummary](https://sc.com/sustainabilitysummary)

### Alternative performance measures

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



For more information please visit [sc.com](https://sc.com)

## Responding to COVID-19

In 2020, we committed to providing \$1 billion in not-for-profit loans to help finance companies that supply goods and services in the battle with COVID-19. We also created a \$50 million Global Charitable Fund to provide emergency support, and longer-term assistance, for the communities most impacted by the pandemic. Find out more about our responses to COVID-19, and how we have supported our clients, colleagues and communities on pages 6 to 9.

# \$1 billion



### Our COVID-19 not-for-profit loan pledge

Read more about our activities on page 6, and for information about total lending to date, see page 63

# \$50 million



### Our COVID-19 Global Charitable Fund

Read more about our activities on pages 8 and 57

# Delivering our strategy

We have continued to make good progress against the strategic priorities we laid out in February 2019. As we accelerate our strategy, we have refined our focus onto four strategic priorities and three enablers (pages 26 and 27). We believe this new framework will enable us to focus on the key areas needed to transform our bank. We measure our progress against Group key performance indicators (KPIs), a selection of which are below, as well as client KPIs, some of which can be found on pages 29 to 32. Our Group KPIs include non-financial measures reflecting our commitment to sustainability, focusing on sustainable finance, being a responsible company and promoting inclusive communities. Our 11 Sustainability Aspirations, aligned to the UN Sustainable Development Goals (page 54), provide tangible targets to drive sustainable business outcomes.

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



Clients



Regulators and governments



Investors



Suppliers



Society



Employees



Read more on [page 23](#)  
and [pages 55 to 71](#)

## Financial KPIs

Return on tangible equity

**3.0%**

↓340bps  
Underlying basis

**0.9%**

↓390bps  
Statutory basis

Common Equity Tier 1 ratio

**14.4%**

↑60bps  
Above our target range of 13-14%

Total shareholder return

**(34.6)%**

↓

## Non-financial KPIs

Diversity and inclusion:  
women in senior roles

**29.5%**

↑1%

Sustainability Aspirations  
met or on track

**78.4%**

↓14.7ppt

## Other financial measures

Operating income

**\$14,765m**

↓3%  
Underlying basis

**\$14,754m**

↓4%  
Statutory basis

Profit before tax

**\$2,508m**

↓40%  
Underlying basis

**\$1,613m**

↓57%  
Statutory basis

Earnings per share

**36.1cents**

↓39.6 cents  
Underlying basis

**10.4cents**

↓46.6 cents  
Statutory basis

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

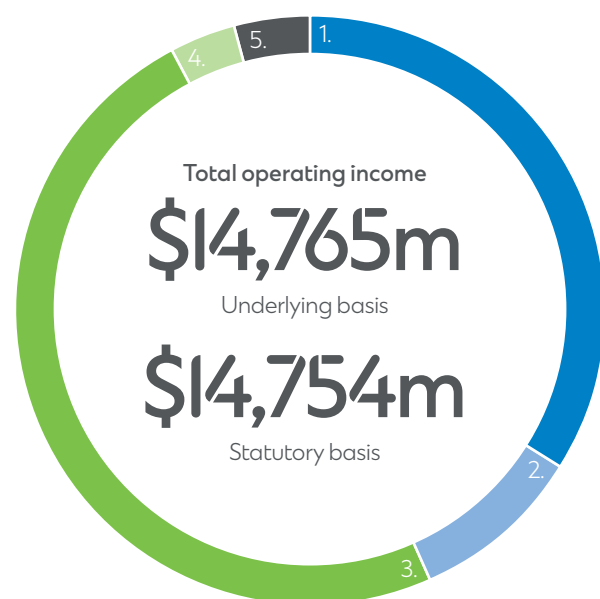
All disclosures in the Strategic Report, Directors' Report and the Risk Review and Capital Review are unaudited unless otherwise stated.

Unless the context requires, within this document, 'China' refers to the People's Republic of China and, for the purposes of this document only, excludes Hong Kong Special Administrative Region (Hong Kong), Macau Special Administrative Region (Macau) and Taiwan. 'Korea' or 'South Korea' refers to the Republic of Korea. Greater China & North Asia (GCNA) includes Mainland China, Hong Kong, Japan, Korea, Macau and Taiwan; ASEAN & South Asia (ASA) includes Australia, Bangladesh, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Vietnam; Africa & Middle East (AME) includes Angola, Bahrain, Botswana, Cameroon, Cote d'Ivoire, Egypt, The Gambia, Ghana, Iraq, Jordan, Kenya, Lebanon, Mauritius, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Sierra Leone, South Africa, Tanzania, the United Arab Emirates (UAE), Uganda, Zambia and Zimbabwe; and Europe & Americas (EA) includes Argentina, Brazil, Colombia, Falkland Islands, France, Germany, Ireland, Jersey, Poland, Sweden, Turkey, the UK and the US. Within the tables in this report, blank spaces indicate that the number is not disclosed, dashes indicate that the number is zero and nm stands for not meaningful. Standard Chartered PLC is incorporated in England and Wales with limited liability, and is headquartered in London. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC. Stock codes are: LSE STAN.LN and HKSE 02888.

# Who we are and what we do

Our purpose is to drive commerce and prosperity through our unique diversity. Our businesses serve four client segments across four regions, supported by nine global functions<sup>1</sup>.

## Our client segments



## Local

1.

### Retail Banking

Serving more than nine million individuals and small businesses.

#### Operating income

**\$5,013m** **\$5,013m**  
Underlying basis Statutory basis

2.

### Commercial Banking

Supporting more than 43,000 local corporations and medium-sized enterprises across Asia, Africa and the Middle East.

#### Operating income

**\$1,409m** **\$1,438m**  
Underlying basis Statutory basis

## Global

3.

### Corporate & Institutional Banking

Serving more than 5,000 large corporations, governments, banks and investors.

#### Operating income

**\$7,214m** **\$7,225m**  
Underlying basis Statutory basis

4.

### Private Banking

Helping nearly 7,000 clients grow and protect their wealth.

#### Operating income

**\$540m** **\$540m**  
Underlying basis Statutory basis

### 5. Central & other items

#### Operating income

**\$589m** **\$538m**  
Underlying basis Statutory basis

## Guiding and supporting our businesses

### Global functions

Our client-facing businesses are supported by our global functions, which ensure our Group operations run smoothly and consistently

#### Human Resources

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

#### Legal

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

#### Technology & Innovation

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

#### Risk

Responsible for the sustainability of our business through good management of risk and ensuring that business is conducted in line with regulatory expectations.

#### Operations

Responsible for all client operations and ensures meeting their needs is at the heart of our operational framework. The function's strategy is supported by performance metrics, standards and practices aligned to client outcomes.

#### Group CFO

Made up of seven teams: Finance, Treasury, Strategy, Investor Relations, Corporate Development, Supply Chain, and Property. The leaders of these functions report directly to the Group Chief Financial Officer.

#### Corporate Affairs, Brand & Marketing

Manages the Group's communications and engagement with stakeholders to protect our reputation and promote our brand and services.

#### Group Internal Audit

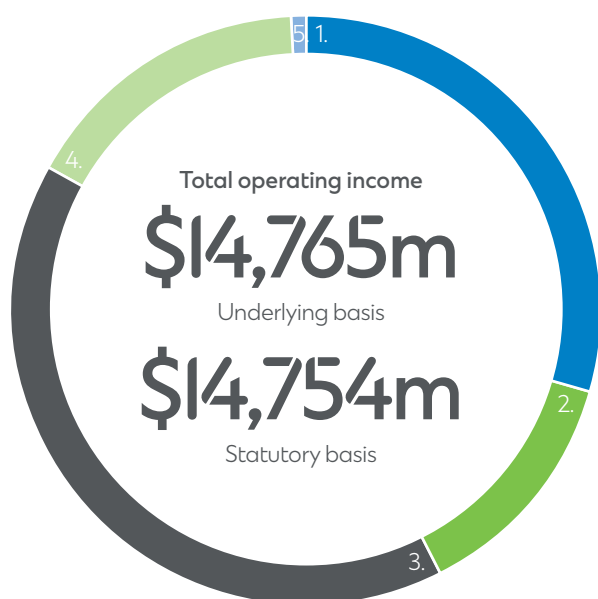
An independent function that helps the Board and executive management protect the assets, reputation and sustainability of the Group.

#### Conduct, Financial Crime and Compliance

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

<sup>1</sup> These pages report on our structure as it was in 2020. For an overview of how our structure has changed, refer to page 21

## Our regions



### 1. **ASEAN & South Asia**

Our largest markets by income are Singapore and India. We are active in all 10 ASEAN countries.

#### Operating income

**\$4,366m** **\$4,362m**  
Underlying basis Statutory basis

### 2. **Europe & Americas**

Centred in London and New York with a presence across both continents. A key income originator for the Group.

#### Operating income

**\$1,922m** **\$1,922m**  
Underlying basis Statutory basis

### 3. **Greater China & North Asia**

Serving clients in mainland China, Hong Kong, Korea, Japan, Taiwan and Macau. The Group's largest region by income.

#### Operating income

**\$6,016m** **\$6,055m**  
Underlying basis Statutory basis

### 4. **Africa & Middle East**

Present in 25 markets, of which the most sizeable by income are the UAE, Nigeria and Kenya.

#### Operating income

**\$2,364m** **\$2,362m**  
Underlying basis Statutory basis

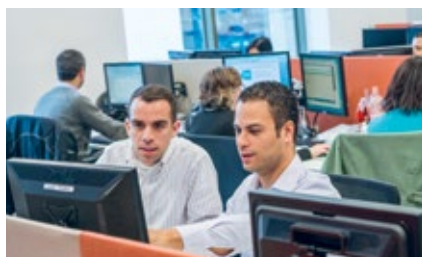
### 5. **Central & other items**

#### Operating income

**\$97m** **\$53m**  
Underlying basis Statutory basis

## Valued behaviours

Our valued behaviours ensure we do things the right way, in order for us to succeed. Only by living our values will we realise our potential and truly be Here for good.



## Never settle

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

## Better together

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

## Do the right thing

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

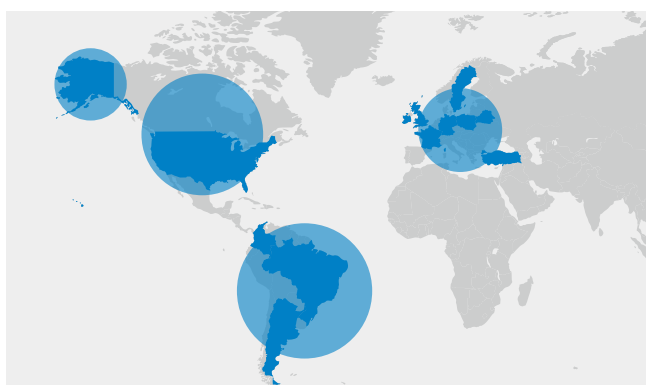
# Where we operate

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

We have been operating in these regions for more than 160 years, providing banking services and supporting growth where and when it matters most.

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

## Europe & Americas



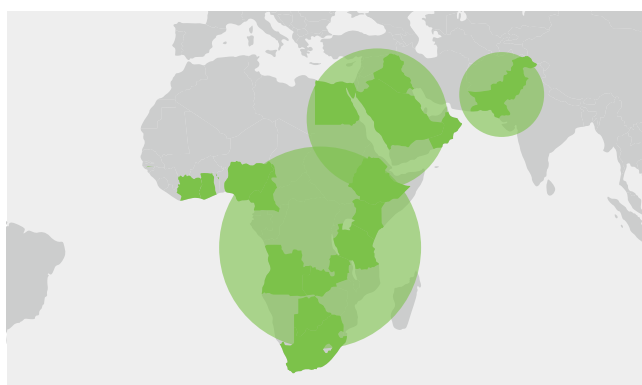
We support clients in Europe & Americas through hubs in London and New York and also have a strong presence in several European and Latin American markets.

Argentina  
Brazil  
Colombia  
Falkland Islands  
France

Germany  
Ireland  
Jersey  
Poland  
Sweden

Turkey  
UK  
US

## Africa & Middle East



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

Angola  
Bahrain  
Botswana  
Cameroon  
Cote d'Ivoire  
Egypt  
The Gambia  
Ghana  
Iraq  
Jordan

Kenya  
Lebanon  
Mauritius  
Nigeria  
Oman  
Pakistan  
Qatar  
Saudi Arabia  
Sierra Leone  
South Africa

Tanzania  
UAE  
Uganda  
Zambia  
Zimbabwe



Case study  
Europe & Americas

**EDF pushes us past \$2bn in sustainable deposits**



Read more on [page 37](#)



Case study  
Africa & Middle East

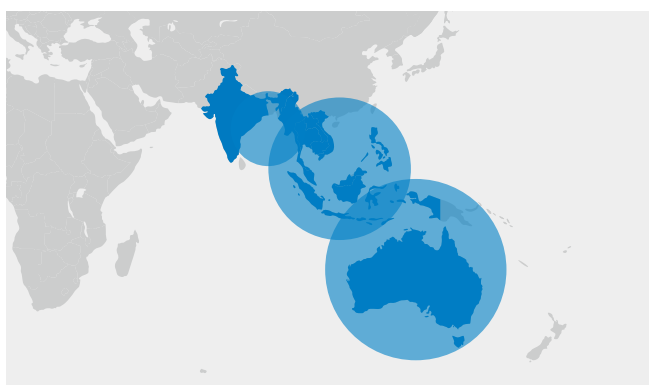
**Fighting COVID-19 in the Middle East**



Read more on [page 36](#)

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

## ASEAN & South Asia



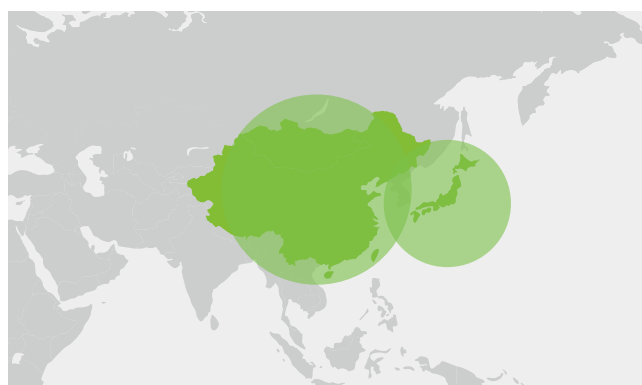
We are the only international bank present in all 10 ASEAN countries. With meaningful operations across many key South Asian markets, we are in a strong position to be the 'go-to' banking partner for our clients.

Australia  
Bangladesh  
Brunei  
Cambodia  
India

Indonesia  
Laos  
Malaysia  
Myanmar  
Nepal

Philippines  
Singapore  
Sri Lanka  
Thailand  
Vietnam

## Greater China & North Asia



Greater China & North Asia generated the largest share of our income in 2020, at 41 per cent, and includes our clients in Hong Kong – the Group's largest market – as well as Mainland China, Japan, Korea, Macau and Taiwan.

Mainland China  
Hong Kong  
Japan

Korea  
Macau  
Taiwan

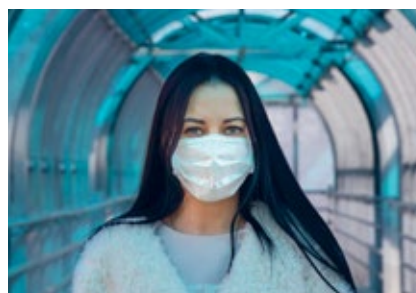


Case study  
ASEAN & South Asia

**Helping India  
breathe  
easier**



Read more  
on **page 35**



Case study  
Greater China &  
North Asia

**Helping  
Japan fight  
COVID-19**



Read more  
on **page 34**

## Our response to COVID-19

# Our \$1 billion financing commitment

### How we've supported our clients and communities during the pandemic

In March, we committed \$1 billion to help finance companies that provide goods and services to help in the battle against COVID-19. To date, the not-for-profit loan programme has helped businesses across our markets manufacture and distribute emergency ventilators, face masks, protective equipment and sanitisers.



For more information about our COVID-19 response funds, and for other examples of how we've supported our clients, colleagues and communities, visit [sc.com/covid-19](https://sc.com/covid-19)

# 450,000

emergency meals delivered to vulnerable New York residents paid for by our funding to Citymeals on Wheels.



Read more online at [sc.com/covid19relief](https://sc.com/covid19relief)

As companies ramped up the production of personal protective equipment, we were on hand to help.

## Helping feed families and migrant workers in Singapore.



Read more on [page 178](#)

### Providing PPE in Uganda

Joint Medical Store, a Ugandan not-for-profit, was the first client to make use of our \$1 billion not-for-profit loan fund in May 2020. Joint Medical Store used the \$2.2 million drawdown to provide healthcare facilities and supply masks, sanitisers and medicines throughout the country.





## Providing COVID-19 tests in Indonesia

In Indonesia, we helped fund Halodoc, a health technology platform that provides rapid COVID-19 tests to high-risk communities. We also donated money to provide sleeping pods to healthcare workers who required much needed rest between their shifts.



# 6,000

Our donations to Teach For Malaysia and WOMEN:girls helped 6,000 students with their distance-learning during the pandemic.

## Making masks in Vietnam

In August, we lent Vietnamese company Garco 10, \$4.3 million to help in the production of personal protective equipment. The financing helped Garco 10 add cloth masks to its product lines to help meet rising demand in the country.



Our response to COVID-19 continued

# Our \$50 million Global Charitable Fund

## How we've supported our communities during the pandemic

In April, we launched our \$50 million Global Charitable Fund in order to support the communities most impacted by the pandemic. To date the fund has helped underprivileged students in Malaysia, provided clean water in Zambia and supported St John's Ambulance in the UK.



For more information about our COVID-19 response funds, and for other examples of how we've supported our clients, colleagues and communities, visit [sc.com/covid-19](https://sc.com/covid-19)

## \$9 million to the Red Cross\* and UNICEF

As part of our \$50 million COVID-19 Global Charitable Fund, we donated \$9 million to UNICEF and the Red Cross. UNICEF's \$5 million fund was used for the educational support of vulnerable children, while the \$4 million provided to the Red Cross was spent on urgent medical and social support.

\* The Red Cross is an umbrella term for the British Red Cross and International Federation of Red Cross and Red Crescent Societies



From Nepal and India to the UK and the US, donations from our COVID-19 Global Charitable Fund have supported charities and NGOs across the world

# \$27.8m

Amount given to 166 NGOs, charities and other partners in COVID-19 emergency relief across 59 markets.



Strategic report

## Colleagues across the world donated to our COVID-19 charitable fund, raising millions to help local communities

Lui Qi (below, far right), who works in our Wuhan branch, donated to our charitable fund as part of our Give One Day initiative, after being overwhelmed by the love and support for her home city from the global community.



Read more online at  
[www.sc.com/giveoneday](http://www.sc.com/giveoneday)

## Give One Day



## Helping Sri Lanka fight COVID-19

In August, we donated \$500,000 to the Sri Lanka Red Cross Society to assist in the fight against COVID-19. As well as supporting emergency relief, the money funded 13,000 COVID-19 testing kits.



# Group Chairman's statement



**José Viñals**  
Group Chairman

“Leading with our purpose  
to realise our full potential”

2020 was a year of extraordinary global turbulence, and COVID-19 in particular had a profound impact on all of us. The world is a very different place from this time last year and we all must continue to adjust and adapt. We have very sadly lost colleagues and some of you will have also lost friends and loved ones, so I would like to extend my deepest sympathy to everyone who has suffered during the pandemic.

Throughout this tumultuous period, our 89,000 colleagues around the world – led by our Chief Executive Bill Winters and colleagues in the Management Team – have focused on protecting the interests of shareholders, while ensuring the wellbeing of colleagues, supporting our customers and clients, and showing solidarity with our communities. All of this while preserving our operational and financial resilience.

They have done this demonstrating exemplary character and with great humanity, something that I have always said is a distinctive characteristic of this Group.

Repayment holidays, fee waivers and loan extensions were offered to individual and small business customers, and we made \$1 billion of financing available at cost to those providing critical goods and services in the fight against the virus. We also established a \$50 million Global Charitable Fund to help those affected within our communities. So far, we have donated \$28 million across 59 markets, with a comparable sum contributed by colleagues and the Group to support and stimulate economic recovery.

## **A resilient financial performance, enabling a return to capital distributions**

Bill and Andy Halford, our Chief Financial Officer, will explain in more detail later in this report how our financial performance was impacted in some respects by the effects of the pandemic. But those results also show evidence of great resilience – certainly far greater resilience than I suspect would have been the case if the pandemic had occurred a few years ago.

Our profit reduced despite lower costs due to a combination of lower interest rates that affected income and higher impairments driven in part by the reserves that we built to absorb possible future credit losses as the pandemic unfolds. But we remained highly liquid and our capital position actually strengthened further, which means that with better visibility over the near-term economic outlook the Board is recommending the payment of a full-year ordinary dividend of \$284 million or 9 cents per share.

And with our common equity tier 1 capital ratio above the top end of our 13-14 per cent target range, even after accruing for the recommended ordinary dividend, we have decided to complete the share buy-back programme that was suspended in April 2020, meaning we will shortly start purchasing and then cancelling up to \$254 million worth of ordinary shares.

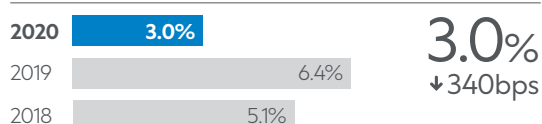
The proposed full-year dividend and share buy-back programme together is the maximum we are authorised by our regulator to return to shareholders at this stage, being 0.2 per cent of our risk-weighted assets as at 31 December 2020.

The Board's position on capital returns remains essentially the same as it was before our regulator requested us to withdraw the recommended 2019 final dividend. Having now resumed it, we expect to be able to increase the full-year dividend per share over time as we execute our strategy and progress towards a 10 per cent return on tangible equity. To the extent additional capital generated over that period is not needed to fund further business growth, we will continue to find optimal ways of returning the excess to our owners.

**“We have the responsibility and a great opportunity to channel financing to where it is most needed”**

## Financial KPIs

### Underlying return on tangible equity (RoTE) %

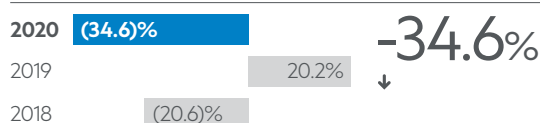


**Aim** Deliver sustainable improvement in the Group's profitability as a percentage of the value of shareholders' tangible equity.

**Analysis** RoTE was down 340 bps to 3.0 per cent in 2020, driven by COVID-19-related elevated impairments and lower interest rates.

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

### Total shareholder return (TSR) %

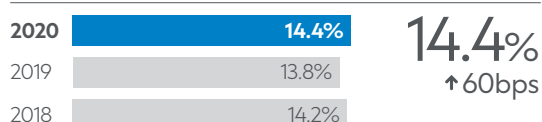


**Aim** Deliver a positive return on shareholders' investment through share price appreciation and dividends paid.

**Analysis** The Group's TSR in the full year 2020 was negative 34.6 per cent, reflecting lower earnings estimates, in particular from a lower interest rate environment and withdrawal of distributions in response to the Group's regulator as a consequence of the challenges due to COVID-19.

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

### Common Equity Tier 1 ratio %



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

**Analysis** Our CET1 ratio of 14.4 per cent was above the top-end of our 13-14 per cent target range, and more than four percentage points above the Group's latest regulatory minimum of 10.0 per cent.

The components of the Group's capital are summarised on page 277

## Governance

I am delighted to welcome Maria Ramos to our Board as an independent non-executive director. She brings considerable experience as a chief executive, significant understanding of the global financial services industry, an in-depth understanding of the regulatory landscape, as well as experience of operating across many of our markets, especially in the Africa region.

We welcome the appointment of Dr Ngozi Okonjo-Iweala as the new Director-General of the World Trade Organisation, as a result of which she will shortly step down from the Board. I would like to thank Dr Ngozi for her valuable contributions to the Group over the last three years.

We recently announced several changes to our Board Committee composition, details of which can be found in the Directors' report on page 80. We also recently announced that Robert Zoellick is taking over as chair of our International Advisory Council, a diverse, multidisciplinary panel of experts whose role is to provide insight on global trends and opportunities that may affect the Group and our clients. Robert served as president of the World Bank from 2007 to 2012, where he led the effort to assist developing economies during the Global Financial Crisis and held various posts in the US Government over three administrations.

## What it means to us to be purpose-led

Standard Chartered has a history of being bold and finding new opportunities in times of change. For over 160 years we have been pioneers of international trade and investment, facilitating the flow of capital to where it is needed most to drive commerce and prosperity.

And yet, in today's complex, fast-moving and unstable world, it is clear that markets, trade and capital flows are failing to address some of the key socio-economic and environmental challenges of our time. It doesn't need to be this way; we believe commerce and prosperity can be driven without people being left behind, without the planet being negatively impacted, and without creating divisions that diminish our sense of community. Never has finance and commerce been more important in fuelling positive change where it matters most – and especially in the world's emerging economic powerhouses.

This is why now, more than ever before, we must lead with our purpose. This is the moment to use our unique capacity to work across boundaries, connecting capital, people, ideas and best practices, both locally and globally. Our conviction is that we can accelerate our strategy and its wider impact by connecting it to the big issues facing our world. We will take a stand on those issues, reshape our Group where necessary to meet them and grow by playing an active role.

The refreshed strategic priorities that Bill describes separately are fully aligned with this objective. This is not just about social responsibility. This is fundamentally about doing great business, transforming our franchise and taking our promise of being Here for good to a whole new level. We're determined to unleash a new dynamic in the Group – powered by our purpose. We are building on who we are and what we are good at, and that is why I am confident we can step forward and make a real difference.

## Outlook

So, what does 2021 hold? I hope and expect it will be a better year overall for the world and for us, even if uncertainties continue on several fronts. First, despite the recent positive news on vaccines, we will be coping with the health and economic impact of COVID-19 for some time. Yet I envisage

## Group Chairman's statement continued

that the global economic recovery will strengthen as the year progresses and confidence returns, led by the performance of markets in Asia where we have large and entrenched positions.

Second, geopolitical uncertainty will not disappear under the new US administration, albeit I expect the US to take a more systematic, predictable and multilateral approach to foreign relations.

Finally, the pace of change required by these new times means things are accelerating faster, not just in the digital space, but also many other parts of the business ecosystem and the world. I expect that this will ultimately result in advances in productivity growth.

There remain plenty of reasons to be confident in this evolving environment. We have shown that we are getting much better at converting the undoubted dynamism of our home markets across Asia, Africa and the Middle East into profitable growth. We grew income between four and eight per cent on a like-for-like basis every quarter between the end of 2018 and the end of the first half of 2020 when the impact of COVID-19 hit, and this was while generating positive income-to-cost jaws in every period. I have always been very clear that strong growth is no good if it isn't safe and sustainable, which is why I am pleased to see the risk framework that the Management Team worked so hard to implement from 2015 perform so well last year.

The Board will continue to oversee the execution of the Group's strategy. Our goal is to provide a best-in-class experience for our clients, be that through our unique network, personalised affluent banking or attractive digital offerings in mass retail, including through key strategic partnerships. And to do this with a world-class workforce and an agile and innovative organisation which makes us simpler, faster and better. In doing so, we also aspire to become a leader in the sustainability space. As a Group with a large and long-standing emerging markets footprint, we feel we have the responsibility and a great opportunity to channel financing to where it is most needed to make the planet more sustainable.

I said in last year's report that instability and rapid change are becoming the new normal, and that adaptation is a skill I saw as being core to the Group's DNA. I am humbled by some of the stories I have heard of how my colleagues are ensuring exceptional continuity of service to our clients in often difficult circumstances, and I have no doubt that they will continue to go the extra mile to make a positive difference.



**José Viñals**  
Group Chairman  
25 February 2021

### Working from home

With the pandemic forcing many of our markets into lockdown, we had to move quickly to ensure we could operate effectively when many of our colleagues had no option but to work from home.

"The excellent work of our technology team, which within a matter of weeks sourced thousands of laptops and increased the capacity of our Virtual Private Network by 600 per cent, streamlined the process of switching to home working and supported our operational resilience, enabling our employees to deliver continuity of service to our customers." José Viñals



# Group Chief Executive's review



**Bill Winters**  
Group Chief Executive

“Our outlook is bright”

## Invested in 2020<sup>1</sup>

# \$1.6bn

2019: \$1.6bn 2018: \$1.6bn

<sup>1</sup> Regulatory, strategic, cyber and system investments

## Open Application Programming Interfaces for clients

# 104 APIs

2019: 52 APIs 2018: 2 APIs

## Proportion of Retail Banking clients who are digitally active

# 61%

2019: 54% 2018: 49%

We are weathering the health crisis and geopolitical tensions very well. We remain strong and profitable, although clearly impacted by credit challenges and low interest rates. Our strategic transformation continues to progress well, and our outlook is bright.

Our relative strength derives from actions we have taken over the past five years, the first phase of which was to secure our foundations. Our efforts during that time were not always obvious externally, but the benefits became clear last year when we came through an extraordinary real-life stress test with financial and operational resilience. We were open for business for our customers and communities throughout the crisis and, as Andy will describe later in this report, we remained profitable while preserving very strong liquidity and capital positions.

Since 2018, we have been executing the second phase, building on those stronger foundations. We have delivered our differentiated network and affluent businesses, optimised returns in India, Korea, the UAE and Indonesia – profits in those markets in aggregate rose 34 per cent – and invested heavily in what we expect to be transformational digital initiatives that are now live and winning business across our footprint.

We are ready now to start the next phase.

## Our refreshed strategic priorities

José has already described what it means for us to be a purpose-led organisation, and how that will guide us in the years ahead. The refreshed strategic priorities which we share today link directly to our purpose to drive commerce and prosperity with our unique diversity and we have geared up to develop the skills, mindset and capabilities to deliver both. They will take us beyond what we currently do, how we currently think and extend our existing scale and impact.

- **Network:** we will continue to unlock the power of our unique physical footprint by digitally delivering to our clients best-in-class emerging and developed markets capabilities, insights and solutions
- **Affluent:** we will reinforce our strong credentials in the affluent segment by building loyalty and trust through offering our clients personalised wealth advice based on superior insight
- **Mass retail:** we now have a range of proven digital capabilities and our remodelled risk framework has been thoroughly stress-tested, which means we can substantially and economically scale up our mass market retail presence. We will do this with enhanced data analytics and a superior end-to-end digital experience, developing opportunities on our own and with partners
- **Sustainability:** we will lead with a differentiated sustainability offering, including reflecting net-zero climate goals in everything we do. This is not to score points on ESG indices, but because we know we can make a difference in the world where it matters most, and do so profitably

## Group Chief Executive's review continued

These strategic priorities will be supported by three critical enablers. We are investing heavily in our people, giving colleagues the skills they need to succeed, bringing in expertise in critical areas and evolving to a more innovative and agile operating model. We are fundamentally changing the way we work, accelerating our time-to-market and increasing productivity with cross-functional teams driving agreed client and productivity outcomes. And we are driving innovation to improve our clients' experience, increase our operational efficiency and tap new sources of income, creating opportunities that I can foresee over time representing the majority of our income.

### Re-committing to delivering return on tangible equity above 10 per cent

Our strategic progress continues apace despite the challenges related to COVID-19. Our returns have suffered though as the resulting severe economic dislocations and low interest rates impacted our financial performance. The progress we made up to the onset of the pandemic, however, in every key financial and strategic metric, gives us confidence that we can return to that trajectory as economies recover over the coming year.

Our refreshed strategic priorities, together with the financial framework that is laid out in the presentation that accompanies this report, should allow us to improve our return on tangible equity from the 3 per cent we delivered in 2020 to more than 7 per cent by 2023 as we progressively advance to our target of more than 10 per cent. We will hit those targets sooner if interest rates start to normalise earlier than anticipated, but in any event we expect to generate significant surplus capital over this period that will be returned to shareholders if not deployed to fund additional growth. We are starting as we mean to go on, by completing the share buy-back programme that was suspended in April 2020.

### Resilience at our core

It has been an extraordinary year in many respects. But we have a long history of resilience to economic shocks and geopolitical tussles, and the opportunities and even the challenges have not fundamentally changed.

- The negative impacts of COVID-19 should be largely transitory, and indeed have provided powerful lessons that will help us to accelerate our pursuit of better productivity and may even lead to a better world. The almost overnight shift to more flexible working should benefit us over time both financially and in terms of fostering greater diversity and inclusion, and also caused us to add to our extraordinary focus on keeping pace with escalating cyber, fraud and other threats. And while we will likely live with very low interest rates for several years, even that won't last forever as economies start to reflate
- As an international bank with a unique emerging market footprint straddling the East and the West, we have always had to deal with political turbulence, both within and between our markets. This was unusually visible in 2020 but we are hopeful that a spirit of engagement will help avoid further escalation. We will comply with all laws that affect us and our clients and hope for a more diplomatic and multilateral solution to the world's challenges
- Global trade was slowing before COVID-19 and slumped when it hit, as markets around the world went into various forms of lockdown. The pace of growth comes and goes but we don't believe global trade has permanently gone into reverse. And while some trade corridors such as those between the US and China may decline from the very high levels of recent years, they will be replaced by others, in particular within the Asia and Africa regions, which play perfectly to our strengths

One thing remains clear: we can win through a relentless focus on improving the experience of our customers while working hard to attract new ones, and while keeping a tight grip on costs. The underlying macroeconomic and demographic growth drivers in our footprint remain strong and we remain well positioned to benefit from them. With our virtual bank Mox launched in Hong Kong, our banking-as-a-service venture 'nexus' preparing to launch with partners in Indonesia and digital banking now firmly embedded across our Africa franchise, we are better able to capture and create opportunities in markets that are likely to remain the most dynamic in the world for the foreseeable future.

## Concluding remarks

While COVID-19 caused the quickest and sharpest economic collapse any of us has ever seen, recovery expectations have also surpassed prior recessions in both speed and magnitude. We are in a great position to benefit from that.

In the coming years, we aim not just to be a larger, leaner, more profitable and strongly capitalised bank, but a better one. Better for our customers, our communities, our colleagues and our shareholders.

- We have a non-replicable business. We intend to utilise that unique diversity for the benefit of our customers and shareholders
- We are already admired for our specialist servicing of the fast-growing trade and investment corridors across Asia, Africa and the Middle East and we are doubling-down on that differentiation

- We are driving a culture of innovation, that we believe will create sustainable opportunities in the world's fastest growing markets

And last but certainly not least, I wholeheartedly support José's comments concerning the remarkable efforts of our 89,000 colleagues around the world this year, frequently in difficult personal circumstances. These efforts enabled us to protect shareholders' interests in an exceptionally challenging year and maintain our steadfast support for the communities in the 59 markets we call home.



**Bill Winters**

Group Chief Executive

25 February 2021

## Management Team

- |  |   |   |
|--|---|---|
| 1. <b>Bill Winters, CBE</b><br>Group Chief Executive   | 5. <b>Dr Michael Gorriz</b><br>Group Chief Information Officer    | 10. <b>Tracey McDermott, CBE</b><br>Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance |
| 2. <b>Andy Halford</b><br>Group Chief Financial Officer  | 6. <b>Benjamin Hung</b><br>CEO, Asia                              | 11. <b>Mark Smith</b><br>Group Chief Risk Officer   |
| 3. <b>Simon Cooper</b><br>CEO, Corporate, Commercial & Institutional Banking and Europe & Americas | 7. <b>Judy Hsu</b><br>CEO, Consumer, Private and Business Banking | 12. <b>David Whiteing</b><br>Group Chief Operating Officer  |
| 4. <b>David Fein</b><br>Group General Counsel  | 8. <b>Tanuj Kapilashrami</b><br>Group Head, Human Resources       | 13. <b>Alison McFadyen*</b><br>Group Head, Internal Audit   |
|  | 9. <b>Sunil Kaushal</b><br>CEO, Africa & Middle East              |   |

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



This photograph was taken pre-COVID-19 social distancing restrictions

# Market environment

## Macroeconomic factors affecting the global landscape

### Global macro trends

#### Trends in 2020

- Global GDP contracted sharply in 2020, likely by 3.5 per cent: the worst recession since World War II
- Asia was the best-performing region, driven by positive growth in China of 2.3 per cent, but the region overall still contracted by 1.2 per cent
- Among the G7 economies, the US saw the least pronounced contraction of 3.5 per cent, as lockdown restrictions were not as significant as elsewhere
- The euro area economy contracted by 6.8 per cent in 2020 from 1.3 per cent growth in 2019 as national COVID-19 lockdowns were required in many countries throughout 2020
- Policymakers have provided massive emergency support due to the pandemic, resulting in a significant expansion in government and central bank balance sheets

#### Outlook for 2021

- Global growth is expected to bounce back to 5.3 per cent in 2021
- Asia will remain the fastest-growing region and will continue to drive global growth, expanding by a robust 7.4 per cent
- Among the major economies, the US is expected to record a larger bounce (5.5 per cent) than the euro area (4.0 per cent) as a result of fiscal stimulus and a faster vaccine rollout
- The COVID-19 outbreak is likely to remain a significant drag on growth in H1 but progress in rolling out global vaccines should drive momentum in H2
- Growth will be supported by strong policy support in COVID-19 affected countries, with central banks maintaining highly accommodative policies, and fiscal programmes shifting towards recovery and reconstruction
- There are several risks to this outlook including a slower rollout of COVID-19 vaccines due to logistical challenges, elevated inflation due to unprecedented stimulus and disruption to supply chains, or a geopolitical event resulting in an oil price spike

### Medium- and long-term view

#### Legacy of COVID-19

- The rollout of COVID-19 vaccines globally could take years and logistical challenges will be magnified in emerging markets. Supply chain logistics are a bigger challenge in economies with poor road and railway infrastructure and supply chain inefficiencies. Administering vaccines to millions could increase the pressure on public health services
- Economies with early access to vaccines will likely see a sharper rebound in domestic demand, as consumer sentiment improves and social distancing is phased out. Private investment is also likely to increase, buoyed by accommodative monetary policies
- COVID-19 has brought a renewed focus on supply chain concentration risks. Companies are likely to continue to accelerate the shortening and simplifying of supply chains
- Combatting concentration risks may mean less of a role for China, the world's mega-trader. However, China's role is so important it's unlikely to be reduced rapidly

#### Broader global trends

- Inflation is a bigger risk in emerging markets given fewer structural factors supporting low inflation and expectations of higher commodity prices over the medium term. In addition, the use of unconventional policies in these economies raises the risk of inflation
- There are structural challenges to global growth. Productivity growth is weak, especially in developed markets, and emerging markets will have to focus on education and upskilling to meet the threat of automation
- Long-term growth in the developed world is constrained by ageing populations and high levels of debt, exacerbated by the policy response to COVID-19
- Relatively younger populations, as well as the adoption of digital technology, will allow emerging markets to become increasingly important to global growth
- Rising nationalism, anti-globalisation and protectionism are a threat to long-term growth prospects in emerging markets

## Regional outlook

### Greater China & North Asia

China's economy staged a V-shaped recovery from COVID-19 due to relatively effective virus control and policy support

#### Actual and projected growth by country in 2020 and 2021 per cent

China	2021	8%
	2020	2.3%
Hong Kong	2021	3.5%
	2020	(6.1)%
Korea	2021	2.9%
	2020	(1)%

- China's GDP grew by 2.3 per cent in 2020, and we expect it to surge to 8 per cent in 2021 mainly due to a low base. Policy exit, including a cut in budget deficit and a scale-back in credit growth, is likely to cap the upside of the rebound, with quarter-to-quarter growth slowing throughout the year. Positive factors sustaining growth momentum include expected global recovery on vaccine optimism and the lagged effect of policy stimulus. Downside risks include hasty policy exits that could disrupt recovery and increase financial stress
- China's leadership appears confident about doubling the size of the economy by 2035, implying an average growth rate of c.4.8 per cent in the next 15 years. Developing an outsized domestic market, industrial upgrading and achieving self-reliance in technology are high on the agenda, with the aim of ensuring supply-chain security in a less friendly global backdrop
- We expect the change of administration in the US to bring a more predictable approach to interactions between the US and China. It is, however, clear there will continue to be a focus on key areas such as trade, technology and human rights
- We expect China's steady growth and the US Federal Reserve's (Fed) commitment to low interest rates to continue to support Hong Kong's recovery in the coming quarters. However, we see lingering headwinds from widespread travel bans, weak external demand excluding China, and further upside risk to the local unemployment rate, limiting recovery headroom. We forecast a moderate rebound of GDP growth to 3.5 per cent in 2021, following a contraction of 6.1 per cent in 2020
- We expect South Korea's economy to grow 2.9 per cent in 2021, following a recession of -1 per cent in 2020. Given Korea's reliance on external demand, growth hinges on the timely deployment of the vaccine nationwide and globally. We expect the Bank of Korea to continue buying KTB to ease the long-term interest rate to avoid a crowding-out effect from a structurally large budget deficit



See our regional performance on [page 34](#)

### ASEAN & South Asia

ASEAN is expected to rebound in 2021 after a pandemic-induced recession in 2020

#### Actual and projected growth by country in 2020 and 2021 per cent

India	2021	10%
	2020	(8)%
Indonesia	2021	4.5%
	2020	(2.1)%
Singapore	2021	5.2%
	2020	(5.4)%

- Base effects aside, very supportive fiscal and monetary measures should help ASEAN recover. But until vaccines are successfully rolled out, social distancing measures may limit the strength of any rebound
- The recovery may be uneven, with hospitality-related sectors likely to face greater challenges. Countries with large tourism and air-transport related sectors such as Thailand, Singapore and Malaysia may see continued challenges but activity should pick up as restrictions on movement ease either due to a vaccine or uniform operating standards to try to reopen borders
- Infrastructure spending in countries such as Indonesia and Philippines should also return after a year where governments had to focus on COVID-19
- The likely global recovery and a more conducive global trade environment under a new administration in the US may also support the export-oriented region, especially Vietnam and Singapore
- India's economy may rebound by 10 per cent in FY22 (year ending March 2022), after one of the worst recessions in four decades; FY21 GDP likely contracted by 8 per cent. We see upside risks to our GDP forecasts as the government has rolled out fiscal stimulus until FY26. Monetary policy is likely to remain supportive in FY22, though upside risk to growth and the possibility of higher inflation could lead to gradual normalisation in H2-FY22. Strong external buffers, better growth prospects and continued focus on reforms are likely to ring-fence rating downgrade risks



See our regional performance on [page 35](#)

## Market environment continued

### Regional outlook continued

#### Africa & Middle East

A gradual recovery in Sub-Saharan Africa is expected in 2021

##### Actual and projected growth by country in 2020 and 2021 per cent

Nigeria	2021	2.5%
	2020	(1.9)%
UAE	2021	1.9%
	2020	(4.6)%

- Sub-Saharan Africa (SSA) is likely to see a recovery of 3.4 per cent in 2021, following a contraction of 2.6 per cent in 2020. Per capita GDP in SSA may have fallen back to 2010 levels due to COVID-19
- A non-oil recovery is likely to drive growth in Nigeria in 2021 given low oil prices and compliance with OPEC+ cuts
- Debt will be in focus following Zambia's default. Fiscal restraint and faster growth will be needed to stabilise debt ratios.
- OPEC+ cuts constitute a downside risk to oil exporters' growth recovery in 2021. The recovery in non-oil sector growth will likely be constrained by limited fiscal space for stimulus and foreign workers leaving due to job cuts
- We expect Dubai's hosting of EXPO 2020, postponed until 2021, to add impetus to the UAE's non-oil recovery, specifically in sectors such as tourism, hospitality and trade



See our regional performance on [page 36](#)

#### Europe & Americas

Growth in Europe & Americas is likely to strengthen in 2021 as vaccination programmes are rolled out

##### Actual and projected growth by country in 2020 and 2021 per cent

UK	2021	4.8%
	2020	(9.9)%
US	2021	5.5%
	2020	(3.5)%

- Improved confidence (and an increase in savings during the COVID-19 pandemic) should underpin rising consumption and a pick up in investment and, as social distancing requirements ease, services activity should improve. Employment is likely to improve with a lag but wages may remain subdued
- We expect inflation pressures to stay low, given excess capacity, and central banks to maintain accommodative policies
- The Fed and European Central Bank are likely to keep interest rates at current low levels, though some of the emergency measures may be rolled back as growth picks up
- The trade environment is likely to improve under the new US administration, though it may take time for the new UK-EU trade relationship to bed down following Brexit



See our regional performance on [page 37](#)

Digital and innovation

# Digital banking with Mox

In 2020, we launched Mox, a new digital banking service for our customers in Hong Kong. Mox allows users to instantly open an account from their mobile device and enjoy a smarter and simpler way to bank, save and spend. Mox, which attracted 66,000 customers by the end of 2020 and is the top-rated financial app on the App Store in Hong Kong, includes a Goals and Savings Calculator which helps customers better manage their money.



Read more online at [mox.com](https://mox.com)

# Business model: transformation on track

We help international companies connect across our global network and help individuals and local businesses grow their wealth.

## Our business

### Corporate & Institutional Banking Commercial Banking

We support companies across the world, from small and medium-sized enterprises to large corporates and institutions, both digitally and in person.

### Retail Banking Private Banking

We work with small businesses and individuals, from mass-market clients to high-net-worth individuals, both digitally and in person, including country-level support.

In January 2021, we streamlined our four separate businesses into two: Corporate, Commercial and Institutional Banking (CCIB); and Consumer, Private and Business Banking (CPBB). Refer to 'How we are shaping our future' (page 21) for more details.

## Our products and services

Financial Markets	Corporate Finance	Transaction Banking	Wealth Management	Retail Products
<ul style="list-style-type: none"> <li>Investment</li> <li>Risk management</li> <li>Debt capital markets</li> <li>Securities services</li> </ul>	<ul style="list-style-type: none"> <li>Structured &amp; project financing</li> <li>Strategic advice</li> <li>Mergers &amp; acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Cash management</li> <li>Payments &amp; transactions</li> <li>Trade finance products</li> </ul>	<ul style="list-style-type: none"> <li>Investments</li> <li>Portfolio management</li> <li>Insurance &amp; advice</li> <li>Planning services</li> </ul>	<ul style="list-style-type: none"> <li>Deposits</li> <li>Savings</li> <li>Mortgages</li> <li>Credit cards</li> <li>Personal loans</li> </ul>

## How we generate returns



We earn net interest on the margin for loans and deposit products, fees on the provision of advisory and other services, and trading income from providing risk management in financial markets.

### Income

- Net interest income
- Fee income
- Trading income

### Profits

- Income gained from providing our products and services minus expenses and impairments

### Return on tangible equity

- Profit generated relative to tangible equity invested

## What makes us different

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



### Client focus

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



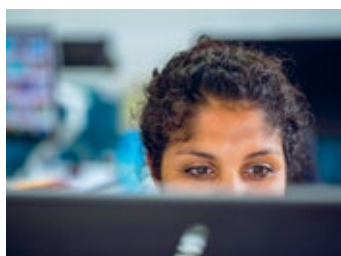
### Robust risk management

We are here for the long term. Effective risk management allows us to grow a sustainable business



### Distinct proposition

Our understanding of our markets and our extensive international network allow us to offer a tailored proposition to our clients, combining global expertise and local knowledge



### Sustainable and responsible business

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



## How we are shaping our future

We have tailored our business model to meet future challenges and opportunities:

In January 2021, we streamlined our organisation by integrating our existing business units into two new segments: Corporate, Commercial & Institutional Banking (CCIB); and Consumer, Private and Business Banking (CPBB).

The creation of the CCIB segment, bringing together Corporate & Institutional Banking and Commercial Banking, simplifies the way we work globally, keeping our distinct local client focus, with a less complex organisation on the ground and a single team to partner with our clients and other stakeholders.

Our Retail and Private Banking units are now CPBB. The change will help our retail businesses deliver our services more effectively to our clients, having a more global approach while serving our clients locally.

We have also streamlined our four international regions. Our new Asia region (made up of our former Greater China & North Asia and ASEAN & South Asia regions) will allow us to make the most of regional opportunities and deliver our services more effectively across the different Asian markets.

Our other regions, Africa & the Middle East and Europe & Americas, will run as before, with Europe & Americas being more closely integrated with our new CCIB business unit.



Visit this link for a full explanation of how our structure is changing: [sc.com/structure](https://www.sc.com/structure)

## Business model continued

### The inputs we rely on

We aim to use our resources in a sustainable way, to achieve the goals of our strategy

#### Human capital

Our diversity differentiates us. Achieving our objectives hinges on the way we invest in our people, the employee experience we curate and the culture we develop.



#### Strong brand

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

Retail Bank  
Net promoter score

+29

#### International network

We have an unparalleled international network, connecting companies, institutions and individuals to, and in, some of the world's fastest growing and most dynamic regions.



#### Local expertise

We have a deep knowledge of our markets and an understanding of the drivers of the real economy, offering us insights that help our clients achieve their ambitions.



#### Financial strength

With \$789 billion in assets on our balance sheet, we are a strong, trusted partner for our clients.

CET1 Capital

\$39<sub>bn</sub>

#### Technology

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



### How we're enhancing our resources

- More than 10,800 employees have completed learning courses for future skills that we need – including analytics, data, digital and cyber – in 2020
- We are creating a work environment that supports resilience and creativity with continued investment in physical, social, financial and mental wellbeing

- Our \$50 million COVID-19 Global Charitable Fund, which provides emergency support for communities most impacted by the pandemic, demonstrates that we are Here for good
- As measured by stakeholder intelligence firm Alva, the Group improved its reputation in 2020 over 2019, gradually becoming stronger and exceeding the average score for the banking sector, beating it in a majority of eight surveyed markets in every quarter since Q3 2019

- We are investing in digital capabilities to help us become the leading banking platform in our footprint, where clients can be connected to investments, capital and trade
- Our network represents around two thirds of our Corporate & Institutional Banking business. The network business is returns accretive

- To help our SME clients cope with COVID-19, we kept in close contact, calling 12,000 small businesses in both May and September to understand their challenges and offer our help
- Since the outbreak of COVID-19, we have lent more than \$1 billion to small businesses across our markets

- Stronger capital and a much more resilient balance sheet with growth in high quality deposits
- Common Equity Tier 1 (CET1) ratio at 14.4 per cent, above the Group target range of 13-14 per cent

- We are providing digital solutions to meet clients' needs in real time, partnering to create innovative solutions and developing ventures to address emerging banking trends
- We are automating our infrastructure based on cloud computing, building a scalable, high performing, resilient and secure platform for retail and wholesale customers globally

## The value we create

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



### Clients

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

**Total number of individual clients<sup>1</sup>**

**9.6m**

2019: 9.2m

**Total number of business banking and CCIB clients<sup>2</sup>**

**261,000**

2019: 268,000



### Suppliers

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

**Total spent in 2020**

**\$3.8bn**

2019: \$4.0bn

**Active suppliers**

**12,900**

2019: 14,600 active suppliers



### Employees

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

**Senior appointments which are internal**

**62%**

2019: 63%

**Employees committed to our success**

**97%**

2019: 96%



### Regulators and governments

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

**Taxes paid in 2020**

**\$971m**

2019: \$1,421m



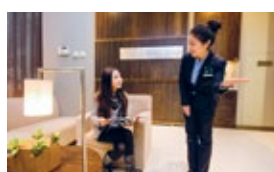
### Society

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

**Community investment**

**\$95.7m**

2019: \$51.1m



### Investors

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

**Dividends declared in 2020**

**\$284m**

2019: \$863m<sup>3</sup>



<sup>1</sup> Includes Retail and Private Banking clients

<sup>2</sup> Active client groups

<sup>3</sup> Dividend was subsequently cancelled at the request of the regulator

# Our strategy

We are continuing to transform our bank by improving the experience for clients and employees, while focusing on high-quality business.

We are on track to launch new ventures and digital platforms, as well as to meet our targets on increasing digital cash transactions with our clients.

Our progress against our current strategy is outlined on pages 24 and 25, while the strategy for our next phase of growth is on pages 26 and 27.

**“We have delivered our differentiated network and affluent businesses, optimised returns in some of our larger markets and invested in what we expect to be transformational digital initiatives”**

**Bill Winters**  
Group Chief Executive

## Strategic progress in 2020

We remain resilient and competitive, despite economic and geopolitical challenges, meaning that – even though our progress has slowed – we are on the right track.

In 2020, we were operating in the face of paradigm-shifting global events such as the worsening of US-China relations, COVID-19 and the return of low interest rates.

We have taken action to partially offset 2020's impact on our operating profit and ensure we can continue to operate resiliently.



## Purpose and people

### Understand our responsibilities

We continue to drive up standards of governance, ensure fair outcomes for clients and fight financial crime.

### Lead sustainable financing across emerging markets

We have committed \$75 billion in financing by 2024 to help our clients meet the UN Sustainable Development Goals (SDGs). We arranged the first US sustainable use-of-proceeds syndicated subscription facility and the first ever impact-focused subscription finance facility.

### Support the communities where we live and work

We committed to providing \$1 billion of financing on a not-for-profit basis for companies offering goods and services to help fight COVID-19 and also established a \$50 million Global Charitable Fund to help our communities.

### Maximise return from our investment in people

We are building a future-ready workforce – changing how we work and developing the new skills we need. An inclusive culture helps us harness our diversity to innovate for our clients and communities.

## Progress in 2020

Employee net promoter score

**+17.5** +6pts

2019: +11.5 pts

Sustainability Aspirations achieved or on track\*

**78%** -15pts

2019: 93.1%

\* Decrease due to COVID-19 impacting the pace of delivering our Sustainability Aspirations. In 2020, the Group released updated Sustainability Aspirations with 37 new annual and multi-year performance targets (vs 29 targets previously disclosed)

## Deliver our network

### Leverage our unique footprint

We continue to deepen our relationship with our core clients to realise the revenue potential of our network.

### Build on our strength in China

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

### Grow with Africa

We aim to grow with our clients in Africa, capturing inbound flows of financial institutions, multinational corporations, and Belt & Road clients.

We have continued our Retail Banking client growth in Africa with our cost-efficient digital banking.

## Progress in 2020

Corporate & Institutional Banking network income

**\$4.2bn -10%**

2019: \$4.6bn

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

## Improve productivity

### Investing in digital

Our investment in digitisation will make us more productive and give clients a better experience. We announced strategic global agreements with Microsoft and Amazon Web Services to speed up our digital transformation and deliver new personalised banking services through a cloud-first strategy.

### Transforming our ways of working

We are embracing agile work and improving client journeys to be more productive across operations processing, risk management and change delivery.

## Progress in 2020

Underlying operating income per FTE

**\$174,000 -4%**

2019: \$182,000

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

## Grow our affluent business

### Meet the needs of the affluent and emerging affluent

By enhancing our offering, we have grown income as well as attracted new clients with an improved product mix (number of Premium, Priority and Private clients increased 7 per cent year-on-year).

### Enhance client experience with data and technology

We're investing more in data and analytics to better understand our clients and their needs, improve our offerings, deliver a more personalised service and increase client engagement.

### Scale the non-affluent sector in a targeted manner

We will put new business models in place, harness technology and work with non-bank partners to acquire and serve non-affluent clients with our target profile in a cost-efficient manner.

## Progress in 2020

Affluent client income

**\$3.5bn -1%**

2019: \$3.5bn

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

## Transform and disrupt with digital

### Transform our Retail Banking business with digital

As part of our efforts to transform our retail bank, digital onboarding improved to 80 per cent (~30 per cent in 2019), while digital servicing increased to 70 per cent (25 per cent in 2019).

We launched our new virtual bank Mox in Hong Kong and already had 66,000 customers and HKD5.2 billion in deposits as of the end of 2020.

We also announced nexus, our 'banking as a service' solution for consumer platforms, in Indonesia.

### Consolidate our position with corporate clients

We are leading an industry workgroup to develop a Trade Finance Registry pilot to enhance transparency in commodity trade.

We completed the first cross-border live transaction on Trusple, the newly launched digital international trade and financial service platform of AntChain.

We launched an ambitious three-year programme to build the leading banking platform in our footprint.

We support clients on their digital journey, and we have set a target of 95 per cent of clients on digital platforms by 2023.

## Optimisation markets

### Improve returns in markets where we have trusted local capabilities

In markets where we can utilise our local and international capabilities, we have improved our returns through our sharpened participation in Corporate & Institutional Banking and selectively in Commercial Banking and/or Retail Banking (namely India, Indonesia, Korea and the UAE).

### Accelerate growth in our largest and most profitable markets

In regions where we are a top local bank delivering our full range of services, with attractive returns, we will invest to grow market share.

### Focus on Corporate & Institutional Banking in other markets

Where our capabilities are geared towards international business, we will reinforce our focus on originating and facilitating cross-border business.

## Progress in 2020

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

**\$559m +33%**

2019: \$420m

Aggregate underlying profit before taxation in the four markets. Excludes Permata.

## Progress in 2020

Retail Banking digital adoption

**61% +7%**

2019: 54%

Mobile and online adoption by active clients.

Corporate & Institutional Banking digital volumes

**\$189m +20%**

2019: \$157m

Financial markets sales income originated via e-platforms

Commercial Banking digital adoption

**74% +7%**

2019: 68%

Percentage of Commercial Banking clients active on our Straight2Bank application

## Our strategy continued

# Our next phase

As we look to move from transforming our bank to becoming a leader in global finance in the next five years, we have refreshed our strategy onto four strategic priorities and three enablers. This extension of our existing strategy allows us to focus on the key areas that will help us in the next phase of our development.

## Our strategy

We enter this new chapter with strong foundations and renewed confidence. We will continue to invest in people, partnerships and innovations that bring value to our clients.

With changes in the operating environment, we are refreshing our strategy to move us from 'transformation' to 'lead', a new phase where we aim to become market leaders in the next five years.

We will ramp up our focus on:

- Four strategic pillars: wholesale network business, affluent client business, mass retail business and sustainability
- Three critical enablers: people and culture, new ways of working and innovation

## Rationale and drivers

While our 2019 refreshed strategic priorities moved us from turnaround to transformation, the 2021 strategy aims to move us from our transformation phase to becoming leaders:

- Invest – invest in our strategy and navigate the continued uncertainties through 2021
- Grow and disrupt – rejuvenate growth with early results from our sharpened strategy by 2023
- Lead – emerge as a leader with future-proof competitive advantages by 2025

## Ambition and measuring progress

By 2025, we want to be admired for our specialist servicing of the fast-growing trade and investment corridors across Asia, Africa and the Middle East.

We want to: be the number one wholesale digital banking platform; be among the top three affluent brands; double our mass presence; and become a market leader in sustainability.

We have created KPIs to measure our progress and meet our goals.

## Strategic priorities

## Wholesale network business



We intend to become the leading international wholesale bank in our emerging markets footprint by...

- Taking leading positions in high-returning, high-growth sectors
- Delivering a market-leading digital banking platform providing services such as investments, capital and trade; delivering consistent client experience; and driving income while lowering service costs, particularly in tail markets
- Driving 'capital-lite' products, while building a leading sustainable finance franchise and expanding our credit origination and distribution ecosystem
- Speeding up growth in large markets, while expanding in growing markets and corridors, in line with shifts in trade and investment flows

### CCIB network income

**\$4.4bn**

### % of CCIB transactions digitally initiated

**41%**

## Mass retail business



We intend to help our clients prosper and deliver everyday banking solutions by integrating our services into their digital lives. New digital solutions, strategic partnerships and advanced analytics will enable us to significantly increase our reach and relevance to serve them in a meaningful way. We are:

- Enhancing our value propositions and client solutions, and deepening talent and capabilities across digital sales and marketing as well as data and analytics
- Building strategic enablers to become the partner of choice to leading global and regional companies
- Growing the share of our mass retail client business income from new innovative business models

### Mass market customers

**7.6m**

### % of digital sales for Retail Products

**68%**

## Affluent client business



As the leading international wealth manager, we intend to offer outstanding personalised wealth advice and exceptional experiences to our affluent clients to help them grow and manage their wealth internationally and at home. We are:

- Focusing on growing our affluent client business (Retail Banking Priority and Premium, and Private Banking clients) across our top markets with outstanding wealth management and international propositions
- Delivering personalised solutions and deepening client engagement by leveraging data and analytics to generate high quality client insights
- Building a scalable affluent client service model by transforming our physical network and digital capabilities to an integrated omnichannel experience

### Affluent client income

**\$3.5bn**

### Total number of affluent clients

**2.0m**

## Sustainability



We intend to become the world's most sustainable and responsible bank and the leading private-sector catalyser of finance for the SDGs where it matters most – in Asia, Africa and the Middle East – by...

- Leveraging Climate Risk management to support clients in managing Climate Risk and identifying transition opportunities
- Integrating sustainable finance as a core component of our customer value proposition
- Continuing to promote economic inclusion and tackle inequality in our footprint
- Having a net zero financed carbon emissions target by 2050

### Sustainability Aspirations achieved or on track

**78%**

### Reduction in carbon footprint from previous year

**37%**

## Critical enablers

### People and culture



We are accelerating our people strategy to create a future-ready workforce by...

- Building a culture of continuous learning to support future skills and re-skilling – more than 55,000 employees have used our new digital learning platform
- Investing in wellbeing to improve productivity and performance, including people leader tools and mental health support
- Redesigning our performance management approach to better enable innovation and collaboration
- Accelerating post COVID-19 ways of working, implementing 'in-office' and remote work in our nine largest markets, with 80% of colleagues expressing an interest in working flexibly
- Focusing on inclusion to harness the value from our unique diversity

### New ways of working



We intend to make it easier for our people to do the right thing for our clients, faster and more safely, while gearing the Group for high-performance and innovation in a fast-paced, dynamic environment.

Towards this goal, we are thinking client first, embracing organisational agility and empowering our people to continuously improve the way we work.

### Innovation



We intend to create opportunities that over time can generate the majority of our income. Our aim is to...

- Accelerate the pace of innovation by adopting new ways of working in all aspects of our tech and product delivery
- Develop and scale up ventures in markets across our footprint
- Embrace organisational agility, fostering a culture of experimentation and continuous improvement, and embedding innovation into our culture
- Improve client and investor perception about the bank as a leading innovator and a bank of the future



Fighting financial crime

# ► Rajen versus the COVID fraudsters ◀

In March 2020, Rajen Raj, a member of our fraud team in Singapore, helped foil a COVID-19 personal protective equipment scam worth \$10 million. Rajen worked with the Singapore Police Anti-Scam Centre, helping them freeze accounts and seize the money from fraudsters who were posing as suppliers of masks and sanitisers.

⊕ Read more online at [sc.com/rajenstory](https://sc.com/rajenstory)



# Corporate & Institutional Banking

## KPIs



Profit before taxation

**\$1,841m**

↓ 18%  
underlying basis

**\$1,677m**

↓ 22%  
statutory basis

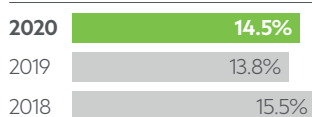
Risk-weighted assets (RWA)

**\$137bn**

↑ \$8bn

Proportion of low-returning client risk-weighted assets

↑ 14.5% of RWA



**Aim:** Reduce perennial sub-optimal RWA<sup>2</sup> and bring down the proportion of low returning client risk-weighted assets.

**Analysis:** Our perennial sub-optimal RWA<sup>2</sup> has reduced 27 per cent year-on-year. However, the proportion of low returning client RWA increased from 13.8 per cent in 2019 to 14.5 per cent in 2020 driven by decline in asset credit quality impacted by COVID-19 pandemic.

Return on tangible equity (RoTE)

**6.6%**

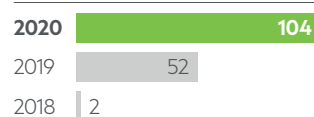
↓ 190bps  
underlying basis

**6.1%**

↓ 190bps  
statutory basis

Open Application programming interfaces for clients

↑ 104 APIs<sup>3</sup>



**Aim:** Deliver a true frictionless cross-product digital banking experience to our clients.

**Analysis:** Doubled our open APIs<sup>3</sup> for clients to 104 in 2020 with presence across 20 footprint markets.

## Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across 50 markets, providing solutions to more than 5,000 clients in some of the world's fastest-growing economies and most active trade corridors.

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

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

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

## Strategic priorities

- Deliver sustainable growth for clients by leveraging our network to facilitate trade, capital and investment flows across our footprint markets
- Generate high-quality returns by growing 'capital-lite'<sup>1</sup> income, driving balance sheet velocity and improving funding quality while maintaining risk controls
- Be the leading digital banking platform providing network services and partner with third parties to expand capabilities and to access new clients
- Accelerate our sustainable finance offering to our clients through product innovation and enabling transition to a low carbon future

## Progress

- Network income was down 10 per cent due to the impact of lower interest rates, particularly in Cash Management. Underlying quality of income remains resilient and our network continues to generate 58 per cent of total income
- Maintained balance sheet quality with investment grade net exposures representing 65 per cent of total corporate net exposures (2019: 65 per cent) and high-quality operating account balances improving to 64 per cent of Transaction Banking and Securities Services customer balances (2019: 61 per cent)
- Migrated c.15,000 client entities to S2B<sup>4</sup> NextGen platform and increased S2B cash payment transaction volumes by 4 per cent
- Resilient performance driven by diversified product suite and expanded client solutions delivering growth despite challenging geopolitical and macroeconomic conditions across footprint markets

## Performance highlights

- Underlying profit before tax of \$1,841 million down 18 per cent, primarily driven by higher credit impairments, partially offset by higher income and lower expenses
- Underlying operating income of \$7,214 million up 2 per cent, primarily driven by Financial Markets on the back of higher market volatility offsetting lower income from Cash Management impacted by a lower interest rate environment
- Good balance sheet momentum with total assets up 9 per cent, of which loans and advances to customers were up 4 per cent
- Underlying RoTE decreased from 8.5 per cent to 6.6 per cent

- 1 Capital-lite income refers to products with low RWA consumption or of a non-funded nature. This mainly includes Cash Management and FX products
- 2 Perennial sub-optimal clients are clients who have returned below 3 per cent RoRWA for the past three years
- 3 Application programming interface refers to a set of software functions to allow seamless exchange of instructions and data with our clients
- 4 Our next generation Transaction Banking digital platform

## Multiple world firsts with Etihad

In November 2020, we worked with Etihad Airways' on their first sustainable Sukuk issuance.

The \$600 million Sustainability-Linked Transition Sukuk, a Shariah-compliant bond, is the first sustainability-linked Sukuk globally and for the aviation industry. Etihad intends to use the funds for more energy-efficient aircraft and research and development into sustainable aviation fuel.

# Retail Banking

## KPIs



Profit before  
taxation

**\$587m**

↓ 46%  
underlying basis

**\$537m**

↓ 48%  
statutory basis

Return on tangible equity  
(RoTE)

**6.5%**

↓ 620bps  
underlying basis

**5.9%**

↓ 600bps  
statutory basis

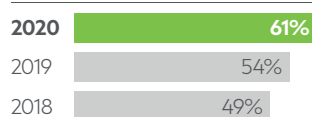
Risk-weighted assets (RWA)

**\$47bn**

↑ \$3bn

Digital adoption

↑ 61% number of clients

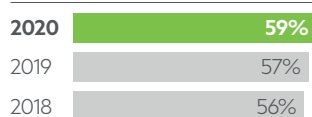


**Aim:** Align the Group's service to how clients want to interact and increase efficiency by reducing the amount of manual processing.

**Analysis:** Online applications have continued to grow with the proportion of Retail Banking clients that are digital-active up from 54 per cent in 2019 to 61 per cent at the end of 2020.

Priority & Premium  
client focus

↑ 59% share of income



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

**Analysis:** The share of Retail Banking income from Priority clients increased from 57 per cent in 2019 to 59 per cent in 2020, supported by more than 139,000 new-to-bank Priority clients in the year.

## Segment overview

Retail Banking serves more than nine million individuals and small businesses, with a focus on affluent and emerging affluent in many of the world's fastest-growing cities. We provide digital banking services with a human touch to our clients, with services spanning across deposits, payments, financing products and Wealth Management. We also support our clients with their business banking needs.

Retail Banking represents around one-third of the Group's operating income and one-quarter of its operating profit. We are closely integrated with the Group's other client segments; for example, we offer employee banking services to Corporate & Institutional Banking clients, and Retail Banking provides a source of high-quality liquidity for the Group.

Increasing levels of wealth across Asia, Africa and the Middle East support our opportunity to grow the business sustainably. We aim to improve productivity and client experience by driving digitisation and cost efficiencies, and simplifying processes.

## Strategic priorities

- Invest in our affluent and emerging affluent clients with a focus on Wealth Management and Deposits to capture the significant rise of the middle class in our markets
- Improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our markets

## Progress

- Increased the share of income from more affluent Premium and Priority clients from 57 per cent in 2019 to 59 per cent as a result of resilient performance in Wealth Management and Mortgages and CCPL income growth
- Premium Banking income has grown 15 per cent since the launch in ten markets last year
- Mox launched in Hong Kong in September 2020 and at the end of 2020 had 66,000 customers, more than \$670 million in deposits and is one of the highest rated and most-reviewed virtual banks
- Our fully digital African banks have now acquired half a million new customers. 75 per cent are below the age of 35, which is helping to build our pipeline of next generation emerging affluent clients
- We have announced a 'banking-as-a-service' solution, nexus, for consumer platforms, such as e-commerce, social media or ride hailing companies, so these companies can offer their own branded financial services to their customers. We have signed up Sociolla and Bukalapak in Indonesia as partners
- Exponential increase in digital sales, up over 300 per cent driven by our Ant Financial partnership in China, Mox and our nine digital banks in Africa & Middle East
- A further improvement in digital adoption, with 61 per cent of clients now actively using online or mobile banking compared with 54 per cent in 2019

## Performance highlights

- Underlying profit before tax of \$587 million was down 46 per cent driven by lower income and higher credit impairments. Expenses were well-managed and slightly lower
- Underlying operating income of \$5,013 million was down 3 per cent. Greater China & North Asia was down 1 per cent, ASEAN & South Asia was down 5 per cent and Africa & Middle East was down 9 per cent (down 1, 3 and 5 per cent on a constant currency basis, respectively)
- Strong income momentum growth from Mortgages and Business Banking Lending with improved margins and balance sheet growth and 5 per cent growth in Wealth Management. These were offset by Deposit margin compression, impacted by a lower interest rate environment, which was partially offset by 7 per cent growth in Customer Accounts
- Underlying RoTE decreased to 6.5 per cent from 12.7 per cent

## Watching out for wellbeing

In order to protect the health of our clients during COVID-19, we partnered with wellness provider Switch+ to roll out a customer wellbeing platform.

The platform, which hosted fitness sessions including yoga, meditation and Zumba, was available to a selection of clients across our top markets.

In total, our clients completed more than 3,500 activities using the platform.

# Commercial Banking

## KPIs



Profit before taxation

**\$214m**

↓ 57%  
underlying basis

**\$157m**

↓ 68%  
statutory basis

Risk-weighted assets (RWA)

**\$28bn**

↓ \$3bn

Capital-lite<sup>3</sup> income as a share of total income

46% share of total income<sup>4</sup>

2020	46%
2019	48%
2018	45%

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

**Analysis:** Share of capital-lite income decreased slightly to 46 per cent in 2020 impacted by net interest margin compression from interest rate cuts. This was partially offset by strong growth in Liabilities. High quality OPAC balances grew from \$18 billion in 2019 to \$22 billion in 2020. We have set up dedicated liabilities teams in key markets and continue to focus on cash rich sectors, non-borrowing clients and FX cross-sell opportunities.

Return on tangible equity (RoTE)

**3.4%**

↓ 400bps  
underlying basis

**2.5%**

↓ 480bps  
statutory basis

Number of new to bank clients onboarded ('000)

6,500 new sign ups<sup>4</sup>

2020	6.5
2019	6.3
2018	6.1

**Aim:** Building scale by onboarding new to bank clients.

**Analysis:** We maintain strong momentum in the onboarding of new to bank clients, while monetising clients onboarded in prior years. Clients onboarded in 2019 helped us generate c.\$126 million additional income on approximately \$5 billion additional liabilities in 2020.

## Segment overview

Commercial Banking serves more than 43,000<sup>1</sup> local corporations and medium-sized enterprises in 22 markets across Asia, Africa and the Middle East. We aim to be our clients' main international bank, providing a full range of international financial services in areas such as trade finance, cash management, financial markets and corporate finance.

Through our close linkages with Retail Banking and Private Banking, our clients can access additional services they value including employee banking services and personal wealth solutions. We also collaborate with Corporate & Institutional Banking to service clients' end-to-end supply chains.

Our clients represent a large and important part of the economies we serve and are potential future multinational corporates. Commercial Banking is at the heart of the Group's shared purpose to drive commerce and prosperity through our unique diversity.

### Strategic Priorities

- Drive quality sustainable growth by deepening relationships with existing clients and onboarding new clients, focusing on rapidly growing and internationalising companies
- Improve balance sheet and income mix, accelerating utilisation of growth in Cash and FX products.
- Continue to enhance capital allocation discipline and credit risk management
- Improve client experience, using technology and investing in frontline training, tools and analytics

### Progress

- Onboarded 6,500 new clients in 2020, which helped generate \$78 million additional income and \$3 billion additional cash liabilities
- Double-digit income growth seen in the Hong Kong-Taiwan, Taiwan-Singapore and Singapore-India corridors as we continue to tap their potential to help our Commercial Banking clients capture international opportunities
- Maintained cost discipline (down 8 per cent) while reducing RWAs (down 8 per cent)
- RWA efficiency<sup>2</sup> improved to 65 per cent in 2020 (2019: 70 per cent)
- Continued to improve client experience: reduced client turnaround time from five to four days
- Good progress on client satisfaction with Commercial Banking client engagement improving to 31 per cent (2019: 26 per cent)

### Performance highlights

- Underlying profit before tax of \$214 million was down 57 per cent mainly due to lower income and higher credit impairments from the effects of COVID-19
- Underlying operating income of \$1,409 million was down 10 per cent mainly driven by lower Transaction Banking income
- ASEAN & South Asia, Greater China & North Asia and Africa & Middle East income was down 6, 14 and 14 per cent, respectively
- Underlying RoTE reduced from 7.4 per cent to 3.4 per cent

## ▶ Battling COVID-19 in Bahrain ◀

In July 2020, we worked with Bahrain-based medical company Yousuf Mahmood Hussain Company, to help battle the pandemic in the region.

We provided the pharmaceutical and medical distribution company with \$8 million as part of our \$1 billion COVID-19 not-for-profit loan fund to help with the provision of medical and health equipment including masks and protective devices.

<sup>1</sup> Relates to individual entities

<sup>2</sup> RWA efficiency is derived as credit RWA divided by assets and contingents

<sup>3</sup> Capital-lite income refers to products with low RWA consumption or of non-funded nature. This primarily includes Cash Management and FX products

<sup>4</sup> Prior periods KPIs have been restated following a reorganisation of certain clients across client segments

# Private Banking

## KPIs



### Profit before taxation

**\$62m**

↓ 34%  
underlying basis

**\$51m**

↓ 39%  
statutory basis

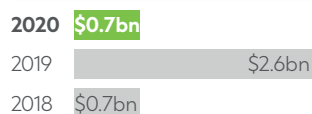
### Risk-weighted assets (RWA)

**\$6bn**

↔ Flat

### Net new money

↓ \$0.7bn of net new money



**Aim:** Net new money – grow and deepen client relationships, improve investment penetration and attract new clients.

**Analysis:** We added \$0.7 billion of net new money in 2020, delivering positive inflows for the fourth consecutive year since 2016.

### Return on tangible equity (RoTE)

**4.8%**

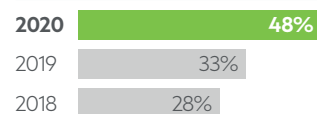
↓ 250bps  
underlying basis

**4.0%**

↓ 240bps  
statutory basis

### Net client score for ease of doing business

↑ up to 48%



**Aim:** Historically improve the Private Banking client experience through all touch points with the Group.

**Analysis:** Launched in 2016, the annual Private Banking client satisfaction survey reviews multiple dimensions of client sentiment and measures our progress in putting client needs at the heart of everything we do. In 2020, 48 per cent of clients rated us very easy to do business with compared to 33 per cent in 2019.

## Segment overview

Private Banking offers a full range of investment, credit and wealth planning products to grow, and protect, the wealth of high-net-worth individuals.

Our investment advisory capabilities and product platform are independent from research houses and product providers, allowing us to put client interests at the centre of our business. This is coupled with an extensive network across Asia, Africa and the Middle East which provides clients with relevant market insights and cross-border investment and financing opportunities.

As part of our universal banking proposition, clients can also leverage our global Commercial Banking and Corporate & Institutional Banking capabilities to support their business needs. Private Banking services can be accessed from six leading centres: Hong Kong, Singapore, London, Jersey, Dubai and India.

### Strategic priorities

- Leverage significant wealth creation and wealth transfers in our markets to increase franchise scale
- Deliver a unique and compelling client value proposition, which focuses on:
  - Access: through market-leading products and platforms
  - Advice: differentiated investment insights delivered through our bankers and investment advisers
  - Affinity: partnering clients through a sustainable investing offering and our Next Generation programme
- Build adaptive teams with strong leaders and a transparent focus on results
- Build for scale by focusing on efficiency on all fronts
- Sustainable growth through establishment of robust controls and an active “Think Conduct” culture

### Progress

- Accelerated our client digital agenda to meet their needs in the new normal:
  - Dedicated efforts to increase client registrations drove adoption rate of our award-winning PvB App to 62 per cent (53 per cent growth in number of users since January 2020)
  - We listened to our clients’ needs and launched new functionalities such as portfolio performance analysis capabilities and online publication of market insights; this helped to increase app usage with half of users logging in more than once a month
- Through our virtual rehearsal programme with video-based role play training, we aim to transform a generation of bankers, teaching them how to deliver a high-tech but also high-touch client engagement experience
- Digitisation of our client onboarding has empowered our bankers to prospect beyond their borders and be future-ready:
  - Launch of eSign (digital signatures) in all booking centres, facilitating account opening and credit applications
  - Innovative use of video conferencing solutions as an alternative to face-to-face meeting requirements has improved the client experience as clients are empowered to seamlessly connect with their bankers

### Performance highlights

- Underlying profit before tax of \$62 million was down 34 per cent, due to non-recurrence of a credit impairment release of \$29 million in 2019. Excluding this and normalised for a one-off provision of \$4.5 million in 2020, underlying profit was up 1 per cent, benefiting from early cost management actions and strong client engagement driving Wealth Management income expansion
- Underlying operating income of \$540 million was down 6 per cent, impacted by margin compression in the deposit book due to rate cuts. This was partially offset by resilient growth from Wealth Management, up 5 per cent, mainly from Structured Products and Equities
- Assets under management increased \$6 billion or 9 per cent, driven by \$0.7 billion of net new money and positive market movements
- Underlying RoTE decreased from 7.3 to 4.8 per cent

## Helping clients invest sustainably


With the world looking to build back greener after COVID-19, there has been an increased interest in sustainable investing.

To help our private banking clients invest with a sustainable lens, we launched the industry’s first ESG Fixed Maturity Product in conjunction with BNP Paribas Asset Management.

In addition, in order to create further interest in sustainable investing, we’ve made several climate and SDG-themed funds available to our private banking clients.

# Banking from home

When COVID-19 struck, we had to move at pace to ensure we could successfully implement remote working. By April, 70 per cent of our workforce was working from home, thanks to the provision of thousands of laptops and a 600 per cent increase in the capacity of our Virtual Private Network. We also created SC Connect, a new app to help colleagues check in with each other remotely and remain connected with their teams.

 Read more online at [sc.com/homebanking](https://sc.com/homebanking)

# Greater China & North Asia

Profit before taxation

## \$2,035m

↓ 16%  
underlying basis

## \$1,900m

↓ 17%  
statutory basis

Risk-weighted assets (RWA)

## \$93bn

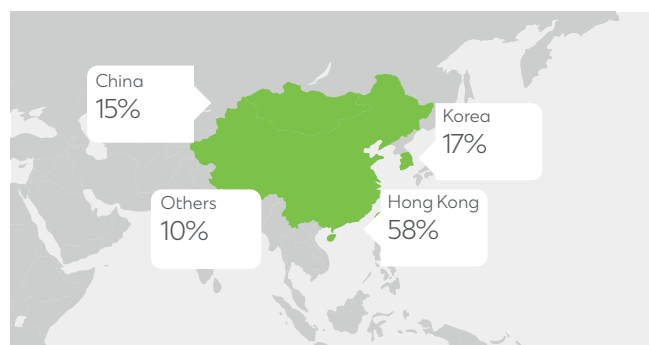
↑ \$7bn

### Loans and advances to customers



Greater China & North Asia  
**45% of Group**

### Income split by key markets



## Supporting the Nippon Foundation and Ashinaga

As part of our \$50 million COVID-19 Global Charitable Fund, we donated JPY10 million to Ashinaga and the Nippon Foundation in Japan.

With the funding, Ashinaga helped 6,500 orphaned students continue their studies, while the Nippon Foundation funded temporary accommodation for COVID-19 patients and health workers.

### Region overview

Greater China & North Asia generated the largest share of the Group's income in 2020, at 41 per cent. We serve clients in Hong Kong – the Group's largest market – as well as Mainland China, Japan, Korea, Macau and Taiwan.

The region is highly interconnected, with China's economy at its core. Our global footprint, strong regional presence and continued investment allow us to capture opportunities as they arise from the opening of China's economy.

We are building on the region's economic growth, the rising wealth of its population, the increasing sophistication and internationalisation of Chinese businesses and the increased use of the renminbi internationally.

### Strategic priorities

- Use the strength of our network to serve the inbound and outbound cross-border trade and investment needs of our clients
- Make the most of opportunities from China's opening, including the Greater Bay Area (GBA), renminbi, Belt and Road initiative, onshore capital markets and mainland wealth, as well as the development of our digital capabilities
- Strengthen our market position in Hong Kong and improve performance in Korea

### Progress

- Our China business has been resilient during a year of unprecedented difficulty. As China has emerged from COVID-19 restrictions, its economy has recovered and our business has grown with underlying operating profit before impairment and tax up 26 per cent driven by Wealth Management, Financial Markets and unsecured products. The income we have booked from clients based in China has grown 3 per cent and China remains the Group's largest source of network income
- Hong Kong faced a unique combination of geopolitical, social and pandemic-related challenges in 2020 which impacted financial performance. However, we have seen very good progress in Wealth Management, and Financial Markets, where income grew strongly and have progressed our digital agenda by launching Mox, our virtual bank
- We have stepped up our investment in the GBA with the creation of a GBA Centre to better support our clients, a dedicated GBA CEO and the launch of the Standard Chartered GBA Business Confidence Index
- Despite the disruption of the pandemic, our Korea business has delivered operating profit growth of 50 per cent. This has been driven by a strong Wealth Management and Financial Markets performance and reflects the flow-through benefits of management's restructuring actions in recent years

### Performance highlights

- Underlying profit before tax of \$2,035 million was down 16 per cent, mainly due to higher credit impairment charges, partially offset by strong cost control
- Underlying operating income of \$6,016 million was down 2 per cent. Lower income in Cash Management, Retail Deposits and Treasury Products was partially offset by strong performances in Financial Markets and Wealth Management
- Retail Banking income fell 1 per cent driven by a fall in Deposit income as a result of lower interest rates, almost entirely offset by strong momentum in Mortgages and Wealth Management. Private Banking income was also down. Corporate & Institutional Banking income grew, mainly due to a strong Financial Markets performance, partly offset by lower Corporate Finance and Transaction Banking income. Commercial Banking income was down 14 per cent driven by lower Transaction Banking
- Strong balance sheet momentum with loans and advances to customers up 9 per cent mainly from strong growth in Mortgages and Corporate Lending. Customer accounts were up 13 per cent, with strong double-digit growth in retail current and savings accounts and Transaction Banking cash balances
- RWAs increased by \$7 billion due to market and credit risk, in line with loans and advances growth, mainly in Treasury and Retail

# ASEAN & South Asia

## Profit before taxation

**\$779m**

↓ 24%  
underlying basis

**\$737m**

↓ 29%  
statutory basis

## Risk-weighted assets (RWA)

**\$81bn**

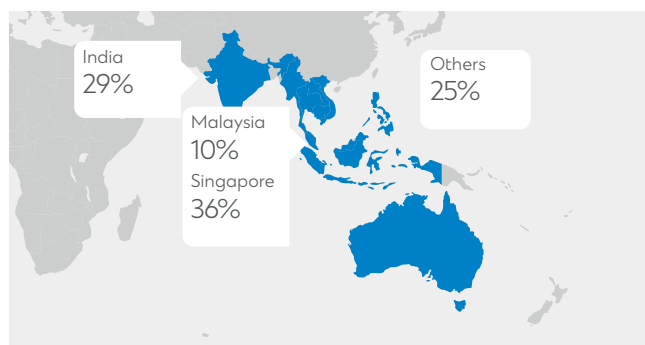
↓ \$8bn

## Loans and advances to customers



ASEAN & South Asia  
**26% of Group**

## Income split by key markets



## Helping India breathe easier

To help beat the COVID-19 crisis we funded the development of a new portable ventilator produced by the Indian Institute of Technology Kanpur and Nocca Robotics.

The ventilator, which can be produced cheaply and easily, has since been installed in government and private hospitals in more than 50 cities, including Pune, Mumbai, Kolkata, Delhi, Chennai, Bihar and Bengaluru

## Region overview

The Group has a long-standing presence in the region and, as the only international bank present in all 10 ASEAN countries, we are a strong banking partner for our clients. Our two biggest markets in the region are Singapore and India.

The region contributes more than a quarter of the Group's income and Singapore is home to the majority of our global business leadership, our technology operations and our innovation hub SC Ventures. The strong underlying economic growth in the region means we can help our clients grow and sustainably improve returns.

The region benefits from rising trade flows, including activity generated from China's Belt and Road initiative, strong investment, and a rising middle class which is driving consumption and improving digital connectivity.

## Strategic priorities

- Leverage the strength of our international network to support our clients' cross-border trade and investment activities across the high-growth regional corridors
- Expand Wealth Management offerings and client engagement through digital-only or hybrid channels to accelerate growth in affluent segments
- Improve capital efficiency and sharpen our investments in higher-returning businesses
- Continue to reshape our India and Indonesia franchises to optimise returns

## Progress

- In Singapore, we are proud to have been awarded 'Significantly Rooted Foreign Bank' status. We are the only international bank to receive this honour, reflecting our long and deep-rooted presence in the market. This has paved the way for us to establish a new digital bank and expand our reach and touchpoints in one of our most important markets
- In India, despite COVID-19, we more than quadrupled operating profit and improved returns. The growth in lower cost liabilities has improved margins and supported clients in strategic transactions. Expenses remain tightly controlled benefiting from increased client digital adoption
- In Indonesia, we improved profitability through growth in Financial Markets and Wealth Management income. Costs were flat with client digital adoption reducing channel costs. We have announced a 'banking-as-a-service' solution, nexus, having signed partnerships with Bukalapak and Sociolla in Indonesia as partners
- Bangladesh and Vietnam delivered sound performances leveraging client relationships both domestically and cross border, particularly with China, Japan and Korea

## Performance highlights

- Underlying profit before tax of \$779 million decreased 24 per cent driven by higher credit impairment. Underlying operating profit before impairment and tax improved 14 per cent as income grew 4 per cent, while expenses were 2 per cent lower
- Underlying operating income of \$4,366 million grew 4 per cent (5 per cent on a constant currency basis excluding a positive debit valuation adjustment), underpinned by strong growth in Corporate & Institutional Banking and realisation gains within Treasury Markets. Commercial Banking income declined 6 per cent and Retail Banking was down 5 per cent, while Private Banking was also down
- Higher Corporate & Institutional Banking income driven by strong performance in Financial Markets and Corporate Finance, partially offset by margin compression in Transaction Banking
- Resilient balance sheet momentum with loans and advances to customers up 8 per cent. Customer accounts were up 6 per cent driven by higher retail current and savings accounts and Transaction Banking cash balances. These were partially offset by a reduction in high-priced corporate time deposits
- Risk-weighted assets decreased by \$8 billion due mainly to the sale of the Group's stake in Permata in Indonesia

# Africa & Middle East

Profit/(loss) before taxation

## \$13m

↓ 98%  
underlying basis

## \$(75)m

↓ 111%  
statutory basis

Risk-weighted assets (RWA)

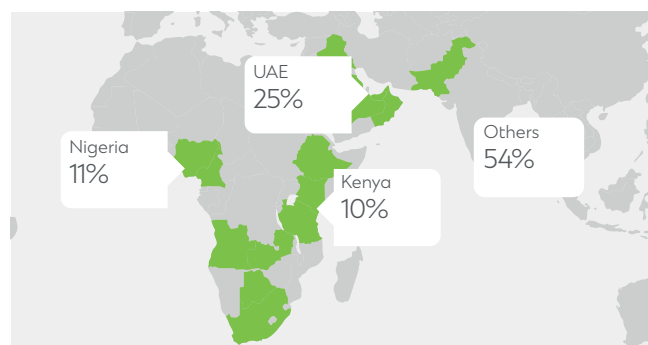
## \$51bn

↑ \$2bn

### Loans and advances to customers

Africa & Middle East  
9% of Group

### Income split by key markets



## Fighting COVID in the Middle East

As part of our efforts to battle the pandemic, we committed \$25 million to UAE healthcare services provider Mediclinic.

The money, which was part of our \$1 billion COVID-19 not-for-profit initiative, was the biggest loan we issued in the region.

In 2020, Mediclinic provided care to three million outpatients and 79,000 inpatients across its seven hospitals in the UAE.

### Region overview

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

A rich history, deep client relationships and a unique footprint in the region, as well as across centres in Asia, Europe and the Americas enable us to seamlessly support our clients. Africa & Middle East is an important element of global trade and investment corridors, including those on China's Belt and Road initiative and we are well placed to facilitate these flows.

Global and local macroeconomic headwinds in 2020 impacted income across both the Middle East and Africa, and have resulted in an elevated risk environment, particularly in Africa. However, we're confident the opportunities in the region will support long-term sustainable growth for the Group. We continue to invest selectively and drive efficiencies.

### Strategic priorities

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

### Progress

- Our role leading several marquee transactions across the region reflects our strong client franchise. We continue to be the market leader in bond issuance and Islamic Sukuk and achieved our highest-ever debt capital markets notional volumes
- On a constant currency basis, Wealth Management income grew 8 per cent and priority deposits grew by 17 per cent despite a slow-down post COVID-19
- Rapid growth in the Africa digital transformation, with half a million customers and \$125 million in deposits. Awarded Best Digital Bank across 10 countries at the Global Finance's Best Digital Banks Awards 2020
- Continuing cost discipline has allowed investments to continue through the cycle. The number of branches reduced by 19 per cent and headcount was 7 per cent lower
- Liquidity and capital remained healthy across markets, ensuring a better ability to navigate market challenges
- On a constant currency basis, fee-based income grew and accounted for a higher share of total income than in 2019

### Performance highlights

- Underlying profit before tax of \$13 million was 98 per cent lower with continued macroeconomic challenges negatively impacting income and driving higher credit impairment. Efficiency actions funded ongoing strategic investments
- Underlying operating income of \$2,364 million was down 8 per cent (3 per cent on a constant currency basis) due to the impact of interest rate cuts on margins, while Financial Markets performed well. Income across the Middle East, North Africa and Pakistan was down 7 per cent, and in Africa was down 8 per cent (1 per cent on a constant currency basis)
- Loans and advances to customers were down 7 per cent and customer accounts were up 10 per cent

# Europe & Americas

Profit before taxation

**\$386m**

↑ 146%  
underlying basis

**\$341m**

↑ 177%  
statutory basis

Risk-weighted assets (RWA)

**\$46bn**

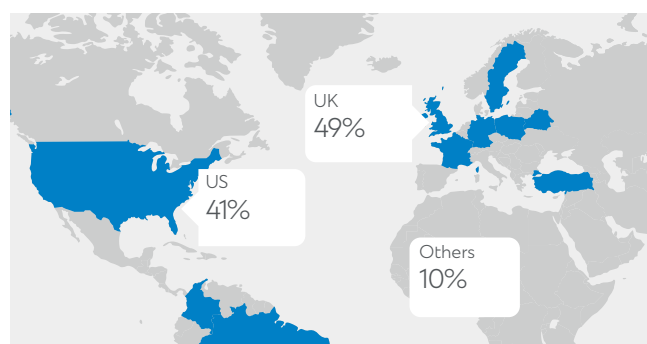
↑ \$2bn

## Loans and advances to customers



Europe & Americas  
**20% of Group**

## Income split by key markets



## EDF helps us pass \$2bn in sustainable deposits

In May 2020, French electricity company EDF helped our Sustainable Deposit product – the first of its kind – exceed the \$2 billion mark. We use the deposits to finance assets that meet our Green and Sustainable Product Framework which is aligned to the UN's Sustainable Development Goals, including combatting climate change, supporting financial inclusion and tackling the lack of universal access to health and education. The product was launched in May 2019 and reached the \$1 billion mark in January 2020.

## Region overview

The Group supports clients in Europe & Americas through hubs in London and New York as well as a presence in several markets in Europe and Latin America. Our expertise in Asia, Africa and the Middle East allows us to offer our clients in the region unique network and product capabilities.

The region generates significant income for the Group's Corporate & Institutional Banking business. Clients based in Europe & Americas make up more than one-third of the Group's Corporate & Institutional Banking income, with three-quarters of client income booked elsewhere in the network generating above-average returns.

In addition to being a key origination centre for Corporate & Institutional Banking, the region offers local, on-the-ground expertise and solutions to help internationally-minded clients grow across Europe & Americas.

The region is home to the Group's two biggest payment clearing centres and the largest trading floor. More than 80 per cent of the region's income derives from Financial Markets and Transaction Banking products.

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

## Strategic priorities

- Continue to attract new international corporate and financial institutional clients and deepen relationships with existing clients by connecting them to the fastest growing and highest potential economies
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Leverage our network capabilities as new e-commerce industries grow internationally
- Scale up our continental European business, leveraging significant trade corridors with Asia and Africa
- Grow assets under management in Private Banking and strengthen the franchise generally

## Progress

- Good progress in improving our share of business from targeted Corporate & Institutional Banking priority clients, with income up 3 per cent from 'Top 100', 'Next 100' and 'New 90' client initiatives, with growth of 20 per cent from Financial Markets products, partially offset by lower Transaction Banking income
- Significant improvement to our client service offering with onboarding turnaround time more than halved
- Launched Sustainable Fund Finance and exceeded \$2 billion in Sustainable Deposits
- Significant increase in high-quality liabilities achieved to improve the funding base
- Restructured our Private Bank London Advisory centre to improve productivity and sharpen focus
- SCB AG Germany has experienced growth, as clients re-positioned their banking arrangements in preparation for Brexit

## Performance highlights

- Underlying profit before tax of \$386 million improved 146 per cent driven by higher income and lower costs. Impairments were up two-thirds but remain at a modest level relative to the size of the loan portfolio
- Underlying operating income of \$1,922 million was up 11 per cent largely due to growth in Financial Markets performance in addition to realisation gains in Treasury, partially offset by the impact of lower interest rates on Cash Management and Retail Products. Adjusting for movements in the debit valuation adjustment, income was up 7 per cent
- Expenses reduced by 6 per cent largely due to lower regulatory costs, reduced travel-related expenses and variable compensation payments
- Strong growth in loans and advances to customers up 9 per cent while customer accounts grew 3 per cent

# Group Chief Financial Officer's review



**Andy Halford**  
Group Chief Financial Officer

“A resilient performance in extremely challenging conditions”

## Summary of financial performance

We were making strong progress delivering our financial framework until the onset of COVID-19 but the challenging conditions caused by the pandemic resulted in a reduced, but nonetheless resilient, financial performance for the year as a whole. Our focus over recent years on diversifying our sources of income was not quite sufficient to offset the effect of the significant reductions in global interest rates that occurred mid-year and hence overall income declined slightly as did our pre-provision operating profit, notwithstanding tight control of expenses. The actions taken in recent years to improve the quality of our balance sheet sheltered us from some of the worst effects of COVID-19 but we nonetheless incurred credit impairment charges more than double that of the prior year, albeit the majority were booked in the first half of the year with a noticeably lower level of charges in the second half. Overall this resulted in underlying operating profit decreasing by 40 per cent but we ended the year with our key capital ratio, CET1, at 14.4 per cent including the benefit of selling our stake in Permata earlier in the year. This is not only above the top of our target range of 13 to 14 per cent but also the highest level it has been for many years. The Group also retained a highly liquid balance sheet and consequently we believe we enter 2021 well equipped to see through the remaining challenges of COVID-19 and, importantly, well positioned to benefit from the subsequent upturn in the global economy.

All commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2019 on a reported currency basis, unless otherwise stated.

- **Operating income** declined 3 per cent and was down 2 per cent on a constant currency basis
- **Net interest income** decreased 11 per cent with increased volumes more than offset by a 19 per cent or 31 basis point reduction in net interest margin
- **Other income** increased 4 per cent, or 3 per cent excluding the positive impact in DVA, with a particularly strong performance in Financial Markets
- **Operating expenses** excluding the UK bank levy reduced 2 per cent or 1 per cent on a constant currency basis, with the impact of COVID-19 resulting in lower bonus accruals reflecting underlying performance, including lower profits, and reduced spend on travel and entertainment, partly offset by the continued focus on investing in new digital capabilities. Operating expenses in 4Q'20 increased 6 per cent compared to 3Q'20 due to a \$100 million increase in investment P&L charge as the Group started to position itself to capitalise on the expected economic recovery in its markets. The cost-to-income ratio (excluding the UK bank levy and DVA) increased 1 percentage point to 67 per cent. The UK bank levy decreased by \$16 million to \$331 million; in 2021 it will be chargeable on only the Group's UK balance sheet with the current expectation being that it will reduce to around \$100 million at that time
- **Credit impairment** increased by \$1,388 million to \$2,294 million. This was mainly driven by a \$823 million increase in Stage 3 impairments across all client segments to \$1,467 million, around one-third of which related to three unconnected Corporate & Institutional Banking client exposures that were reported in 1Q'20. Stage 1 and 2 impairments increased by \$565 million to \$827 million and included a net increase in the judgemental management overlay of \$337 million as the Group proactively reserved for forward-looking risks. Total credit impairment of \$2,294 million represents a loan-loss rate of 66 basis points

(2019: 27 basis points) with the management overlay contributing 11 basis points. This compares to a loan-loss rate of 143 basis points in 2015 reflecting the benefit of the work done in the intervening period to secure the Group's foundations including tightening the Group's risk management framework

- **Other impairment** was a net \$15 million release, primarily driven by a reversal of previously impaired assets partially offset by a \$132 million charge relating to impairment of aircraft
- **Profit from associates and joint ventures** decreased by 35 per cent to \$164 million. The Group could only recognise its share of the profits of its associate China Bohai Bank for ten months due to the timing of its recently completed initial public offering in July 2020. The Group's share of Bohai's annual preference share dividend, \$22 million, was deducted from its share of profit in 4Q'20. Additionally, the Group's share of China Bohai Bank reduced in 4Q'20 to 16.26 per cent from 19.99 per cent and this will be the share of profit that is reported in future quarters
- **Profit before tax** decreased 40 per cent or 39 per cent on a constant currency basis. Statutory profit before tax decreased 57 per cent driven by charges totalling \$895 million relating to restructuring, goodwill impairment – including \$489 million principally relating to India and United Arab Emirates – and other items
- **Taxation** was \$862 million on a statutory basis. Taxation on underlying profits was at an effective rate of 37.7 per cent, an increase of 8 percentage points reflecting the non-repeat of prior year credits and the effect of lower profits concentrating the impact of non-deductible expenses partly offset by a one-off credit in 4Q'20 relating to an increase in the rate at which the US deferred tax asset is recognised. Taxation on statutory profits was at an effective rate of 53.4 per cent, an increase of 16 percentage points on the underlying rate due to elevated goodwill impairments
- **Return on tangible equity** decreased by 340 basis points to 3.0 per cent, with the impact of reduced profits partly offset by lower tangible equity reflecting the share buy-back programmes completed since 1Q'19
- **Underlying basic earnings per share (EPS)** reduced 52 per cent to 36.1 cents and statutory EPS declined 46.6 cents to 10.4 cents
- A final **ordinary dividend** per share of 9 cents has been proposed, which along with the announced share buy-back programme of \$254 million is the maximum the Group is authorised by its regulator to return to shareholders currently, being 0.2 per cent of risk-weighted assets as at 31 December 2020

## Summary of financial performance

	2020 \$million	2019 \$million	Change %	Constant currency change <sup>1</sup> %
Net interest income	6,882	7,698	(11)	(9)
Other income	7,883	7,573	4	5
<b>Underlying operating income</b>	<b>14,765</b>	15,271	(3)	(2)
Underlying operating expenses	(9,811)	(10,062)	2	1
UK bank levy	(331)	(347)	5	9
<b>Underlying operating expenses</b>	<b>(10,142)</b>	(10,409)	3	1
<b>Underlying operating profit before impairment and taxation</b>	<b>4,623</b>	4,862	(5)	(4)
Credit impairment	(2,294)	(906)	(153)	(159)
Other impairment	15	(38)	139	138
Profit from associates and joint ventures	164	254	(35)	(36)
<b>Underlying profit before taxation</b>	<b>2,508</b>	4,172	(40)	(39)
Restructuring	(382)	(254)	(50)	(53)
Goodwill impairment	(489)	(27)	nm <sup>2</sup>	nm <sup>2</sup>
Other items	(24)	(178)	87	87
<b>Statutory profit before taxation</b>	<b>1,613</b>	3,713	(57)	(56)
Taxation	(862)	(1,373)	37	36
<b>Profit for the year</b>	<b>751</b>	2,340	(68)	(67)
Net interest margin (%) <sup>3</sup>	1.31	1.62	(31)	
Underlying return on tangible equity (%) <sup>3</sup>	3.0	6.4	(340)	
Underlying earnings per share (cents)	36.1	75.7	(52)	
Statutory return on tangible equity (%) <sup>3</sup>	0.9	4.8	(390)	
Statutory earnings per share (cents)	10.4	57.0	(82)	

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

2. Not meaningful

3. Change is the basis points (bps) difference between the two periods rather than the percentage change

## Operating income by product

	2020 \$million	2019 (Restated) <sup>2</sup> \$million	Change %	Constant currency change <sup>1</sup> %
Transaction Banking	2,838	3,499	(19)	(18)
Trade	994	1,100	(10)	(9)
Cash Management	1,844	2,399	(23)	(23)
Financial Markets	3,854	3,258	18	20
Foreign Exchange	1,291	1,127	15	17
Rates	1,068	696	53	56
Commodities	223	165	35	35
Credit and Capital Markets	639	577	11	12
Capital Structuring Distribution Group	274	329	(17)	(16)
DVA	13	(100)	113	113
Securities Services	320	343	(7)	(5)
Other Financial Markets	26	121	(79)	(78)
Corporate Finance	1,116	1,143	(2)	(1)
Lending and Portfolio Management	848	786	8	10
Wealth Management	1,968	1,879	5	5
Retail Products	3,566	3,862	(8)	(7)
CCPL and other unsecured lending	1,211	1,251	(3)	(2)
Deposits	1,457	1,989	(27)	(26)
Mortgage and Auto	750	511	47	47
Other Retail Products	148	111	33	36
Treasury	635	1,090	(42)	(41)
Other	(60)	(246)	76	74
<b>Total underlying operating income</b>	<b>14,765</b>	<b>15,271</b>	<b>(3)</b>	<b>(2)</b>

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

2 Following a reorganisation of certain clients, there has been a reclassification of balances across products

**Transaction Banking** income was down 19 per cent. Trade declined 10 per cent reflecting a significant reduction in global trade as a result of COVID-19. Cash Management declined 23 per cent with double-digit volume growth being more than offset by declining margins given the low interest rate environment.

**Financial Markets** income grew 18 per cent, or 14 per cent excluding DVA, benefiting from market volatility and increased hedging and investment activity by clients. There was strong double-digit growth in Rates, Foreign Exchange and Commodities. After a slow first quarter, Credit and Capital Markets recovered momentum and ended the year with income up 11 per cent. Income from Securities Services, which is now managed within Financial Markets having previously been reported as part of Transaction Banking, declined 7 per cent. The decline in Other Financial Markets included a \$56 million charge related to a change in the valuation methodology of structured notes in 4Q'20.

**Corporate Finance** income was down 2 per cent driven by lower income from aviation clients as the sector was significantly impacted by COVID-19, partly offset by drawdowns on revolving credit facilities which were largely repaid or refinanced in 2H'20.

**Lending and Portfolio Management** income was up 8 per cent with improved margins in Corporate Lending.

**Wealth Management** income grew 5 per cent despite significantly more challenging market conditions. There was a particularly strong sales performance in FX, equities and structured notes driving income excluding bancassurance up 14 per cent. Bancassurance income was lower by 16 per cent resulting from reduced branch walk-ins due to COVID-19, partially offset by increased digital channel usage.

**Retail Products** income declined 8 per cent or 7 per cent on a constant currency basis. Deposits income declined 27 per cent as margin compression more than offset increased volumes. Increases in volumes and margins led to double-digit income growth across Mortgages and Auto and Other Retail Products. Credit Cards and Personal Loans income was down 3 per cent as COVID-19 impacted new sales.

**Treasury income** reduced 42 per cent as a fall in interest rates led to lower interest income on Treasury assets that was partially offset by a reduction in the expense of Treasury liabilities. An additional \$220 million in realisation gains, primarily booked in 1H'20, was broadly offset by lower FX switch income and negative movements in hedge ineffectiveness, primarily recorded in 2H'20.

**Other products** income improved by \$186 million to negative \$60 million reflecting interest credits and other one-off items in India, Korea and Singapore.

## Profit before tax by client segment and geographic region

	2020 \$million	2019 (Restated) <sup>2</sup> \$million	Change %	Constant currency change <sup>1</sup> %
Corporate & Institutional Banking	1,841	2,257	(18)	(18)
Retail Banking	587	1,093	(46)	(47)
Commercial Banking	214	499	(57)	(57)
Private Banking	62	94	(34)	(35)
Central & other items (segment)	(196)	229	(186)	(159)
<b>Underlying profit before taxation</b>	<b>2,508</b>	<b>4,172</b>	<b>(40)</b>	<b>(39)</b>
Greater China & North Asia	2,035	2,432	(16)	(17)
ASEAN & South Asia	779	1,025	(24)	(24)
Africa & Middle East	13	684	(98)	(97)
Europe & Americas	386	157	146	137
Central & other items (region)	(705)	(126)	nm <sup>3</sup>	nm <sup>3</sup>
<b>Underlying profit before taxation</b>	<b>2,508</b>	<b>4,172</b>	<b>(40)</b>	<b>(39)</b>

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

2 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

3 Not meaningful

**Corporate & Institutional Banking** income, which is now broadly half the Group's income, increased 2 per cent with a very strong Financial Markets performance partly offset by the impact of low interest rates. Lower expenses were more than offset by higher credit impairments resulting in profits declining 18 per cent. **Retail Banking** income declined 3 per cent as income growth in Wealth Management was more than offset by the effects of the low interest rate environment which resulted in Deposits income declining 26 per cent. Expenses were 2 per cent lower but were more than offset by higher impairments, which resulted in profits declining 46 per cent. **Commercial Banking** profits more than halved, driven by impairments which more than doubled and 10 per cent lower income partly offset by 8 per cent lower expenses. A non-repeat of a prior-year impairment release meant **Private Banking** profit was down 34 per cent. **Central & other items (segment)** recorded a loss of \$196 million driven by a 32 per cent decline in income, primarily in Treasury, 4 per cent higher expenses from increased investment spend including funding SC Ventures, and a reduction in the Group's share of China Bohai Bank's profits.

**Greater China & North Asia** remained the largest regional contributor to the Group, generating 81 per cent of the overall Group's profit before tax. Profit declined 16 per cent driven by higher impairments while income declined only 2 per cent despite challenging market conditions partly offset by a 1 per cent reduction in expenses. **ASEAN & South Asia** income growth of 4 per cent and 2 per cent lower expenses were more than offset by higher impairments, resulting in profits declining 24 per cent. **Africa & Middle East** income declined 8 per cent, or 3 per cent on a constant currency basis with continued macroeconomic challenges also impacting credit impairments, which resulted in profits declining to \$13 million for the year. **Europe & Americas** profit increased by 146 per cent driven by 11 per cent higher income reflecting exceptionally strong Financial Markets performance and 6 per cent lower expenses. The loss incurred by **Central & other items (regions)** increased by \$579 million to \$705 million loss due to lower returns paid to Treasury on the equity provided to the regions in a falling interest rate environment.

Additional information on client segment and geographic region performance is contained on pages 73-76

## Adjusted net interest income and margin

	2020 \$million	2019 <sup>1</sup> \$million	Change <sup>2</sup> %
Adjusted net interest income <sup>3</sup>	6,921	8,007	(14)
Average interest-earning assets	526,370	494,756	6
Average interest-bearing liabilities	478,051	444,595	8
Gross yield (%) <sup>4</sup>	2.34	3.34	(100)
Rate paid (%) <sup>4</sup>	1.12	1.92	(80)
Net yield (%) <sup>4</sup>	1.22	1.42	(20)
Net interest margin (%) <sup>4,5</sup>	1.31	1.62	(31)

1 The Group in 2019 changed its accounting policy for net interest income and the basis of preparation of its net interest margin to better reflect the underlying performance of its banking book. See notes to the financial statements in the 2019 Annual Report for further details

2 Variance is better/(worse) other than assets and liabilities which is increase/(decrease)

3 Adjusted net interest income is statutory net interest income less funding costs for the trading book and financial guarantee fees on interest earning assets

4 Change is the basis points (bps) difference between the two periods rather than the percentage change

5 Adjusted net interest income divided by average interest-earning assets, annualised

Adjusted net income was down 14 per cent driven by a 19 per cent decline in net interest margin which fell 31 basis points, primarily reflecting the interest rate cuts which occurred in late 2019 and to a much larger extent in early 2020.

This more than offset the impact of improvements in balance sheet mix and liability repricing initiatives. The fourth quarter net interest margin included 2 basis points uplift from a one-off interest credit in Korea.

Average interest-earning assets increased 6 per cent driven by an increase in investment securities balances and higher loans and advances to customers. Gross yields declined by 100 basis points predominantly reflecting the flow-through of interest rates cuts which occurred in the second half of 2019 and those that occurred in the first quarter of 2020.

Average interest-bearing liabilities increased 8 per cent driven

by growth in customer accounts. The rate paid on liabilities decreased by 80 basis points compared to the average in 2019 reflecting interest rate movements. This was partly offset by a shift of customer accounts from higher-paying time deposits to lower-rate and non-interest bearing current and savings accounts.

## Credit risk summary

### Income statement

	2020 \$million	2019 \$million	Change <sup>1</sup> %
Total credit impairment	2,294	906	153
Of which stage 1 and 2	827	262	216
Of which stage 3	1,467	644	128

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

### Balance sheet

	2020 \$million	2019 \$million	Change <sup>1</sup> %
<b>Gross loans and advances to customers<sup>2</sup></b>	<b>288,312</b>	274,306	5
Of which stage 1	256,437	246,149	4
Of which stage 2	22,661	20,759	9
Of which stage 3	9,214	7,398	25
<b>Expected credit loss provisions</b>	<b>(6,613)</b>	(5,783)	14
Of which stage 1	(534)	(402)	33
Of which stage 2	(738)	(377)	96
Of which stage 3	(5,341)	(5,004)	7
<b>Net loans and advances to customers</b>	<b>281,699</b>	268,523	5
Of which stage 1	255,903	245,747	4
Of which stage 2	21,923	20,382	8
Of which stage 3	3,873	2,394	62
Cover ratio of stage 3 before/after collateral (%) <sup>3</sup>	58/76	68/85	(10)/(9)
Credit grade 12 accounts (\$million)	2,164	1,605	35
Early alerts (\$million)	10,692	5,271	103
Investment grade corporate exposures (%) <sup>3</sup>	62	61	1

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

2 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$2,919 million at 31 December 2020 and \$1,469 million at 31 December 2019

3 Change is the percentage points difference between the two points rather than the percentage change

The rapid and extreme global economic dislocation caused by the onset of the COVID-19 pandemic led to a deterioration in asset quality and higher impairments overall. Actions taken in previous years to secure the Group's foundations – including increasing diversification of credit exposures and improving the risk culture – underpinned the Group's resilience to these extraordinary challenges. Having made substantial provisions against expected credit losses in the first half of the year, conditions stabilised somewhat in the second half and the stock of high-risk assets reduced from its peak in August 2020. However, despite these encouraging signs the credit risks facing the Group are likely to remain elevated during what is likely to be a difficult and uneven economic recovery.

Full year 2020 credit impairment increased by \$1,388 million to \$2,294 million but was \$840 million lower in 2H'20 compared to 1H'20 while credit impairment in 4Q'20 was broadly flat compared to 4Q'19.

Stage 1 and 2 impairments increased to \$827 million due to deteriorating macroeconomic variables and stage downgrades on account of COVID-19 uncertainties. The \$565 million increase included an increase in the overlay of \$337 million which was net of a \$41 million release in 4Q'20. The overlay reflected management's judgement regarding:

- Elements of the macroeconomic outlook not captured in the modelled outcome for Corporate & Institutional Banking and Commercial Banking
- The potential impact to delinquencies and flow rates in Retail Banking of extensions to payment relief schemes and ongoing lockdowns in some markets as well as the ending of these schemes in India, Malaysia, Bangladesh, Nepal and Indonesia

Stage 3 impairments increased by \$823 million across all client segments to \$1,467 million with broadly one-third relating to three unconnected fraud-related Corporate & Institutional Banking client exposures that were reported in 1Q'20.

Total credit impairment of \$2,294 million represents a loan-loss rate of 66 basis points (2019: 27 basis points) with the management overlay contributing 11 basis points.

Gross Stage 3 loans and advances to customers of \$9.2 billion were up 25 per cent compared to 31 December 2019, reflecting the impact of COVID-19 volatility which led to macroeconomic deterioration in Retail Banking portfolios and Corporate & Institutional Banking and Commercial Banking clients. These credit-impaired loans represented 3.2 per cent of gross loans and advances, an increase of 50 basis points compared to 31 December 2019. The stage 3 cover ratio decreased to 58 per cent from 68 per cent in 2019 due to write-offs particularly in relation to Corporate & Institutional Banking and Commercial Banking clients and new downgrades with low levels of coverage, which have benefited from credit

insurance and guarantees, including from export credit agencies. The cover ratio post tangible collateral decreased to 76 per cent from 85 per cent in 2019 with some of the 2020 downgrades being covered by guarantees and insurance which are not included as tangible collateral.

Credit grade 12 balances increased 35 per cent since 31 December 2019 primarily from new inflows from Early Alert Non-Purely Precautionary (EANPP) accounts. These EANPP accounts more than doubled to \$10.7 billion in 2020 on the back of proactive portfolio and sector reviews, particularly for vulnerable sectors but have declined through 2H'20 since the peak in August 2020. The Group continues to monitor its exposures in the Aviation, Hospitality and Oil & Gas sectors particularly carefully, given the unusual stresses caused by the effects of COVID-19.

The proportion of investment grade corporate exposures has increased since 31 December 2019 by 1 percentage point to 62 per cent.

## Restructuring, goodwill impairment and other items

	2020			2019		
	Restructuring \$million	Goodwill impairment \$million	Other items \$million	Restructuring \$million	Goodwill impairment \$million	Other items \$million
Operating income	27	–	(38)	146	–	–
Operating expenses	(252)	–	14	(298)	–	(226)
Credit impairment	(31)	–	–	(2)	–	–
Other impairment	(113)	(489)	–	(98)	(27)	–
Profit from associates and joint ventures	(13)	–	–	(2)	–	48
<b>Loss before taxation</b>	<b>(382)</b>	<b>(489)</b>	<b>(24)</b>	<b>(254)</b>	<b>(27)</b>	<b>(178)</b>

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing underlying performance period-by-period.

Restructuring charges of \$382 million for 2020 are broadly split evenly between actions to exit the Group's discontinued businesses, primarily ship leasing and principal finance, and actions to transform the organisation to improve productivity, primarily redundancy related charges, the majority of which were booked in 4Q'20. Charges related to restructuring increased 50 per cent due to the significant decline in income from discontinued businesses, including negative movements in the valuation of principal finance investments primarily recorded in 4Q'20.

The goodwill impairment of \$489 million reflects writing off all goodwill relating to the Group's businesses in India, UAE, Indonesia and Brunei. This was primarily due to lower forward-looking cash flows, lower economic growth forecasts and higher discount rates reflecting lower interest rate environments.

Other restructuring items also include a \$43 million dilution loss following the initial public offering of the Group's associate in China Bohai Bank. Charges related to other items reduced 87 per cent primarily due to the regulatory provisions booked in the prior year.

The Group is likely to incur further restructuring charges of around \$500 million over the next few years, primarily in 2021, relating predominantly to people and property actions intended to generate enduring productivity improvements.

## Balance sheet and liquidity

	2020 \$million	2019 \$million	Increase/ (decrease) \$million	Increase/ (decrease) %
<b>Assets</b>				
Loans and advances to banks	44,347	53,549	(9,202)	(17)
Loans and advances to customers	281,699	268,523	13,176	5
Other assets	463,004	398,326	64,678	16
<b>Total assets</b>	<b>789,050</b>	<b>720,398</b>	<b>68,652</b>	<b>10</b>
<b>Liabilities</b>				
Deposits by banks	30,255	28,562	1,693	6
Customer accounts	439,339	405,357	33,982	8
Other liabilities	268,727	235,818	32,909	14
<b>Total liabilities</b>	<b>738,321</b>	<b>669,737</b>	<b>68,584</b>	<b>10</b>
<b>Equity</b>	<b>50,729</b>	<b>50,661</b>	<b>68</b>	<b>-</b>
<b>Total equity and liabilities</b>	<b>789,050</b>	<b>720,398</b>	<b>68,652</b>	<b>10</b>
<b>Advances-to-deposits ratio (%)<sup>2,3</sup></b>	<b>61.1%</b>	<b>64.2%</b>		<b>(3.1)</b>
<b>Liquidity coverage ratio (%)<sup>3</sup></b>	<b>143%</b>	<b>144%</b>		<b>(1)</b>

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

2 The Group now excludes \$14,296 million held with central banks (31.12.19: \$9,109 million) that has been confirmed as repayable at the point of stress

3 Change is the percentage points difference between the two points rather than the percentage change

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

- Loans and advances to banks decreased 17 per cent since 31 December 2019 as the Group ran down its Financial Institutions Trade Loan book to optimise balance sheet returns in a low interest rate environment
- Loans and advances to customers increased 5 per cent since 31 December 2019 to \$282 billion driven mainly by growth in Mortgages and Treasury Products. Volumes were broadly stable in 4Q'20 with underlying growth in Mortgages, primarily in GCNA, offset by the roll-off of temporary balances booked in 3Q'20 relating to initial public offerings in Hong Kong. Excluding the impact of the temporary balances and movements in reverse repurchase agreements, loans and advances to customers grew an underlying 2 per cent in 4Q'20 equivalent to a 7 per cent annualised growth rate

- Customer accounts of \$439 billion increased 8 per cent since 31 December 2019 with an increase in operating account balances within Cash Management and in Retail current and saving accounts partly offset by a reduction in Corporate and Retail Time Deposits
- Other assets and other liabilities since 31 December 2019 were 16 per cent and 14 per cent higher, respectively. The growth in other assets was driven by increased balances at central banks and reverse repurchase agreements to support the strong growth in Financial Markets. The growth in other liabilities reflects repurchase agreements and issued debt securities

The advances-to-deposits ratio decreased to 61.1 per cent from 64.2 per cent at 31 December 2019 while the point-in-time liquidity coverage ratio was broadly stable at 143 per cent and has remained resilient throughout the year despite significant market disruption in 1H'20.

## Risk-weighted assets

	2020 \$million	2019 \$million	Increase/ (decrease) \$million	Increase/ (decrease) %
<b>By risk type</b>				
Credit Risk	220,441	215,664	4,777	2
Operational Risk	26,800	27,620	(820)	(3)
Market Risk	21,593	20,806	787	4
<b>Total RWAs</b>	<b>268,834</b>	<b>264,090</b>	<b>4,744</b>	<b>2</b>

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

Total risk-weighted assets (RWA) increased 2 per cent or \$4.7 billion since 31 December 2019 to \$268.8 billion.

- Credit Risk RWA increased \$4.8 billion to \$220.4 billion, driven by an increase of \$15 billion from negative credit migration related to the impact of economic disruption due to COVID-19, of which \$3 billion occurred in 4Q'20, underlying asset growth of \$6 billion as well as unfavourable FX movements of \$2 billion. This was partly offset by the completion of the sale of the Group's interest in PT Bank Permata Tbk (Permata) in Indonesia – which reduced Credit RWA by \$8 billion – and a \$11 billion reduction from improved RWA density and the impact of RWA optimisation actions

- Market Risk RWA increased by \$0.8 billion to \$21.6 billion due to higher levels of Financial Markets activity with increased value-at-risk from elevated market volatility partly offset by regulatory mitigation for back-testing exceptions
- Operational Risk RWA reduced by \$0.8 billion primarily reflecting a \$1 billion reduction relating to the disposal of the Group's stake in Permata

## Capital base and ratios

	2020 \$million	2019 \$million	Increase/ (Decrease) \$million	Increase/ (Decrease) %
<b>CET1 capital</b>	<b>38,779</b>	36,513	2,266	6
Additional Tier 1 capital (AT1)	5,612	7,164	(1,552)	(22)
Tier 1 capital	44,391	43,677	714	2
Tier 2 capital	12,657	12,288	369	3
<b>Total capital</b>	<b>57,048</b>	55,965	1,083	2
<b>CET1 capital ratio (%)<sup>2</sup></b>	<b>14.4</b>	13.8		0.6
<b>Total capital ratio (%)<sup>2</sup></b>	<b>21.2</b>	21.2		–
<b>UK leverage ratio (%)<sup>2</sup></b>	<b>5.2</b>	5.2		–

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

2 Change is percentage points difference between two points rather than percentage change

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

The Group's common equity tier 1 (CET1) ratio of 14.4 per cent was above the top-end of the 13-14 per cent target range, 60 basis points higher than as at 31 December 2019 and over four percentage points above the Group's latest regulatory minimum of 10.0 per cent.

The primary driver of the increase in the CET1 ratio was the completion in 2Q'20 of the sale of the Group's stake in Permata, which resulted in an increase in the CET1 ratio of approximately 50 basis points.

The Group announced on 31 March 2020 that in response to a request from the Prudential Regulation Authority (PRA) and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, the Board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share which increased the CET1 ratio by approximately 20 basis points.

Various amendments to the Capital Requirements Regulation increased the CET1 ratio by 29 basis points, of which 22 basis points related to the revised treatment in 4Q'20 of software assets in CET1. Profit accretion and other items including the net impact of FX movement on reserves and RWAs contributed an increase in the CET1 ratio of approximately 40 basis points.

The impact on credit risk RWAs from negative credit migration, higher RWA on derivatives and revolving credit facilities led to approximately 60 basis point reduction in the CET1 ratio.

The Group had purchased 40 million ordinary shares for \$242 million through the buy-back programme announced on 28 February 2020 which reduced the Group's CET1 ratio by approximately 10 basis points.

Following the publication of recent PRA guidance, the Board has recommended a final ordinary dividend of 9 cents per share or \$284 million. The accrual of the 2020 final ordinary share dividend reduced the year-end CET1 ratio by approximately 10 basis points.

The Board has also decided to carry out a share buy-back for up to a maximum consideration of \$254 million to further reduce the number of ordinary shares in issue by cancelling the repurchased shares. The terms of the buy-back will be announced and the programme will start shortly and is expected to reduce the Group's CET1 ratio in the first quarter of 2021 by approximately 10 basis points.

The UK leverage ratio remained at 5.2 per cent, significantly above the Group's minimum requirement of 3.6 per cent.

## Outlook

Improving prospects for COVID-19 vaccines should enable the global economy to transition back to growth through 2021, with pre-pandemic growth rates re-emerging in most of our markets from 2022. We believe that our decision to continue investing in the transformation of our business throughout the crisis will enable us to disproportionately benefit from that recovery over time, not least because it will most likely be led by large markets in Asia where we generate two-thirds of our income.

Overall income in 2021 is expected to be similar to that achieved in 2020 at constant currency given the full-year impact of the global interest rate cuts that occurred in 1H'20, which will likely cause 1H'21 income to be lower than last year. The FY'21 net interest margin should stabilise at marginally below the 4Q'20 level of 1.24 per cent. Our performance in the opening weeks of this year gives us the confidence that we are on the right track with strong performances in our less interest rate-sensitive Financial Markets and Wealth Management businesses. We expect income to return to 5 to 7 per cent growth per annum from 2022.

We expect pressure on credit impairments to reduce this year compared with 2020. Expenses are likely to increase slightly in FY'21 as we continue to invest in our digital capabilities but should remain below \$10 billion at constant currency and excluding the UK bank levy, supported in part by restructuring actions in 4Q'20 and through FY'21.

We will continue to manage our balance sheet prudently, particularly throughout the remainder of the pandemic. Our intent is to operate within our 13 to 14 per cent target CET1 range and we will seek approval to return to shareholders capital that cannot be deployed profitably within the business through a mixture of dividends and share buy-backs.

The progress we were making up to the onset of the COVID-19 pandemic in every key financial and strategic metric gives us confidence that we can achieve our ambition to deliver a double-digit RoTE. By 2023 we expect to deliver at least 7 per cent RoTE, higher if interest rates normalise earlier than anticipated, through strong operating leverage and disciplined capital management.



**Andy Halford**

Group Chief Financial Officer

25 February 2021



Sustainability

# ▶ Measuring our impact ◀

In September 2020, we launched our first Sustainable Finance Impact Report, which outlined how our financing impacts the communities we serve. The report revealed that, between July 2019 and July 2020, our financing of green projects helped save almost 750,000 tonnes of CO<sub>2</sub> emissions – the equivalent CO<sub>2</sub> output of 217,000 residents in low- and middle-income markets.



Read more online at [sc.com/sfimpactreport](https://sc.com/sfimpactreport)

# Group Chief Risk Officer's review



**Mark Smith**  
Group Chief Risk Officer

“Ready for recovery, prepared for further volatility”

2020 was a year of significant challenges, with COVID-19, uncertainty around the US elections and Brexit, and heightened tensions between the US and China resulting in levels of macroeconomic and geopolitical upheaval not seen in recent history.

The impact of a global crisis driven by public health concerns rather than economic issues has varied vastly across different markets and sectors, with some devastated while others continue to thrive. Uneven recovery trajectories have resulted in volatility in growth rates across periods, although unprecedented levels of government support, and the provision of significant liquidity in most economies, has dampened some of the shock. The longer-term consequences of this volatility are unclear but suggest we are likely to see an inflationary period in the future. This has created unique challenges in terms of risk management as we strive to support our clients, colleagues and communities while ensuring we remain robust and resilient.

The crisis has also required us to re-examine our systems and processes and adapt to new ways of working. We have accelerated some of our ongoing initiatives by investing significantly in remote working and continuing to enhance our operational resilience. As we progress the Group's digital agenda we are conscious of the related cyber risks, as well as a heightened risk of fraud as criminals look to exploit the instability caused by the pandemic.

As we look forward to 2021 and beyond, we remain vigilant as the landscape continues to evolve, with the transition from Interbank Offered Rate (IBOR) to alternative risk-free rates and the longer-term impact of the Common Framework Agreement on emerging market debt being just two of the areas we are monitoring closely.

The pandemic and related economic shock has impacted our loan portfolio, with credit impairment at elevated levels compared to 2019. However, we faced these challenges from a fundamentally strong position. Actions taken in previous years, including reducing our concentration on single names and high-risk sectors and increasing the proportion of investment grade assets, helped to mitigate deterioration in our portfolios. Our capital and liquidity positions have also remained resilient.

While there were improvements in the second half of 2020 as economies in many of our markets began to emerge from local restrictions, we remain cognisant that the global recovery will be uneven with some sectors and markets continuing to face challenges as the world adapts to the new normal.

The growing sentiment to ‘build back better’ during the recovery from COVID-19 means we can benefit from our expertise in creating sustainable finance solutions, often in collaboration with the public sector. We are working with clients to understand the potential risks and opportunities sustainability brings. In the second half of 2020, we integrated environmental, social and governance risk management into our Reputational Risk Type Framework. We recognise our role in supporting our clients and markets in the transition to a low-carbon economy and are focused on developing transition frameworks and a range of sustainable financing solutions. We remain committed to being a sustainable, innovative, resilient and client-centric bank.

## An update on our key risk priorities

The financial services sector is evolving at a rapid pace and, in a challenging macroeconomic environment, we must continue to innovate. We remain focused on the following key priorities.

**Strengthening the Group's risk culture:** Embedding a healthy risk culture remains a core objective across the Group. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action to address existing and emerging risks. Our Enterprise Risk Management Framework (ERMF) sets out the guiding principles for our colleagues, enabling us to have integrated and holistic risk conversations across the Group and the three lines of defence. Senior management promote a healthy risk culture by rewarding risk-based thinking (including in remuneration decisions), challenging the status quo and creating a transparent and safe environment for employees to communicate risk concerns.

### Enhancing information and cyber security (ICS) capabilities:

The Group continues to invest in ICS capabilities. Despite the challenges posed by COVID-19, our technology infrastructure, supervision and controls have been strengthened to meet the additional requirements brought by the pandemic. The expansion of Virtual Private Network capacity along with Multi-Factor Authentication controls have facilitated a large increase in secure remote working across our footprint. We continue to review cyber threats as they evolve, anticipating areas of risk and adapting our continuity arrangements to maintain client service. These threats extend beyond the Group, and we have made it a priority to review our processes and strengthen controls around third-party security risk in response to recent external reports of ransomware attacks. We have benefited from an external review of our ICS enhancements.

**Embedding climate risk management:** We are making good progress on integrating climate risk into mainstream risk management, with some relevant Reputational, Compliance, Operational and Country Risk processes now incorporating Climate Risk. The Group is also conducting several pilot exercises to accelerate further integration into Credit, Traded, Capital and Liquidity Risk. Governance has been enhanced and rolled out to regions, focusing on markets with local regulatory requirements.

Training and upskilling colleagues across the Group has been a key priority. This year we delivered virtual training sessions and launched our first digital training course on climate risk under our partnership with Imperial College London. We also collaborated with them on a virtual event on energy scenarios and integration into macroeconomic and climate scenarios, with a focus on the coal supply chain in India.

Measuring climate risk remains an industry-wide challenge, and we have invested in internal capabilities and external partnerships to tackle climate risk assessments. With Munich Re's toolkit for physical risk assessment, Baringa's solution for transition risk assessment under various climate scenarios, and granular climate data from S&P Trucost, we significantly advanced our climate risk quantification capabilities. In 2021, we plan to engage our corporate clients with our climate risk insights, to better understand their adaptation and mitigation plans and assess how to best serve their sustainable financing needs.

Our 2020 Task Force on Climate-related Financial Disclosures Report provides further details on the Group's progress.

 More details on the Group's approach to Climate Risk can be found at [sc.com/sustainability](https://www.sc.com/sustainability)

## Managing our environmental, social and governance (ESG) risk:

There is increasing focus on issues relating to ESG risks from regulators and investors, and we are committed to being a leader in sustainable and responsible banking. The expansion of our Reputational Risk Type Framework to integrate ESG risk management focuses on core principles aligned with the OECD's Due Diligence for Responsible Business Conduct and that of doing no significant harm. We are investing in technology and innovative solutions in this area, having already developed a Reputational Risk and ESG Due Diligence Tool to enable us to better understand and manage ESG issues across our markets. We have also delivered a proof-of-concept model which utilises data on client behaviours combined with machine learning to predict the likelihood that a client relationship would expose the Group to heightened ESG risk and its potential severity.

**Managing financial crime risks:** We strive to remain at the forefront of the fight against financial crime. COVID-19 has presented a range of new threats, as well as heightening existing risks as criminals look to exploit the instability caused by the pandemic. We have identified and shared information about these threats and have taken steps to protect clients.

Our control capability has continued to strengthen and our Financial Crime Compliance team has identified and prevented fraud, money laundering, bribery and corruption using next-generation surveillance and financial crime monitoring infrastructure. With natural language processing and machine learning tools we generate higher quality cases and reduce false positives, creating a safer environment for our clients. We have also been able to share insights with our clients, colleagues and partners. Despite the pandemic impacting our ability to physically hold Correspondent Banking Academies, we have adapted and held academies virtually, allowing greater participation and helping further promote de-risking through education. We have also continued to strengthen our controls through internal innovation and investment in technology.



More information about the Group's commitment to fighting financial crime can be found at [sc.com/fightingfinancialcrime](https://www.sc.com/fightingfinancialcrime)

**Strengthening our conduct environment:** We continued to enhance our management of conduct risk in 2020, particularly in our approach to identification and mitigation. COVID-19 presented a range of new or heightened conduct risks given the move to large-scale working from home arrangements as well as the economic impact on clients. We focused on ensuring those risks were understood and mitigated throughout the year.

More generally, we have seen an improvement in the overall quality and consistency in the identification and management of conduct risk across the Group, regions and countries. Each area assesses its own operations to identify conduct risks and create conduct plans to mitigate them. The ownership of these plans sits with the first line and they are reviewed and challenged by the Conduct, Financial Crime and Compliance function (CFCC). We have also supplemented our management information and reporting by rolling out the Group Conduct Dashboard which provides conduct-related metrics at a firm-wide level.

We are mindful of new and emerging risks and continue to focus on identifying and mitigating conduct risk arising from the pandemic. Given the expected difficult and uncertain nature of the recovery from COVID-19, we remain vigilant to the need to identify new ways conduct risk may arise in 2021 and beyond.

**Enhancing our Risk and CFCC infrastructure:** Flexible risk aggregation, centralised data and advanced analytical capabilities have enabled an agile response to the challenges of COVID-19. The integration of our risk aggregation platform with front office data has enabled near real-time bespoke exposure analysis, decisioning and reporting, and our stress testing scenarios have been expanded to include the impact of the pandemic. We have also developed capabilities in areas such as anti-money laundering, identity verification, and digital signatures through partnerships developed by our internal innovation centre, SC Ventures.

In Retail Banking, the use of more sophisticated data mining and predictive analytics tools has accelerated development and deployment of risk and forecasting models. Hubs have been established to centralise specialist knowledge in data engineering and visualisation, model development, validation and governance, with automation of supporting processes to reduce operational risks.

**Enhancing our model risk management:** During 2020, we focused on delivering a sustainable risk management framework through the Model Risk Management Strategic Enhancement Programme. Model Risk Policy and Standards have been strengthened to enable a risk-based approach and an enhanced set of Risk Appetite metrics has been approved by the Board.

The launch of a Model Risk e-learning module is aimed at increasing awareness of model risk management among our people. The Group Model Inventory has been enhanced under a new platform to improve its technological capability and operations. We constantly review our target operating model to ensure we have the right resources and skillsets for timely delivery. This will continue to be an area of focus with more model redevelopment and validation to be completed in 2021.

## Our risk profile and performance in 2020

COVID-19 and the related economic shock has impacted our loan portfolio, and as a result asset quality has deteriorated over the past year. However, actions taken as the crisis unfolded and the work done in previous years to solidify our foundations have helped to mitigate the impact. Our capital and liquidity positions remain strong.

The incorporation of COVID-19 into our stress scenarios and portfolio reviews of exposures most at risk to the economic downturn have allowed us to proactively identify potential areas of vulnerability and manage them accordingly.

We remain cognisant that the recovery will be uneven globally, and the threat of prolonged weak economic outlooks may lead to a sustained period of increased risk aversion and uncertainty.

In the first half of the year we placed selected clients from vulnerable sectors on our watchlist categories for close monitoring. This led to a \$5.4 billion increase in early alerts exposure (2020: \$10.7 billion; 2019: \$5.3 billion), although there was a decrease in the second half of the year due to reductions in exposure, regularisations, and downgrades. Credit Grade 12 loans have increased to \$2.2 billion (2019: \$1.6 billion) as outflows to non-performing loans were offset by inflows from early alert categories.

The credit impairment charge was significantly higher at \$2.3 billion compared to \$0.9 billion in 2019. Increases were seen across all stages, with stage 1 and 2 impairment rising partly due to management overlays to reflect expected future deterioration. Stage 3 impairment increased by \$0.8 billion to

\$1.5 billion, with around one third relating to three unrelated downgrades in Corporate & Institutional Banking in the first quarter of 2020.

Overall, gross credit-impaired (stage 3) loans for the Group increased by 25 per cent in 2020, from \$7.4 billion to \$9.2 billion, driven by downgrades in Corporate & Institutional Banking in the ASEAN & South Asia and Africa & Middle East regions. Retail Banking saw an increase of \$0.3 billion in stage 3.

The stage 3 cover ratio in the total customer loan book decreased by 10 percentage points to 58 per cent (2019: 68 per cent) mainly in Corporate & Institutional Banking. This was driven by write-offs and new stage 3 loans with low levels of coverage, which benefit from credit insurance and guarantees, including from export credit agencies. The cover ratio including tangible collateral decreased to 76 per cent (2019: 85 per cent) with some of the 2020 downgrades being covered by guarantees and insurance which are not included as tangible collateral.

Average Group value at risk (VaR) in 2020 was \$108 million, a significant increase compared with the previous year (2019: \$30 million), driven by the extreme market volatility in interest rates and credit spreads following the outbreak of COVID-19 and the collapse in oil prices. The increase in VaR was predominantly observed in the non-trading book from credit bonds held in the Treasury Markets liquid assets buffer which are almost exclusively of investment grade.



Further details of the Group's risk performance for 2020 are set out in the [Risk update](#) (pages 182 to 184) and the [Risk profile](#) section (pages 185 to 247)

## An update on our risk management approach

Our Enterprise Risk Management Framework outlines how we manage risk across the Group, as well as at branch and subsidiary level. It gives us the structure to manage existing risks effectively in line with our Risk Appetite, as well as allowing for holistic risk identification. In the first half of the year we introduced a number of enhancements including the elevation of Model Risk to a Principal Risk Type (PRT), as well as refreshes of the Risk Type Frameworks for Information and Cyber Security Risk and Operational Risk. These changes have been rolled out and further embedded in the second half of the year.

As part of the annual review of the ERMF we have expanded the Reputational Risk PRT to include Sustainability Risk. There is an increasing focus on issues relating to ESG risk from both regulators and investors, and the Group's commitments to be a leader in sustainable and responsible banking make this a core tenet of our franchise.

Given its overarching nature, conduct risk management has been incorporated as an integral component of the overall ERMF rather than viewed as a standalone risk, effective from January 2021. The Group will continue to identify conduct risks inherent to the Group's strategy, business model and geographies it operates in, and expects each business and function to be responsible for managing conduct within their area with CFCC providing oversight and challenge. This change allows us to view conduct risk through the lens of delivering positive outcomes for our clients, markets, and internal and external stakeholders. We remain committed to ensuring the highest standard of conduct from all our people. We have no appetite for negative conduct risk outcomes arising from negligent or wilful actions by the Group or individuals recognising that while incidents are unwanted, they cannot be entirely avoided.

Given the Group's diverse footprint, Country Risk management has also been elevated as an integral component of the overall ERM as part of Group strategy and strategic risk management, effective from January 2021. The Group continues to ensure that country limits and exposures are reasonable and in line with Group strategy, country strategy, Risk Appetite and the operating environment. This includes economic, political, environmental and social risk factors under base and stressed conditions. The Credit Risk PRT will continue to refer and rely on sovereign risk ratings managed through the Country Risk management process.

To meet the needs of the digital agenda and strengthen the technology risk management capabilities of the Group, we have expanded the Operational Risk PRT to include Technology Risk, effective from January 2021. This allows us to focus on risks arising from technology events, with the Operational Risk team providing second-line oversight. We also continue to develop our risk capabilities in new asset classes and technologies such as our approach to cryptoasset-related activities.

## Principal and cross-cutting risks

Principal risks are risks inherent in our strategy and business model. These are formally defined in our ERMF which provides a structure for monitoring and controlling these risks through the Board-approved Risk Appetite. We will not compromise adherence to our Risk Appetite in order to pursue revenue growth or higher returns.

Principal risk types	How these are managed
<b>Credit Risk</b>	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
<b>Traded Risk</b>	The Group should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Group's franchise
<b>Capital and Liquidity Risk</b>	The Group should maintain a strong capital position, including the maintenance of management buffers sufficient to support its strategic aims, and hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support
<b>Operational and Technology Risk</b>	The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
<b>Information and Cyber Security Risk</b>	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Group
<b>Compliance Risk</b>	The Group has no appetite for breaches in laws and regulations, while recognising that regulatory non-compliance cannot be entirely avoided, the Group strives to reduce this to an absolute minimum
<b>Financial Crime Risk</b>	The Group has no appetite for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided
<b>Model Risk</b>	The Group has no appetite for material adverse implications arising from the misuse of models or errors in the development or implementation of models, while accepting model uncertainty
<b>Reputational and Sustainability Risk</b>	The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight
<b>Climate Risk<sup>1</sup></b>	The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement

<sup>1</sup> In addition to principal risks, the Group also recognises Climate Risk as a cross-cutting risk that manifests through other principal risks

[→](#) Further details of our Principal Risks and how these are being managed are set out in the **Principal risks** section (pages 254 to 269)

## Emerging risks

Emerging risks refer to unpredictable and uncontrollable events with the potential to materially impact our business. As part of our continuous risk identification process, we have updated the Group's emerging risks from those disclosed in the 2019 Annual Report.

The table on the next page summarises our current list of emerging risks, outlining the risk trend changes since the end of 2019, the reasons for any changes and the mitigating actions we are taking based on our current knowledge and assumptions. This reflects the latest internal assessment as identified by senior management. The list is not exhaustive and there may be additional risks which could have an adverse effect on the Group. Our mitigation approach for these risks may not eliminate them, but shows the Group's attempt to reduce or manage the risk. As certain risks develop and materialise over time, management will take appropriate steps to mitigate the risk based on its impact on the Group.

Climate related transition and physical risks have been removed as an emerging risk as Climate Risk is now classified as a cross-cutting risk. A detailed explanation of the other changes to our Emerging Risks compared with 2019 can be found on Page 270.

Emerging risks	Risk trend since 2019 <sup>1</sup>	Key risk trend drivers	How these are mitigated
<b>COVID-19 and the emergence of new diseases</b>		COVID-19 continues to spread globally. Measures to contain the virus, such as travel bans and restrictions, curfews, quarantines and shutdowns have led to increased volatility in financial markets and commodity prices and severe economic downturns in many countries. There is a risk other diseases may emerge	<ul style="list-style-type: none"> <li>As part of our stress tests, a severe stress in the global economy associated with a sharp slow-down was assessed</li> <li>Exposures that could result in material credit impairment charges and risk-weighted asset inflation under stress tests are regularly reviewed and actively managed</li> <li>To support our clients the Group has enacted comprehensive support schemes for retail and corporate customers, including loan and interest repayment holidays, covenant relief, fee waivers or cancellations, loan extensions and new facilities</li> <li>The Group's priority remains the health and safety of our clients and employees and continuation of normal operations by leveraging our robust Business Continuity Plans which enable the majority of our colleagues to work remotely where possible</li> </ul>
<b>US-China trade tensions driven by geopolitics and trade imbalance</b>		Measures taken by China and the US on trade tariffs since 2018 have increased concerns of a global geopolitical and trade war. Tensions escalated in 2020 and continue to deteriorate, posing a risk to global supply chains	<ul style="list-style-type: none"> <li>Sharp slowdowns in the US, China, and more broadly, world trade and global growth are a feature of Group stress scenarios. These stress tests provide visibility to key vulnerabilities so that management can implement timely interventions</li> <li>Detailed portfolio reviews are conducted on an ongoing basis and action is taken where necessary</li> <li>We monitor and assess geopolitical events and act as appropriate to ensure we minimise the impact to the Group and our clients</li> <li>Increased scrutiny is applied when onboarding clients in sensitive industries and in ensuring compliance with sanctions requirements</li> </ul>
<b>Geopolitical events, in particular: the rise of populism and nationalism, Middle East tensions and social unrest driven by moderation of growth in key footprint markets and political concerns</b>		There are increasing concerns following the rise of populism and nationalism. COVID-19 and focus on local economies have helped contribute to reduced security incidents in the Middle East relative to 2019. 2019 and 2020 saw a surge in protests globally and the risk is these will increase further in 2021. The economic impact of policy decisions made in 2020 may pose a risk to future growth	<ul style="list-style-type: none"> <li>We monitor and assess geopolitical events and act as appropriate to ensure we minimise the impact to the Group and our clients</li> <li>There is continuous monitoring at a country, regional and Group level to identify emerging risks and evaluate their management</li> <li>We conduct portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events</li> </ul>
<b>Macroeconomic concerns, in particular, rising sovereign default risk</b>		COVID-19 has exacerbated already deteriorating market conditions, causing liquidity and potentially solvency issues for a number of the world's poorest countries. Central bank responses to the crisis may result in asset bubbles and inflation	<ul style="list-style-type: none"> <li>Exposures that may result in material credit impairment and increased risk-weighted assets are closely monitored and actively managed</li> <li>We conduct stress tests and portfolio reviews at a country and business level to assess the impact of extreme but plausible events and manage the portfolio accordingly</li> <li>We actively utilise credit risk mitigation techniques including credit insurance and collateral</li> <li>We actively track the participation of our footprint countries in G20's Common Framework for Debt Treatments and the associated exposure</li> </ul>
<b>Interbank Offered Rate discontinuation and transition</b>		There are concerns regarding the impact of the discontinuation of the IBOR benchmarks and the transition to Risk Free Rates (RFRs). LIBOR is relied upon by the Group as a reference rate	<ul style="list-style-type: none"> <li>The Group has a global IBOR Transition Programme to consider all aspects of the transition and how risks can be mitigated</li> <li>The Group has raised awareness and understanding of the transition, both internally and with clients, with around 6,500 staff and more than 1,900 clients trained globally</li> <li>From an industry and regulatory perspective, the Group is actively participating in and contributing to different RFR Working Groups, industry associations and business forums focusing on different aspects of the IBOR to RFR transition</li> </ul>

Emerging risks	Risk trend since 2019 <sup>1</sup>	Key risk trend drivers	How these are mitigated
<b>Third party dependency</b>		Economic conditions have impacted businesses globally and placed significant pressure on the financial health of our suppliers, vendors and other third parties. There is a risk of increased cyber threats associated with third-party vendors as a result of COVID-19	<ul style="list-style-type: none"> <li>An internal review of third-party risk was completed in 4Q'20 and recommendations to enhance overall third-party risk management are being implemented</li> <li>Enhanced 2021 Risk Appetite metrics for vendor services were approved by the Board</li> </ul>
<b>New technologies and digitisation (including business disruption risk and responsible use of Artificial Intelligence)</b>		Client expectations and the way they interact with the Group may change, potentially accelerating the adoption of digital solutions	<ul style="list-style-type: none"> <li>We monitor emerging trends, opportunities and risk developments in technology which may have implications on the banking sector</li> <li>We have rolled out enhanced digital capabilities in Retail Banking, particularly around onboarding, sales and marketing</li> <li>We are enhancing capabilities to ensure our systems are resilient, we remain relevant and can capitalise quickly on technology trends</li> <li>We continue to make headway in harnessing new technologies, and are investing in machine learning solutions that rapidly analyse large data sets and fine-tune the accuracy of our financial crime tools</li> </ul>
<b>Increased data privacy and security risks from strategic and wider use of data</b>		Regulatory requirements and client expectations relating to data management and privacy are increasing across our markets, including the ethical use of data	<ul style="list-style-type: none"> <li>We actively monitor regulatory developments in relation to data management, data protection and privacy</li> <li>We have established a dedicated Data and Privacy team to build data management and privacy expertise across the Group while ensuring compliance with data ownership and consent requirements</li> </ul>
<b>Increase in long-term remote working providing new challenges</b>		The number of employees working remotely and increasingly advanced capabilities of threat actors have raised this risk in addition to internal (supervision, culture and support) and external (clients and other counterparties) considerations	<ul style="list-style-type: none"> <li>The Group has assessed the risk, impact and robustness of continuity plans for pandemic critical vendor services supporting critical banking operations</li> <li>We actively monitor cyber threats and risks, and have implemented heightened technical and organisational measures designed to prevent, detect and respond to threats</li> <li>The Group is undertaking a Future of Work assessment which considers data privacy and cyber security in addition to culture and leadership</li> </ul>

 Risk heightened in 2020
  Risk reduced in 2020
  Risk remained consistent with 2019 levels

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

 Further details on our **Emerging risks** can be found on pages 270 to 276

## Summary

The world has undergone significant upheaval in the past year and we have demonstrated resilience and adapted to the new and distinct challenges we have faced. We recognise that risks will remain heightened during the coming period amid what is likely to be a difficult and uneven economic recovery. We remain vigilant with a focus on achieving the right outcomes for our clients. The actions we take will set the foundations for achieving sustained growth and performance as we build back better during the recovery.



**Mark Smith**  
Group Chief Risk Officer  
25 February 2021

# Essential goods in India

To keep India trading during COVID-19, Solv – a B2B marketplace launched by our innovation unit, SC Ventures – helped connect buyers and suppliers to maintain the flow of essential goods. In the face of movement restrictions, the team took to the streets to physically deliver essentials such as food and medicine to communities and hospitals. Through these efforts, more than 10,000 families were able to get their hands on much-needed supplies.



Read more online at [sc.com/solvindia](https://sc.com/solvindia)

# Stakeholders and responsibilities

## Our stakeholders



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

See the following pages for:

- How we engage stakeholders to understand their interests  
See pages 54 to 57
- How we engage employees and respond to their interests  
See pages 58 to 61
- How we respond to stakeholder interests through sustainable and responsible business  
See pages 62 to 71

Detailed information about how the Board engages directly with stakeholders and shareholders can be found in the Directors' Report on pages 102 to 104.

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

This section also forms our key non-financial disclosures in relation to sections 414CA and 414CB of the Companies Act. Our non-financial information statement can be found at the end of this section on page 72.

As an international bank working in 59 markets, stakeholder engagement is crucial in ensuring we understand local, regional and global perspectives, and trends, that inform how we do business.

## Sustainability Aspirations

As part of our commitment to being a sustainable and responsible bank, our Sustainability Aspirations provide performance targets aligned to the UN Sustainable Development Goals (SDGs). Selected Aspirations form part of our Group Scorecard and long-term incentive plan.

During 2020, we refreshed any Aspirations coming to an end and introduced new goals to reflect our evolving strategy. For example, we developed a range of sustainable Retail Banking as part of our growing sustainable finance proposition.

To ensure stakeholders are confident in our approach, we have conducted a limited-scope assurance exercise on selected Aspirations, details of which can be found in our Sustainability Summary.



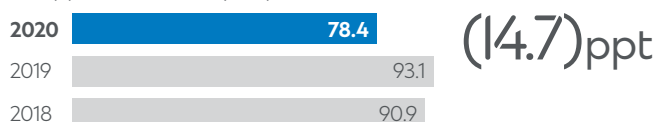
Read our Sustainability Summary at [sc.com/sustainabilitysummary](https://www.sc.com/sustainabilitysummary)

## Group KPI: Sustainability



### Delivering sustainability aspirations %<sup>1</sup>

-14.7ppt Sustainability Aspirations achieved or on track



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

**Analysis:** In 2020, we released updated Sustainability Aspirations with new annual and multi-year performance targets. At the end of 2020, 78.4 per cent of our Aspirations are on track or achieved. This is a decrease from 93.1 per cent in 2019 as COVID-19 has impacted the delivery of several Aspirations. We remain focused on scaling-up delivery in subsequent years to achieve our targets.

<sup>1</sup> Each aspiration contains one or more performance measures. The KPI is the proportion of all measures that have been achieved or are on track to be delivered at the end of the reporting period.

# Engaging stakeholders

Regular engagement with our stakeholders enables us to build trust and respond to the opportunities and challenges facing our markets.

In 2020, the world faced unprecedented change. Alongside key topics including Brexit, sustainable finance and climate change, COVID-19 dominated our work with stakeholder groups as we sought to understand, and adapt to, the impact of the pandemic so we could continue driving commerce and prosperity in our markets.

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



## Clients

### How we create value

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

### How we serve and engage

Clients are at the heart of everything we do. By building and fostering long-term relationships we can better understand our clients' needs, and find innovative, tailored solutions to help them achieve their goals.

In 2020, the pandemic led to a shift in client needs, priorities and the pace of support they needed. In addition to announcing a \$1 billion not-for-profit facility to support clients producing goods and services to help fight the pandemic, we rapidly implemented innovative initiatives to minimise disruption.

Facilities such as the Hong Kong Client Experience Lab were set up to allow us to work closely with clients to co-design products and services. We also launched an e-learning module on client vulnerability awareness to help retail banking employees support our more vulnerable clients.

Digital transformation of our business meant we were able to help clients bank from home. This included the launch of our new digital Bank in Hong Kong, Mox, and the rollout of e-signature capabilities for our corporate clients.

In 2021, we will continue to strengthen our digital transformation and innovation capabilities.

### Their interests

- Differentiated product and service offering
- Digitally enabled and positive experience
- Sustainable finance

### Principal Board decision: Dividend and share buy-back withdrawal

The interests of stakeholders are central to the Board's capital management decision-making. An example of this was the Board's decision to withdraw the recommendation to pay a final dividend for 2019 and suspend the buy-back programme announced earlier in the year.

In line with the Group's approach to dividend growth and capital returns, the Board had previously agreed to carry out a share buy-back for up to a maximum consideration of \$0.5 billion to reduce the number of ordinary shares in issue by cancelling the repurchased shares. In addition, the Board had declared a final ordinary dividend for 2019 of 20 cents. At the time it agreed that both decisions were in the best interests of the Group and its stakeholders.

In response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, the Group announced on 31 March 2020 that, after careful consideration, the Board had decided to withdraw the recommendation to pay a final dividend for 2019 and to suspend the buy-back programme.

As part of the consideration process for this decision, the Board discussed the impact and views of key stakeholders including our regulators, and recognised the importance of dividends to our shareholders. However, the Board decided that suspending shareholder distributions at the time would allow the Group to maximise its support for individuals, businesses and the communities in which it operates while at the same time preserving strong capital ratios and investing to transform the business for the long term. One such example of this was the launch of a \$50 million global fund to provide assistance to those affected by COVID-19. The Group made a contribution of \$25 million and announced that it would match other contributions including those made by its employees and confirmed it would make further contributions as needed to reach the total. It was announced that Board and Management Team members would be making personal contributions to the fund. The Board welcomed the initiative, the approach and leadership management had taken in launching the fund.

## Engaging stakeholders continued



### Regulators and governments

#### How we create value

We engage with public authorities to help the financial system and the broader economy function effectively.

#### How we serve and engage

We actively engage with governments, regulators and policymakers at a global, regional and national level to share insights, develop best practice and ensure we function consistently across our markets. In 2020, we worked with policymakers inter alia on the impact and response to the pandemic, prudential regulation, Brexit, operational resilience, benchmark reform, sustainable finance, climate risk, fintech, artificial intelligence, cyber security, financial crime and conduct.

We are committed to complying with legislation, rules and other regulatory requirements that apply in the markets we operate in. Our compliance with legal and regulatory frameworks ensures the Group meets its obligations and supports the resilience and effective functioning of the broader financial system and economy.

To support this, we have a Public and Regulatory Affairs team, responsible for anticipating changes to legislation and regulation, analysing policy developments that have

a strategic impact on the Group and managing relationships with regulators and government officials. During 2020, we improved our capacity to identify and analyse policy developments that have a strategic impact on the Group.

We meet all relevant transparency requirements and have an ongoing dialogue with regulators and governments, submitting responses to formal consultations and participating in industry working groups. We typically publish our consultation responses on [sc.com/politicalengagement](https://www.sc.com/politicalengagement).

In 2021, we expect to engage on regulation and legislation associated with the recovery from COVID-19, international trade, Brexit, emerging digital technologies and innovations in banking, sustainable finance and artificial intelligence including data analytics and privacy.

#### Their interests

- Strong capital base and liquidity position
- Robust standards for conduct
- Healthy economies and competitive markets
- Positive sustainable development, both environmental and social



### Investors

#### How we create value

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

#### How we serve and engage

We rely on capital from debt and equity investors to execute our business model. Whether they have short- or long-term investment horizons, we provide our investors with information about all aspects of progress against our strategic and financial frameworks.

Our footprint and intent to become the world's most sustainable and responsible bank provides our investors with exposure to opportunities in emerging markets. We believe that our integrated approach to environmental, social and governance (ESG) issues, as well as a strong risk and compliance culture is a key differentiator. We delivered a resilient performance in 2020, weathering the geopolitical and health crises very well while continuing to progress our strategic transformation. Our refreshed strategic priorities are underpinned by our purpose and support our commitment to achieve a 10 per cent return on tangible equity.



For more information see [pages 26 – 27](#)

Regular and transparent engagement with our investors, and the wider market, helps us understand investors' needs and tailor our public information accordingly. In addition to direct engagement from our Investor Relations team, we communicate through quarterly, half and full-year results, conferences, roadshows and media releases. Adoption of virtual mediums was accelerated due to the pandemic.

Investor feedback, recommendations and requests are considered by the Board, whose members keep abreast of current topics of interest. Following the annual general meeting in May 2020 for procedural matters, the Board hosted a virtual retail shareholder event as well as a stewardship event for institutional investors in November. Both events provided a platform for shareholders to direct questions to the Board.

We continue to respond to the growing interest from mainstream investors on ESG matters including the UN's SDGs, sustainable finance, climate change, coal and the wider low-carbon transition and human rights. We also work with sustainability analysts and participate in sustainability indices that benchmark our performance including the Carbon Disclosure Project and Workforce Disclosure Initiative.

In 2021, we will continue to engage with investors on progress against our refreshed strategic priorities and medium-term financial framework as we progressively advance to our returns target.

#### Their interests

- Safe, strong and sustainable financial performance
- Facilitation of sustainable finance to meet the UN SDGs
- Progress on environment, social and governance matters

## Suppliers

### How we create value

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

### How we serve and engage

Our work is guided by our Supplier Charter, which sets out our expectations on issues such as ethics, anti-bribery and corruption, human rights, diversity and inclusion (D&I) and environmental performance. Our suppliers must recommit to the charter annually, and performance monitoring is built into our procurement practices and standards.

We work globally and locally to create supply chain value for our business and our suppliers. In 2020, we announced a strategic partnership with Microsoft to help us create a cloud-first technology strategy. This partnership marks a significant milestone for us and our vision to make virtual banking, next-generation payments, open banking and banking-as-a-service a reality.

We continue to support our suppliers through the pandemic by paying invoices from small and medium-sized suppliers immediately upon receipt. Our payment processes for all suppliers were also streamlined, with 95 per cent of invoices paid on time in December 2020, up from 82 per cent in 2019.

We have made real progress against our supply chain sustainability agenda. As well as incorporating modern slavery into our risk framework, we introduced a new control framework to strengthen the governance and management of modern slavery risk within our supply chain.

We accelerated our supplier diversity strategy and published our global standard to ensure our suppliers share our mission to increase D&I across the supply chain, embed best practice and work with us to create an equal marketplace for diverse suppliers.

In 2021, supply chain sustainability will continue to be a primary focus as we roll out initiatives to scale up our supplier D&I practices and reduce carbon emissions within our own operations and supply chain.



Our Supplier Charter can be viewed at [sc.com/suppliercharter](https://sc.com/suppliercharter)



Read more about our supplier diversity standard: [sc.com/supplierdiversity](https://sc.com/supplierdiversity)

### Their interests

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

## Society

### How we create value

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

### How we serve and engage

We engage with a wide range of civil society and international and local NGOs, ranging from those focused on environmental and public policy issues to partners delivering our community programmes. Our aim is to have an open dialogue to ensure we understand alternative positions which can shape our thinking, and that how we do business is understood. The views and concerns of our stakeholders are fed into our decision-making process.

In 2020, against the backdrop of the pandemic, we continued to engage with organisations on topics including climate change, human rights, and the value of nature to global supply chains. We undertake this engagement to inform our thinking and help shape our Position Statements. Engagement took place via one-to-one sessions using online channels and calls, virtual roundtables and written responses.

In 2020, we continued to engage with NGOs, charities and other organisations to promote youth economic inclusion through our Futuremakers by Standard Chartered programme, and eye health through Seeing is Believing (SiB).

We brought Futuremakers participants together with more than 300 business leaders, policy experts and clients to discuss how we can collaborate as part of the first ever Futuremakers Forum. We also joined our SiB partner, the International Agency for the Prevention of Blindness, and more than 100 other eye health representatives in a virtual conference to share our learnings from the final year of our long-standing partnership.

As the global pandemic unfolded, we increased engagement with organisations supporting vulnerable groups impacted by COVID-19. This included continuing work with long-standing partners Women Win and the Red Cross, and providing additional support to 166 partners in 59 markets by delivering emergency relief through our \$50 million COVID-19 Global Charitable Fund.

Meanwhile, our employees were given an additional day of volunteering leave – increased from three to four days – to support activities in their own communities.

### Their interests

- Positive social and economic contribution
- COVID-19 emergency relief and support for longer-term economic support
- Climate change and environmental issues

## Engaging stakeholders continued



### Employees

#### 2020 Sustainability Aspirations: Employees

##### People

Conduct a feasibility analysis to incorporate a Living Wage into agreements for all non-employed workers	Jan 2019 – Dec 2020	✓
Complete disability confidence assessments for 44 of our larger markets	Jan 2020 – Dec 2020	✓
Embed an integrated health and wellbeing strategy to support building and re-skilling a future-ready, diverse workforce	Jan 2020 – Dec 2021	○
Support all employees to develop a personalised growth plan to reflect the future skills needed to respond to the changing and digitised nature of work	Jan 2020 – Dec 2021	○
Increase gender representation: 35% women in senior roles with an interim target: – Dec 2020: 30%	Sept 2016 – Dec 2025 <sup>2</sup>	○
Increase our 'Culture of Inclusion' score to 84.5% with an interim target: – Dec 2021: 80%	Jan 2020 – Dec 2024	○

##### Concluded in the year

✓ Achieved    △ Not achieved

##### Ongoing aspirations

○ On track    △ Not on track

1 Interim target not achieved. 29.5% women in senior roles. However, we remain on track to reach our overall aspiration by Dec 2025

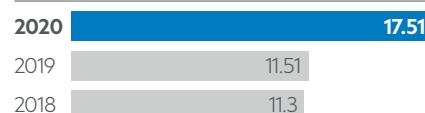
2 Target date changed from December 2024 to December 2025.

#### Group KPI: Employee engagement



##### Employee Net Promoter Score (eNPS)

↑ +5.4%



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

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

**Analysis:** Our eNPS has significantly increased since 2016 when we started our culture transformation.

## How we create value

We recognise that our workforce is a significant source of value that helps our performance and productivity. Given the advances in technology and the changing needs of our clients, we are using long-term workforce planning to build the skills and culture necessary for a future ready-workforce.

## How we serve and engage

By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our purpose. An inclusive culture enables us to unlock innovation, make better decisions, deliver our business strategy, live our valued behaviours, and embody our brand promise Here for good.

We proactively assess and manage people-related risks, for example, organisation, capability, and culture, as part of our Group risk management framework. Our People Strategy, as approved by the Board in July 2019, remains in place and COVID-19 has accelerated many of the future of work trends which informed our approach.

## Their interests

In 2018, we conducted research to understand our Employee Value Proposition (EVP) – the value that employees, or potential employees, feel they gain from being part of our organisation. Our employees told us they want to: have interesting and impactful jobs; innovate within a unique set of markets and clients; cultivate a brand that sustainably drives commerce and offers enriching careers and development; and be supported by great people leaders. They want these elements to be anchored in competitive rewards and a positive work-life balance. The EVP is a key input to our People Strategy which supports the delivery of our business strategy.

## Listening to employees

Feedback from employee surveys helps us identify and close gaps between employees' expectations and experience. A pulse survey in April 2020 revealed how employees were coping with COVID-19 and allowed us to target support where it was needed most. This was followed by our annual survey, My Voice, in June and July. On a par with previous years, 74,566 employees (91 per cent), and a further 3,599 agency workers (71 per cent) took part.



## Employees continued

Satisfaction increased from 2019 in both the employee engagement index and the employee net promoter score, which measures how likely employees are to recommend working for the us. Externally, this is reflected in a 27 per cent increase in LinkedIn followers since December 2019 (1.27 million), and 77 per cent of Glassdoor ratings stating that they would recommend working at the Bank to a friend.

My Voice also revealed a commitment among employees to doing what is required to help us succeed (97 per cent), and increasing satisfaction with job impact (up 6 per cent), reward (up 6 per cent) and development opportunities (up 5 per cent) – all indicators that we are delivering our EVP. Investment in people leader capability has translated into a 10 per cent increase in our manager net promoter scores, which is important as the variety of demands on our people leaders to engage with dynamic workforce needs are increasing.

During 2020, new ways of working brought greater freedoms and benefits for some colleagues; for many, however, physical restrictions and a lack of social connection significantly affected their wellbeing – 40 per cent of our employees said they were experiencing high or frequent levels of work-related stress. We are continuing to invest in wellbeing tools such as a mental health app, an upgraded employee assistance service, wellbeing toolkits for employees and people leaders, and learning programmes on mental health and resilience. The pandemic has reinforced how important our health and wellbeing strategy is, and supporting employees with these skills is a long-term area of focus.

We are also listening to employees' preferences for greater flexibility in working arrangements post-pandemic, with 80 per cent of employees in our nine largest markets telling us they would like some form of flexibility. We recognise the positive lessons that can be learnt from the pandemic on productivity, employee experience and talent attraction and retention. Conversely, enforced absence from offices has highlighted the benefit of face-to-face interaction and the value of physical workspaces as hubs of teamwork, collaboration and learning. Based on this data we are introducing a hybrid model, combining virtual and office-based working with greater flexibility in working patterns and locations.

The Board listens to the views of the workforce through several sources, including information reported from senior management on culture and directly via workforce engagement sessions. More information can be found on pages 105 to 106 in the Directors' Report.

## Developing skills of future strategic value

The world of work continues to change rapidly. Our employees need a combination of personal and technical skills to succeed both today and in the future.

In 2020, we focused on laying the foundations for upskilling and re-skilling our workforce by building a culture of continuous learning. Our learning intensified during the pandemic and we virtualised all appropriate programmes and sessions. Currently, 67 per cent of employees have a growth plan and we expect this to increase as we deepen our culture of continuous learning.

In support of this shift in skills, we have identified a core set of new roles and are developing existing talent to take up these positions. This approach unites our recruitment, talent management and learning efforts to target, upskill and place learners into new roles. This will be piloted in 2021 across five roles before being extended across the Group.

## Creating an inclusive culture

There is no doubt that 2020 was a challenging year, and the need to lead inclusively was a central theme for our people leaders. Our commitment to D&I is supported by more than 60 employee resource groups (ERGs) that help create a culture of inclusion and provide learning, development and networking opportunities. The ERGs align to our focus areas of gender, ethnicity and nationality, generations, sexual orientation, and disability and wellbeing.

Our gender diversity is growing with more female leaders coming through the pipeline. Currently, females represent 31 per cent of the Board, increasing to 36 per cent in January 2021. Fourteen of our markets have female CEOs, and female representation in senior leadership roles increased by 1 per cent to 29.5 per cent at the end of 2020. We are committed to improving, and aspire to 35 per cent female representation at senior level by 2025. This Aspiration is supported by programmes that develop our talent in preparation for future roles.

## Learn anywhere, anytime

In March 2020 we launched our new digital learning platform, diSCover, to make learning accessible to all. Aligned to our future skills academies, it uses artificial intelligence (AI) to create personalised content. We have had over 55,000 users, of which 80 per cent are active. Participation in our second global learning week (over 500 events and 21,000 participants) both demonstrated and galvanised our employees' appetite for learning.

## Engaging stakeholders continued



### Employees continued

Inclusion is how we will derive true value from our diverse talent. Pleasingly, 82 per cent of colleagues reported positive sentiments in the My Voice culture of inclusion questions, compared to 78 per cent in 2019. This was supported by 94 per cent of our people leaders completing our Inclusive Leadership programme.

In addition to six key D&I dates we recognise across the year, several external events helped increase awareness of inclusion and equality. In response to global Black Lives Matter protests, we ran a series of listening and engagement sessions on race involving employees, people leaders, the Management Team and Board members. We shared our guide on having conversations about race externally, to further support our clients and communities. We signed the UK Business in the Community - Race at Work Charter, to tackle barriers facing ethnic minority talent, and partnered with Leadership Enterprise for a Diverse America to diversify the leadership pipeline. We have committed to ethnicity targets for senior leadership in both the UK and the US and we continue to nurture local talent in markets across Asia, Africa and Middle East to ensure we reflect the diversity of our global clients.

Meanwhile, as reported by the World Health Organization, there has been a significant increase in global cases of domestic violence and abuse. In response, we became the first bank to publish a framework and global standards to support colleagues, and a toolkit to share best practice with other organisations.

In line with our Sustainability Aspirations, all markets with 50 or more employees have completed our internal Disability Confident Assessment to help us focus on removing barriers and increasing accessibility.

## Igniting our talent through coaching

Through an experimental 'pay it forward' coaching programme, 'IGNITE', we have accredited 51 internal coaches who have in return provided coaching to 141 female employees in 18 countries. We have extended this to 119 further coaches, with the aim for individuals to explore their potential, discover new levels of performance and experience community from the peer network.

Group Chief Executive, Bill Winters, signed the UN Global Standards for Business to tackle discrimination against lesbian, gay, bi, trans and intersex (LGBT+) people. In addition, we developed a toolkit on transgender inclusion in the workplace, issued guidance on how to be an ally, and offered medical and domestic relocation benefits to LGBT+ partners of employees in India.

Our progress is also recognised externally. We are among the top 100 organisations in the Bloomberg Gender Equality Index and ranked as a Diversity Leader in the Financial Times report on Diversity and Inclusion in Europe. We were the first financial institution in Singapore to be granted the Economic Dividends for Gender Equality certification. Seven of our D&I champions were recognised by Yahoo Finance HERoes awards for their contributions to gender equality.



Read more about our approach to tackling domestic violence at [sc.com/tacklingdomesticabuse](https://sc.com/tacklingdomesticabuse) and [sc.com/toolkitdomesticabuse](https://sc.com/toolkitdomesticabuse)



Read more about our ethnicity targets at [sc.com/ethnicity](https://sc.com/ethnicity) and access our toolkit for conversations about race at [sc.com/toolkitrace](https://sc.com/toolkitrace)

## Principal Board decision: Sustainability as a pillar of our overall strategy

Stakeholder interests are a key consideration during Board decision-making. This includes decisions regarding the Group's purpose, values and strategy. An illustration of this is the Board's decision to make sustainability a pillar of our overall strategy.

Our refreshed strategic priorities link directly to our purpose to drive commerce and prosperity through our unique diversity. An important aspect of this is the way in which we approach sustainability in our own operations, in our communities and in how we conduct our business. During 2020, management presented to the Board a proposed near-to-medium term roadmap to build upon our existing sustainability credentials and raise our profile with stakeholders, which the Board considered and agreed to.

As part of the consideration of this decision, the Board received material prepared by colleagues from across the organisation including our Sustainability, Corporate Affairs,

Brand & Marketing, Risk and Business teams, as well as appropriate client segments. The material included, among other relevant information, consideration of key stakeholder groups including our colleagues, clients, communities, civil society, regulators, and investors. The Board recognised the increased client demand for sustainable finance products, the potential for Standard Chartered to play a distinct role in enabling capital flows to the markets where it matters most, and noted that sustainability is an increasingly high priority for other key stakeholders.

As part of considering and agreeing the proposed sustainability strategy, the Board highlighted the significance of the Group communicating its sustainability successes to its stakeholders through enhanced disclosure and communication plans.

Further detail regarding the Group's refreshed strategic priorities can be found throughout the Strategic report.



## Employees continued

### Gender pay gap and equal pay

We continue to analyse our gender pay gap for the UK, Hong Kong, Singapore, UAE and the US. The gender pay gap compares the average pay of men and women without accounting for some of the key factors which influence pay, including different roles, skills, seniority and market pay rates. Our gender pay gaps are caused by there being fewer women in senior roles and in business areas where market rates of pay are highest.

With the exception of the mean hourly pay gap in UAE and the mean bonus pay gap in the UK, our mean gender pay gaps have remained flat or reduced across all five markets. We understand it will take time to see the level of change needed to significantly reduce our gender pay gaps and we remain committed to our initiatives to support gender diversity.

When the pay of men and women at the same level and in the same business area are compared, our gender pay gaps are significantly smaller. The remaining gaps exist due to differences in the market pay level for different types of roles at the same level and in the same business areas, and differences in the relative positioning of the pay of each role holder around the market benchmark.

Equal pay is a more detailed measure of pay equality and is a key commitment in our Fair Pay Charter. We analyse equal pay during our annual performance and pay review process to ensure equal pay for equal work.

We have been reporting our gender pay gaps for a number of years and support initiatives that will enable a truly diverse workforce. We responded to the UK Government consultation on ethnicity pay gap reporting and are considering potential ways to draw from available data to inform our inclusion strategy. Obtaining significant enough disclosure of ethnicity data remains a challenge and we are taking steps to encourage disclosure, where possible, so we can develop our approach.

2020 Gender pay gap	UK	Hong Kong	Singapore	UAE	US
Mean hourly pay gap	30%	20%	34%	29%	25%
Mean bonus pay gap	51%	35%	44%	52%	43%



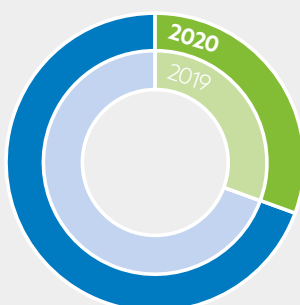
Read more about this in our gender pay gap report at [sc.com/genderpaygap](https://www.sc.com/genderpaygap)

### Female representation

#### Board

Female  
**31%**  
(2019: 31%)

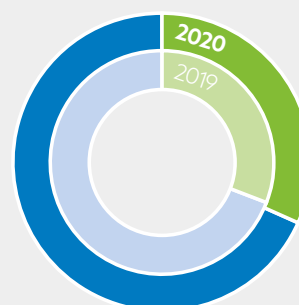
Female  
**4**  
Male  
**9**



#### Management Team and their direct reports

Female  
**31.8%**  
(2019: 31%)

Female  
**41**  
Male  
**88**

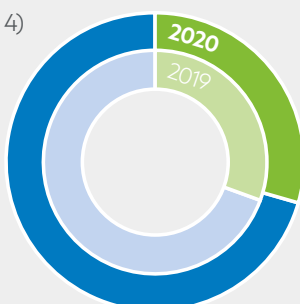


#### Senior leadership

(Managing directors and band 4)

Female  
**29.5%**  
(2019: 28.5%)

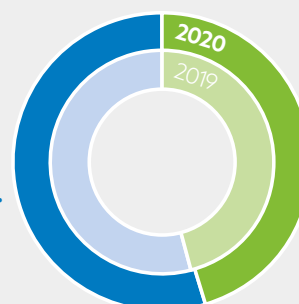
Female  
**1,236**  
Male  
**2,960**



#### All employees

Female  
**45.4%**  
(2019: 46.1%)

Female  
**38,013**  
Male  
**45,644**



# Sustainable and responsible business

Sustainability is embedded in our business, operations and communities through the three pillars of our sustainability framework – sustainable finance, responsible company and inclusive communities. This allows us to deliver on our purpose of driving commerce and prosperity through our unique diversity, in line with our valued behaviours and our brand promise – to be Here for good.



Clients



Investors



Society

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

In 2020, we continued to integrate sustainability across the Group, incorporating selected Sustainability Aspirations metrics into the 2020 Group Scorecard to drive widespread awareness and support delivery. We continued to progress our management of climate change, including it as a material cross-cutting risk within our risk framework, via the provision of sustainable finance products and services, as well as making our first purchase of offsets for our business travel emissions. We also measured the social and economic impacts of our lending to the infrastructure and manufacturing sectors in Ghana, and plan to use learnings from this study to guide our wider impact measurement strategy in 2021.

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

At a management level, the CEO, Corporate & Institutional Banking and Commercial Banking is responsible for sustainable finance, which incorporates environmental and social risk management. The Group Head, Corporate Affairs, Brand & Marketing and Conduct, Financial Crime and Compliance leads a cross-business Sustainability Forum and dedicated sustainability team to develop and deliver the strategy and champion sustainability across the Group.

We continued to advance our ambition to become the world's most sustainable and responsible bank and the leading private sector catalyser of finance for the SDGs in Asia, Africa and the Middle East.

Further information on sustainability can be read in our standalone Sustainability Summary and Task Force on Climate-related Financial Disclosures reports at [sc.com/sustainabilitysummary](https://www.sc.com/sustainabilitysummary) and [sc.com/tcfd](https://www.sc.com/tcfd). In 2021, we will provide additional ESG-related information to stakeholders and investors, including via Sustainable Accounting Standards Board (SASB) aligned disclosures.



See [page 55](#) to read how engagement with stakeholders informs our approach to sustainable and responsible business.



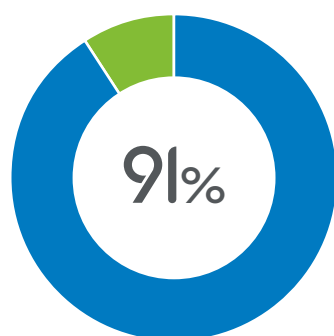
Read more about our position statements: [sc.com/positionstatements](https://www.sc.com/positionstatements)



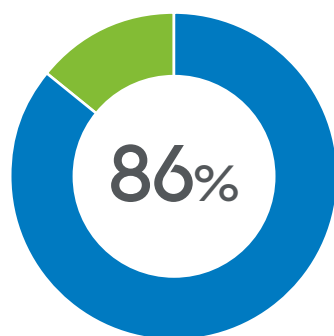
See [pages 440 and 441](#) for a full list of our 2021 Sustainability Aspirations

## Sustainable finance

Our Sustainability Aspirations focus on the areas we can have the most impact on sustainable development in our markets. In 2020, we updated our Sustainability Aspirations and set a new target to fund and facilitate \$75 billion of sustainable infrastructure, clean tech and renewables between 2020 and December 2024, catalysing capital from across the financial sector.



of our total Sustainable Finance assets are located in emerging markets



of our total Sustainable Finance assets are located in some of the world's least developed countries

In many of our markets, micro and small businesses are the powerhouses of the economy and are major drivers of job creation. Our Aspirations for small business lending (\$15 billion Jan 2020-Dec 2024) and to microfinance (\$3 billion Jan 2020-Dec 2024) are reflected in our asset base and our Sustainable Finance Impact Report. We have reached more than 1.3 million people through the loans we have provided to microfinance institutions in places like Nepal, Tanzania and Bangladesh. We also provided more than 20,000 SME loans in emerging markets including India, Kenya, Pakistan and Sri Lanka.

In addition, our dedicated Sustainable Finance team is committed to scaling up sustainable finance and mobilising capital to the markets where it is needed most. We are growing our product portfolio to support sustainable development. Our Green and Sustainable Product Framework developed in collaboration with Sustainability, reviewed annually, sets out what qualifies as 'sustainable' and 'green' products and was updated in 2020.

Our first annual Sustainable Finance Impact Report reveals the impact of our Sustainability Bond issued in 2019 and, for the first time discloses the \$3.9 billion of Sustainable Assets aligned to the UN's Sustainable Development Goals (SDGs) in our sustainable finance portfolio. These include loans for renewable energy, healthcare and education as well as microfinance and SME lending in low-income countries.

From July 2019 to July 2020, our green projects in our Sustainable Finance portfolio helped us to avoid 738,998 tonnes of CO<sub>2</sub> emissions – the equivalent of 217,000 people's annual emissions in low and middle-income countries.

In response to the COVID-19 pandemic, we announced a \$1 billion not-for-profit facility to help clients produce goods and services to help in the fight against COVID-19 and by year end had credit approved \$579 million.

In 2021, we will continue to grow our sustainable finance proposition, and increase lending into areas aligned with the SDGs.

[+ Read our Sustainable Finance impact report: \*\*sc.com/SFimpactreport\*\*](https://sc.com/SFimpactreport)

[+ Read more about our 2020 Sustainability Aspirations performance at \*\*sc.com/sustainabilitysummary\*\*](https://sc.com/sustainabilitysummary)

[→ See our 2021 Sustainability Aspirations on \*\*pages 440 and 441\*\*](#)

## Sustainable and responsible business continued

### Sustainable finance continued

#### 2020 Sustainability Aspirations: Sustainable Finance<sup>1</sup>

##### Infrastructure<sup>2</sup>

Facilitate project financing services for \$40 billion of infrastructure projects that promote sustainable development that align to our verified Green and Sustainable Product Framework <sup>3</sup>	Jan 2020-Dec 2024	△
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##### Climate change

Facilitate \$35 billion worth of project financing services, M&A advisory, debt structuring, transaction banking and lending services for renewable energy that align to our verified Green and Sustainable Product Framework	Jan 2020-Dec 2024	○
Develop a methodology to measure, manage and ultimately reduce the emissions related to the financing of our clients (Jan 2019-Dec 2020)	Jan 2019-Dec 2020	✓
Only provide financial services to clients who are: <sup>4</sup>	Jan 2020-Jan 2030	○
<ul style="list-style-type: none"> <li>By Jan 2021, less than 100% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2025, less than 60% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2027, less than 40% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2030, less than 10% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> </ul>		

##### Entrepreneurs

Provide \$15 billion of financing to small business clients (Business Banking)	Jan 2020-Dec 2024	○
Provide \$3 billion of financing to microfinance institutions <sup>5</sup>	Jan 2020-Dec 2024	△

##### Commerce

Bank 10,000 of our clients' international and domestic networks of suppliers and buyers through banking the ecosystem programmes	Jan 2020-Dec 2024	○
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##### Digital<sup>6</sup>

Roll out digital-only banks in a total of 12 markets	Jan 2020-Dec 2021	○
Double the number of clients we serve in Africa and the Middle East to 3.2 million <sup>7</sup>	Jan 2020 - Dec 2021	△

##### Impact finance

Introduce ESG scores for equity investments for Private Banking clients allowing them to tailor their investment choices in a sustainable manner	Jan 2020 - Dec 2020	✓
Develop a tailored Impact Profile for all Private Banking clients providing a framework that enables them to understand their passions and harness capital market solutions to support the SDGs	Jan 2020-Dec 2024	○
Increase the proportion of Private Bank investment solutions (across funds, bonds, structured products and discretionary mandates) with a sustainability lens from below 10% to 50% <sup>8</sup>	Jan 2020-Dec 2024	△

##### Concluded in the year

✓ Achieved △ Not achieved

##### Ongoing aspirations

○ On track △ Not on track

1 The COVID-19 pandemic impacted the pace of delivering three new Aspirations set in 2020 focused on infrastructure, microfinance and retail. These Aspirations underpin sustainable development and we remain committed to progressing these targets in 2021

2 To avoid double counting with other Aspirations, the previous Aspiration to "Catalyse \$5 billion of finance via blended finance transactions from 2020 - 2024" has been removed

3 Facilitated \$2.4bn in 2020. Due to COVID-19 substantial infrastructure investments across many markets were delayed. We expect to see increased momentum from H2 2021 as infrastructure investment increases to support sustainable economic growth and COVID-19 economic recovery

4 In 2020, we ceased new business with four clients and are exiting these relationships subject to any outstanding contractual arrangements

5 2020: \$509 million

6 These were originally merged into one Aspiration, however we have demerged them to allow accurate reporting of progress

7 2020: 500,000 new clients

8 The proportion of sustainable solutions grew to 6% in 2020 but remained below 10% due to dependencies on the availability of solutions in the market

## Sustainable finance continued

### Managing environmental and social risk

Our main impact on the environment and society is through the activities we finance. Our seven Position Statements outline the cross-sector standards we expect of ourselves and our clients, as well as sector-specific guidance for clients operating in sectors with a high potential environmental or social impact. The statements draw on International Finance Corporation Performance Standards, the Equator Principles (EP) and global best practice. Our prohibited activities list sets out what we do not finance and can be found at [sc.com/prohibitedactivities](https://sc.com/prohibitedactivities).

We identify and assess environmental and social risks related to our Corporate & Institutional, Commercial and Business Banking clients, and embed our risk framework directly into our credit approval process. All relationship managers and credit officers are offered training in assessing environmental and social risk against our criteria and have access to online resources.

In 2020, we launched an online learning tool to increase awareness of environmental and social risk management among client-facing employees. This training will become a mandatory for relevant employees in 2021.

Meanwhile, we reviewed 1,090 transactions that presented potential specific risks against our Position Statements. We also reviewed all our Position Statements, and refreshed documents will be released in 2021.

We work with clients, regulators and peers across the finance sector to continuously improve environmental and social standards. We proactively engage with clients to mitigate risks and help them improve their environmental and social performance over time. Where this is not possible, transactions have been, and will continue to be, turned down.

We also achieved a number of milestones under our Chairmanship of the EP Association in 2020. These include the launch of the EP Association Strategy, publishing guidance on implementing EP during the pandemic, and publishing guidance on implementing EP4 including specific notes on climate change and human rights and indigenous people.



Read more about our reporting against the Equator Principles: [sc.com/equatorprinciples](https://sc.com/equatorprinciples)

### Responding to climate change

We consider climate change to be one of the greatest challenges facing the world today.

Since 2018, we have been working on aligning the emissions from both our own operations and our financing activities to the Paris Agreement goal of below two degrees of global warming. In 2019, we set a target to achieve net zero emissions from our operations by 2030 and have made a strong start towards achieving this goal.

In 2020, we made strides towards bringing the management of climate change as a financial and non-financial risk within key Principal Risk Frameworks to the mainstream. This included extending climate risk governance across our markets and client segments.

We acknowledge that climate change is a shared global challenge and believe collaboration with clients, peer banks, industry experts and regulators is crucial. In 2020, we launched a four-year partnership with Imperial College London, through which we aim to strengthen our own resilience to climate risk and support our clients through their own low-carbon transitions. In December, we sponsored Imperial's research report and public webinar focused on energy transitions and the coal supply chain in India, designed to generate insights for financial institutions and policymakers.

We also formed partnerships with Baringa and Munich Re to develop bespoke tools to strengthen our risk management infrastructure in response to the various regulatory requirements and forthcoming stress tests.

To build internal knowledge, we launched a Sustainable Finance Academy and new digital learning programmes for climate risk.



We have made disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures in a dedicated, standalone report. We believe this format provides information in a readily identifiable and accessible format for all interested stakeholders. This can be accessed at [sc.com/tcfd](https://sc.com/tcfd).



## Sustainable lending to EcoGreen

As part of our sustainable finance efforts, we arranged EcoGreen's first ever green loan. The China-based company, which produces chemicals using botanic essential oils from plants for the pharmaceutical, household, healthcare and personal care industries, borrowed \$185 million in 2020. The loan was subject to a green finance framework – ensuring that funds are used for sustainability-based projects and initiatives.

## Sustainable and responsible business continued

### Responsible company

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



Clients



Regulators and governments



Suppliers



Society

### Promoting good conduct

Good conduct is crucial in delivering positive outcomes for our clients, markets and stakeholders. In 2020, we enhanced our conduct risk management and built out approaches to risk identification and mitigation.

The Group Conduct Dashboard was rolled out to enhance conduct risk monitoring, and results from an assessment of conduct risk management which focused on eight key conduct areas, indicated an improvement in the overall quality and consistency in the management of Conduct Risk across the Group, regions and countries.

Our Group Code of Conduct (the Code) remains the central tool through which we set our conduct expectations. To reinforce the importance of the highest standards of behaviour, each year we ask our colleagues to recommit to the Code. In 2020, we refreshed the associated mandatory e-learning and 99.8 per cent of our colleagues completed the e-learning and recommitted to the Code.

### 2020 Sustainability Aspirations: Responsible Company

#### Environment

Reduce annual greenhouse gas emissions (Scope 1 and 2) to net zero by 2030 with an interim target: Dec 2025: 60,000 tCO <sub>2</sub> e	Jan 2019-Dec 2030	○
Source all energy from renewable sources	Jan 2020-Dec 2030	○
Reduce our Scope 3 value chain emissions from business travel by 7%	Jan 2020-Dec 2020	✓
Introduce an emissions offset programme for Scope 3 travel emissions	Jan 2020-Dec 2020	✓
Join the Climate Group 'RE100' <sup>1</sup>	Jan 2020-Dec 2020	⚠
Reduce annual office paper use by 57% to 10kg/FTE/year <sup>2</sup>	Jan 2012-Dec 2020	⚠
Reduce waste per colleague to 40kg/FTE/year	Jan 2020-Dec 2025	○
Recycle 90% of waste <sup>3</sup>	Jan 2020-Dec 2025	⚠

#### Conduct

Learn from risks identified through concerns raised via our Speaking Up programme and conduct plans and publish an annual Threats and Themes Report	Ongoing	○
Develop enhanced internal policies and guidelines on privacy, data ethics and algorithmic fairness, and embed a new governance framework for all data-related risks	Jan 2020-Dec 2021	○

#### Financial crime compliance

Tackle financial crimes such as the laundering of the proceeds of the illegal wildlife trade by contributing to the development of red flags for financial flows, training frontline staff to identify potential suspicious transactions and participating in public-private partnerships to share intelligence and good practices	Ongoing	○
Deliver at least 18 correspondent banking academies	Jan 2020-Dec 2020	✓

#### Concluded in the year

✓ Achieved ⚠ Not achieved

#### Ongoing aspirations

○ On track ⚠ Not on track

<sup>1</sup> RE100 was closed to new financial sector participants while they reviewed their entry criteria in 2020. We are committed to joining in 2021

<sup>2</sup> 2020: 11.2kg/FTE/year, 2019: 16.96kg/FTE/year

<sup>3</sup> 2020: 23% recycled

## Responsible Company

In 2021, our focus is on making conduct risk management an integral component of the Enterprise Risk Management Framework and ensure Conduct Risk is considered as part of each principal risk type (PRT). This is to reflect the overarching nature of Conduct Risk and recognise that it can manifest from risks and events which occur under other PRTs.



See [page 48](#) for more on our Conduct Risk Framework

### Speaking Up

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

During 2020, 1,209 concerns were raised through Speaking Up, of which 474 were within scope (or in process of triage) of the programme and investigated or resolved. Themes included employee fraud, anti-bribery and corruption (ABC), and information and cyber security.

# 99.8%

of employees recommitted to the Group Code of Conduct in 2020.

We received 110 disclosures referencing COVID-19 related matters, including concerns around work arrangements, work environment and performance pressure. However, there was a decline in the use of Speaking Up in mid-2020 when pandemic working arrangements were in place. We believe this to be in line with peers and due to home working reducing visibility of misconduct, and more communications over recorded platforms rather than face-to-face.

During the period, 338 cases were closed following investigation (these included cases raised in 2020 as well as those raised in prior years), of which 206 were substantiated while 132 were closed as unsubstantiated.

A range of corrective actions were taken, including process improvements, targeted coaching and training and, for 63 cases, disciplinary actions ranging from verbal or written warning to dismissals.

Results from our 2020 My Voice survey demonstrate confidence in the programme with 87 per cent of employees confirming they would be comfortable in speaking up if they see a violation of Standard Chartered's policies, valued behaviours or the Code. However, this was marginally down from 91 per cent in 2019. We are working to improve our Speaking Up programme by partnering with a leading whistleblowing charity to provide an advice hotline and increasing the number of advocates who work with country management teams to support employees. In 2021, we will also be rolling out an enhanced framework to identify and support staff who are at high risk of being victimised for speaking up.

### Speaking Up cases

Year	Total raised <sup>1</sup>	In scope <sup>2</sup>	Closed <sup>3</sup>	
			Substantiated <sup>4</sup>	Unsubstantiated
<b>2020</b>	<b>1,209</b>	<b>474</b>	<b>206</b>	<b>132</b>
2019	1,382	381	263	189
2018	1,473	589	306	275
2017	1,183	460	201	296

1 Total concerns raised within the reporting year

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

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

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

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



Download our Group Code of Conduct at [sc.com/codeofconduct](https://sc.com/codeofconduct) and visit [sc.com/speakingup](https://sc.com/speakingup) to find more about how our Speaking Up programme works

## Sustainable and responsible business continued

### Responsible company continued

#### Fighting financial crime

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

We have safeguards in place to address threats including money laundering, terrorist financing, sanctions compliance breaches, bribery and other forms of corruption. Our Conduct, Financial Crime & Compliance (CFCC) team leads our risk management activities, which include adhering to anti-money laundering and sanctions policies and applying controls such as client due-diligence screening and monitoring. See the Risk review section on page 256 for more on how we manage Financial Crime Risk.

In 2020, due to COVID-19, we identified a new range of emerging risks. Our CFCC experts were able to identify red flags in relation to fraud, money laundering, bribery and corruption. Our in-depth knowledge allows us to share insights with our clients, employees and partners. Despite the pandemic impacting our ability to physically hold Correspondent Banking Academies, we held academies virtually – allowing greater participation. Besides our response to the pandemic we have continued to strengthen our controls by investing in innovation and technology.

Anti-bribery and corruption (ABC) policies aim to prevent employees, or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments. In 2020, 99.9 per cent of employees completed ABC, anti-money laundering and sanctions and fraud training. By working with our client banks, we share best practice on controls for managing Financial Crime Risk and are able to build a strong network to keep criminal activity out of the financial system. In 2020, we surpassed our Aspiration for financial crime compliance, delivering 18 training sessions to more than 2,900 people from more than 500 client banks in 70 countries through our Correspondent Banking Academies.

In 2021, we will continue to adapt our controls to emerging threats by making sure we have highly trained and experienced employees working with new technology to detect abuse of the financial system. We will also continue to partner with, and educate, peer banks and clients to help them detect financial crime risks.



For more visit  
[sc.com/fightingfinancialcrime](https://sc.com/fightingfinancialcrime)

#### Respecting human rights

We are committed to respecting human rights and ensuring they are not adversely impacted in our role as an employer, financial services provider and procurer of goods and services. We recognise that our footprint and supply chain give us the opportunity to raise awareness of human rights and modern slavery in a wide range of markets and industries.

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

Our Modern Slavery Statement, approved by the Board, details the actions we are taking to tackle modern slavery and human trafficking. In 2020, this included an update of our framework and processes within our supply chain, and a feasibility analysis on extending our living wage commitment to non-employed and third-party workers.

In 2020, we began a review of our Human Rights Position Statement which informs our policies in this area. We expect to finish the review in early 2021, following consultation with external stakeholders.



Read our 2020 Modern Slavery Statement  
at [sc.com/modernslavery](https://sc.com/modernslavery)

#### Managing our environmental footprint

We are committed to improving our environmental footprint and reducing the direct impact of our branches and offices. To do this, we measure and manage energy and water efficiency, greenhouse gas (GHG) emissions and paper use closely, verifying our performance through third parties.

We also measure the amount of non-hazardous waste our branches and offices generate and recycle. We do not produce or handle material quantities of this and therefore do not report on it.

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

Through our Sustainability Aspirations, we have set ambitious targets to achieve net zero emissions and only use renewable energy sources by 2030. We are increasing our use of renewable energy to meet these challenging targets.

## Responsible company continued

We have measured and reduced our GHG emissions since 2008 and have adopted science-based targets (SBT) to significantly reduce our carbon footprint. In 2020, we continued to reduce our property portfolio footprint despite a drop in occupancy due to the pandemic, with our GHG emissions falling 19 per cent year-on-year.

Water availability is a growing challenge in our markets. Although we did not face any issues sourcing water in 2020, we continue to take a sustainable and responsible approach to managing water across the Group and reducing consumption year-on-year.

Our aim is to reduce paper use across our operations and since 2012 we have reduced consumption by 52 per cent against a target of 57 per cent. In 2020, the Group Chief Executive encouraged employees around the world to go paperless. In 2021, we will continue to strive to hit our target.

We are committed to reducing waste in all its forms and in 2019, set ambitious targets to reduce waste to 40 kilograms per employee and recycle 90 per cent of our waste by 2025. We are proud to have certified more than 50 of our largest properties as 'single-use plastic free'. Non-recyclable waste is sent for energy generation or compost to limit our impact on landfill.

In 2021, we will focus on removing more single-use plastics and reducing waste from all our operations, improving our clean energy procurement and taking the necessary steps to meet our SBTs for net zero greenhouse gas emissions.

 [Read the independent assurance for our energy and greenhouse gas emissions \(Scope 1 and 2\) at \*\*sc.com/environmentalassurance\*\*](https://www.sc.com/environmentalassurance)

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

2020 Actual	205
2020 Target	215
2008	494

# 59%

↓ Since 2008



### Innovating diesel reduction in Pakistan

## ▶ Powering Pakistan ◀

We have traditionally relied heavily on diesel generators across many markets as a source of back-up power to maintain operations. In 2020, our property team in Pakistan introduced supercapacitors as an alternative backup energy source. Supercapacitors have an advantage in storing peak power when you need it, without harmful carbon emissions. The proposition could be used across other markets to both assist our back-up power requirements and lower our carbon emissions.

## Sustainable and responsible business continued

### Inclusive communities

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



#### Regulators and governments



#### Society

In 2020, we increased support for communities in response to the COVID-19 pandemic. We invested \$95.7 million, including our COVID-19 Global Charitable Fund, in communities and 26 per cent of employees took part in volunteering. Despite restrictions preventing volunteering, employees still contributed more than 36,000 volunteering days to communities, many taking advantage of new opportunities for virtual volunteering.

Vulnerable and disadvantaged young people have been hit hard economically by the pandemic. Through Group donations and fundraising from our employees and clients, we surpassed our \$50 million target and provided funding of \$52.8 million through our COVID-19 Global Charitable Fund. This includes donations of \$27.8 million to partners supporting emergency relief across 59 markets. The remaining \$25 million will support youth-focused economic recovery projects as part

of Futuremakers by Standard Chartered (Futuremakers). This increases our total commitment to Futuremakers to \$75 million between 2019 and 2023. Fundraising from employees and partners in 2020 raised \$3.6 million to support Futuremakers, including support for COVID-19 economic recovery. For a full breakdown of our 2020 fundraising and donations, see [sc.com/sustainabilitysummary](https://sc.com/sustainabilitysummary).

We reached more than 168,000 young people through Futuremakers programmes in 2020, and more than 366,000 young people between 2019 and 2020 across 35 markets. The Standard Chartered Foundation is our lead partner in delivering Futuremakers and is the primary recipient of donations from the Group. Several Group Management Team members are Directors of the Standard Chartered Foundation. Read more at [sc.com/scfoundation](https://sc.com/scfoundation). The rollout of programmes continued in 2020 despite the challenging environment. While some were delayed or paused, many programmes overcame COVID-19 restrictions by moving to alternative methods of delivery.

Goal, our girls' empowerment programme, replaced its sports-based sessions with a new digital curriculum delivered through mobiles, radio or online. In 2020, Goal reached more than 56,000 girls and young women, and has reached more than 645,000 girls between 2006 and 2020.

Youth to Work reached 19,335 young people through employability projects and we reached 6,419 young people and small businesses through entrepreneurship activities.

### 2020 Sustainability Aspirations: Inclusive communities

#### Community Engagement

Invest 0.75% of prior year operating profit (PYOP) in our communities	Jan 2006-Dec 2020	✓
Raise \$75m for Futuremakers by Standard Chartered	Jan 2019-Dec 2023	○
Education: Reach one million girls and young women through Goal <sup>1</sup>	Jan 2006-Dec 2023	△
Employability: Reach 100,000 young people	Jan 2019-Dec 2023	○
Entrepreneurship: Reach 50,000 young people, and micro and small businesses	Jan 2019-Dec 2023	○
Support the development of the Vision Catalyst Fund	Jan 2019-Dec 2020	✓
Increase participation for employee volunteering to 55%	Jan 2020-Dec 2023	○

#### Concluded in the year

✓ Achieved △ Not achieved

#### Ongoing aspirations

○ On track △ Not on track

1 2020: 56,049 girls participated in Goal; 2006-2020: 646,438 girls participated in Goal

## Inclusive communities continued

During 2020, our inaugural Futuremakers Forum involving business leaders, policy experts, clients and Futuremakers participants came up with recommendations for greater youth economic inclusion. These included improving connections between young people and employers and addressing the challenges of financing for young entrepreneurs.

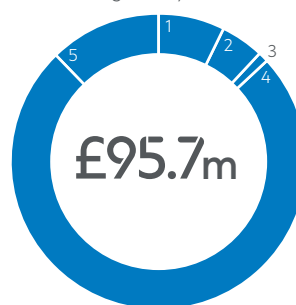
We marked the final year of our Seeing is Believing partnership with the International Agency for the Prevention of Blindness in 2020. Between 2003 and 2020, the global initiative to tackle avoidable blindness raised \$104 million through fundraising and Group matching, and reached more than 250 million people. We continued our support through the development of the Vision Catalyst Fund and by helping people with visual impairments through Futuremakers.

In 2021, we will continue to roll-out Futuremakers programmes. To remain on track to deliver its aspiration, Goal will combine in-person and digital learning to reach more girls. We will continue to implement the results framework and host a second Futuremakers Forum, focused on the future of work.

### Our community expenditure 2020

1. Leverage	7.4%
2. Management costs	4.6%
3. Gifts in kind	1.2%
4. Cash contributions	74.7%
5. Employee time (non- cash item)	12.1%

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



### Futuremakers

## Fulfilling dreams through Futuremakers

Rose is fulfilling her dream of running an interior design business thanks to Futuremakers by Standard Chartered, our global initiative to tackle inequality. Despite a childhood spent on the streets of Nairobi, Rose beat the odds to get an education. She joined Goal – Futuremakers' education programme for girls – learning valuable leadership and life skills through football. She also accessed vocational training to build a new future. Today, Rose is a leader in her community and, as a Goal coach, she supports other vulnerable girls. She is completing her Diploma in Interior Design while running her own business and has put her sewing skills to good use by making masks for local people during COVID-19.

# Non-financial information statement

This table sets out where shareholders and stakeholders can find information about key non-financial matters in this report, in compliance with the non-financial reporting requirements contained in sections 414CA and 414 CB of the Companies Act 2006. Further disclosures are available on [sc.com](https://www.sc.com) and in our 2020 Sustainability Summary.

Reporting requirement	Where to read more in this report about our policies and impact (including risks, policy embedding, due diligence and outcomes)	Page
Environmental matters	<b>Risk review and Capital review</b>	
	• Group Chief Risk Officer's review	47
	<b>Sustainable and responsible business</b>	
	• Sustainable finance	63
	• Managing environmental and social risks	65
	• Responding to climate change	65
	• Managing our environmental footprint	68
	<b>Directors' report</b>	
	• Environmental impact of our operations	176
	<b>Supplementary sustainability information</b>	
	• Environment performance data*	438
Employees	<b>Engaging stakeholders</b>	
	• Employees	58
	• Gender pay gap and equal pay	61
	<b>Sustainable and responsible business</b>	
	• Speaking Up	67
	<b>Directors' report</b>	
	• Employee policies and engagement	171
	• Health and Safety	173
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Human Rights	<b>Engaging stakeholders</b>	
	• Suppliers	57
	<b>Sustainable and responsible business</b>	
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Social matters	<b>Engaging stakeholders</b>	
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Anti-corruption and bribery	<b>Group Chief Risk Officer's review</b>	47
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Non-financial KPIs	<b>Employees</b>	
	• Employee engagement (eNPS)	58
	• Gender diversity in senior roles	59
	• Female representation	61
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	• Recommitment to the Code of Conduct	66
	<b>Society</b>	
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	• Energy, water, waste and emissions	68
	• Community expenditure	71
	• Reach of community programmes	70
Principal risks and uncertainties	<b>Risk review and capital review</b>	179

\* Visit [sc.com/environmentcriteria](https://www.sc.com/environmentcriteria) for our carbon emissions criteria and [sc.com/environmentalassurance](https://www.sc.com/environmentalassurance) for Global Documentation's Assurance Statement of our Scope 1 and 2 emissions, and waste and water data

# Underlying versus statutory results reconciliations

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

## Operating income by client segment

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>7,214</b>	<b>5,013</b>	<b>1,409</b>	<b>540</b>	<b>589</b>	<b>14,765</b>
Restructuring	11	–	29	–	(13)	27
Other items	–	–	–	–	(38)	(38)
<b>Statutory operating income</b>	<b>7,225</b>	<b>5,013</b>	<b>1,438</b>	<b>540</b>	<b>538</b>	<b>14,754</b>

2019 (Restated) <sup>1</sup>						
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>7,074</b>	<b>5,186</b>	<b>1,574</b>	<b>577</b>	<b>860</b>	<b>15,271</b>
Restructuring	146	–	4	–	(4)	146
Other items	–	–	–	–	–	–
<b>Statutory operating income</b>	<b>7,220</b>	<b>5,186</b>	<b>1,578</b>	<b>577</b>	<b>856</b>	<b>15,417</b>

<sup>1</sup> Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

## Operating income by region

	2020					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>6,016</b>	<b>4,366</b>	<b>2,364</b>	<b>1,922</b>	<b>97</b>	<b>14,765</b>
Restructuring	82	(4)	(2)	–	(49)	27
Other items	(43)	–	–	–	5	(38)
<b>Statutory operating income</b>	<b>6,055</b>	<b>4,362</b>	<b>2,362</b>	<b>1,922</b>	<b>53</b>	<b>14,754</b>

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

## Profit before taxation (PBT)

	2020						
	Underlying \$million	Provision for regulatory matters \$million	Restructuring \$million	Net loss on businesses disposed/ held for sale \$million	Goodwill impairment \$million	Share of profits of PT Bank Permata Tbk joint venture \$million	Statutory \$million
Operating income	14,765	–	27	(38)	–	–	14,754
Operating expenses	(10,142)	14	(252)	–	–	–	(10,380)
Operating profit/(loss) before impairment losses and taxation	4,623	14	(225)	(38)	–	–	4,374
Credit impairment	(2,294)	–	(31)	–	–	–	(2,325)
Other impairment	15	–	(113)	–	(489)	–	(587)
Profit from associates and joint ventures	164	–	(13)	–	–	–	151
<b>Profit/(loss) before taxation</b>	<b>2,508</b>	<b>14</b>	<b>(382)</b>	<b>(38)</b>	<b>(489)</b>	<b>–</b>	<b>1,613</b>

## Profit before taxation (PBT) continued

	2019					
	Underlying \$million	Provision for regulatory matters \$million	Restructuring \$million	Net loss on business disposed/ held for sale \$million	Goodwill impairment \$million	Share of profits of PT Bank joint venture \$million
Operating income	15,271	–	146	–	–	–
Operating expenses	(10,409)	(226)	(298)	–	–	–
Operating profit/(loss) before impairment losses and taxation	4,862	(226)	(152)	–	–	–
Credit impairment	(906)	–	(2)	–	–	–
Other impairment	(38)	–	(98)	–	(27)	–
Profit from associates and joint ventures	254	–	(2)	–	–	48
<b>Profit/(loss) before taxation</b>	<b>4,172</b>	<b>(226)</b>	<b>(254)</b>	<b>–</b>	<b>(27)</b>	<b>48</b>
						<b>3,713</b>

## Profit before taxation (PBT) by client segment

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>7,214</b>	<b>5,013</b>	<b>1,409</b>	<b>540</b>	<b>589</b>	<b>14,765</b>
External	7,083	4,322	1,320	374	1,666	14,765
Inter-segment	131	691	89	166	(1,077)	–
<b>Operating expenses</b>	<b>(4,178)</b>	<b>(3,701)</b>	<b>(878)</b>	<b>(476)</b>	<b>(909)</b>	<b>(10,142)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>3,036</b>	<b>1,312</b>	<b>531</b>	<b>64</b>	<b>(320)</b>	<b>4,623</b>
Credit impairment	(1,237)	(715)	(316)	(2)	(24)	(2,294)
Other impairment	42	(10)	(1)	–	(16)	15
Profit from associates and joint ventures	–	–	–	–	164	164
<b>Underlying profit/(loss) before taxation</b>	<b>1,841</b>	<b>587</b>	<b>214</b>	<b>62</b>	<b>(196)</b>	<b>2,508</b>
Restructuring	(164)	(50)	(57)	(11)	(100)	(382)
Goodwill impairment & other items	–	–	–	–	(513)	(513)
<b>Statutory profit/(loss) before taxation</b>	<b>1,677</b>	<b>537</b>	<b>157</b>	<b>51</b>	<b>(809)</b>	<b>1,613</b>

	2019 (Restated) <sup>1</sup>					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>7,074</b>	<b>5,186</b>	<b>1,574</b>	<b>577</b>	<b>860</b>	<b>15,271</b>
External	7,264	4,236	1,618	329	1,824	15,271
Inter-segment	(190)	950	(44)	248	(964)	–
<b>Operating expenses</b>	<b>(4,310)</b>	<b>(3,759)</b>	<b>(953)</b>	<b>(514)</b>	<b>(873)</b>	<b>(10,409)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>2,764</b>	<b>1,427</b>	<b>621</b>	<b>63</b>	<b>(13)</b>	<b>4,862</b>
Credit impairment	(475)	(336)	(122)	31	(4)	(906)
Other impairment	(32)	2	–	–	(8)	(38)
Profit from associates and joint ventures	–	–	–	–	254	254
<b>Underlying profit before taxation</b>	<b>2,257</b>	<b>1,093</b>	<b>499</b>	<b>94</b>	<b>229</b>	<b>4,172</b>
Restructuring	(110)	(63)	(11)	(11)	(59)	(254)
Goodwill impairment & other items	–	–	–	–	(205)	(205)
<b>Statutory profit/(loss) before taxation</b>	<b>2,147</b>	<b>1,030</b>	<b>488</b>	<b>83</b>	<b>(35)</b>	<b>3,713</b>

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

## Profit before taxation (PBT) by region

	2020					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>6,016</b>	<b>4,366</b>	<b>2,364</b>	<b>1,922</b>	<b>97</b>	<b>14,765</b>
<b>Operating expenses</b>	<b>(3,739)</b>	<b>(2,618)</b>	<b>(1,683)</b>	<b>(1,383)</b>	<b>(719)</b>	<b>(10,142)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>2,277</b>	<b>1,748</b>	<b>681</b>	<b>539</b>	<b>(622)</b>	<b>4,623</b>
Credit impairment	(352)	(1,132)	(654)	(161)	5	(2,294)
Other impairment	(53)	163	(14)	8	(89)	15
Profit from associates and joint ventures	163	–	–	–	1	164
<b>Underlying profit/(loss) before taxation</b>	<b>2,035</b>	<b>779</b>	<b>13</b>	<b>386</b>	<b>(705)</b>	<b>2,508</b>
Restructuring	(92)	(42)	(88)	(45)	(115)	(382)
Goodwill impairment & other items	(43)	–	–	–	(470)	(513)
<b>Statutory profit/(loss) before taxation</b>	<b>1,900</b>	<b>737</b>	<b>(75)</b>	<b>341</b>	<b>(1,290)</b>	<b>1,613</b>

	2019					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>6,155</b>	<b>4,213</b>	<b>2,562</b>	<b>1,725</b>	<b>616</b>	<b>15,271</b>
<b>Operating expenses</b>	<b>(3,771)</b>	<b>(2,681)</b>	<b>(1,747)</b>	<b>(1,470)</b>	<b>(740)</b>	<b>(10,409)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>2,384</b>	<b>1,532</b>	<b>815</b>	<b>255</b>	<b>(124)</b>	<b>4,862</b>
Credit impairment	(194)	(506)	(132)	(98)	24	(906)
Other impairment	(5)	(1)	1	–	(33)	(38)
Profit from associates and joint ventures	247	–	–	–	7	254
<b>Underlying profit/(loss) before taxation</b>	<b>2,432</b>	<b>1,025</b>	<b>684</b>	<b>157</b>	<b>(126)</b>	<b>4,172</b>
Restructuring	(138)	(34)	(18)	(34)	(30)	(254)
Goodwill impairment & other items	–	48	–	–	(253)	(205)
<b>Statutory profit/(loss) before taxation</b>	<b>2,294</b>	<b>1,039</b>	<b>666</b>	<b>123</b>	<b>(409)</b>	<b>3,713</b>

## Return on tangible equity (RoTE)

	2020					
	Corporate & Institutional Banking %	Retail Banking %	Commercial Banking %	Private Banking %	Central & other items %	Total %
<b>Underlying RoTE</b>	<b>6.6</b>	<b>6.5</b>	<b>3.4</b>	<b>4.8</b>	<b>(12.0)</b>	<b>3.0</b>
Provision for regulatory matters	–	–	–	–	0.2	–
Restructuring						
Of which: Income	0.1	–	0.7	–	(0.2)	0.1
Of which: Expenses	(0.4)	(0.8)	(1.0)	(1.2)	(1.0)	(0.7)
Of which: Credit impairment	–	–	(0.7)	–	–	(0.1)
Of which: Other impairment	(0.5)	–	(0.2)	–	(0.1)	(0.3)
Of which: Profit from associates and joint ventures	–	–	–	–	(0.2)	–
Net loss on businesses disposed/held for sale	–	–	–	–	(0.6)	(0.1)
Goodwill impairment	–	–	–	–	(7.3)	(1.3)
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	–	–
Tax on normalised items	0.3	0.2	0.3	0.4	0.1	0.3
<b>Statutory RoTE</b>	<b>6.1</b>	<b>5.9</b>	<b>2.5</b>	<b>4.0</b>	<b>(21.1)</b>	<b>0.9</b>

## Return on tangible equity (RoTE) continued

	2019 (Restated) <sup>1</sup>					
	Corporate & Institutional Banking %	Retail Banking %	Commercial Banking %	Private Banking %	Central & other items %	Total %
<b>Underlying RoTE</b>	8.5	12.7	7.4	7.3	(5.1)	6.4
Provision for regulatory matters	–	–	–	–	(3.1)	(0.6)
Restructuring						
Of which: Income	0.8	–	0.1	–	–	0.4
Of which: Expenses	(0.8)	(1.0)	(0.3)	(1.2)	(0.6)	(0.8)
Of which: Credit impairment	–	–	–	–	–	–
Of which: Other impairment	(0.5)	–	–	–	(0.1)	(0.3)
Of which: Profit from associates and joint ventures	–	–	–	–	–	–
Net loss on businesses disposed/held for sale	–	–	–	–	–	–
Goodwill impairment	–	–	–	–	(0.4)	(0.1)
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	0.7	0.1
Tax on normalised items	–	0.2	0.1	0.3	(2.9)	(0.3)
<b>Statutory RoTE</b>	8.0	11.9	7.3	6.4	(11.5)	4.8

<sup>1</sup> Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

## Earnings per ordinary share (EPS)

	2020								
	Underlying \$ million	Provision for regulatory matters \$ million	Restructuring \$ million	Profit from joint venture \$ million	Gains arising on repurchase of senior and subordinated liabilities \$ million	Net loss on sale of businesses \$ million	Goodwill impairment \$ million	Tax on normalised items \$ million	Statutory \$ million
Profit for the year attributable to ordinary shareholders	1,141	14	(382)	–	–	(38)	(489)	83	329
Basic – Weighted average number of shares (millions)	3,160								3,160
Basic earnings per ordinary share (cents)	36.1								10.4

	2019								
	Underlying \$ million	Provision for regulatory matters \$ million	Restructuring \$ million	Profit from joint venture \$ million	Gains arising on repurchase of senior and subordinated liabilities \$ million	Net loss on sale of businesses \$ million	Goodwill impairment \$ million	Tax on normalised items \$ million	Statutory \$ million
Profit for the year attributable to ordinary shareholders	2,466	(226)	(254)	48	–	–	(27)	(152)	1,855
Basic – Weighted average number of shares (millions)	3,256								3,256
Basic earnings per ordinary share (cents)	75.7								57.0

# Alternative performance measures

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

Measure	Definition
<b>Constant currency basis</b>	A performance measure on a constant currency basis is presented such that comparative periods are adjusted for the current year's functional currency rate. The following balances are presented on a constant currency basis when described as such: <ul style="list-style-type: none"> <li>• Operating income</li> <li>• Operating expenses</li> <li>• Profit before tax</li> <li>• RWAs or Risk-weighted assets</li> </ul>
<b>Underlying</b>	A performance measure is described as underlying if the statutory result has been adjusted for restructuring and other items representing profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period, and items which management and investors would ordinarily identify separately when assessing performance period-by-period. A reconciliation between underlying and statutory performance is contained in Note 2 to the financial statements. The following balances and measures are presented on an underlying basis when described as such: <ul style="list-style-type: none"> <li>• Operating income</li> <li>• Operating expense</li> <li>• Profit before tax</li> <li>• Earnings per share (basic and diluted)</li> <li>• Cost-to-income ratio</li> <li>• Jaws</li> <li>• RoTE or Return on tangible equity</li> </ul>
<b>Advances-to-deposits/customer advances-to-deposits (ADR) ratio</b>	The ratio of total loans and advances to customers relative to total customer accounts, excluding approved balances held with central banks, confirmed as repayable at the point of stress. A low advances-to-deposits ratio demonstrates that customer accounts exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
<b>Cost-to-income ratio</b>	The proportion of total operating expenses to total operating income.
<b>Cover ratio</b>	The ratio of impairment provisions for each stage to the gross loan exposure for each stage.
<b>Cover ratio after collateral/cover ratio including collateral</b>	The ratio of impairment provisions for stage 3 loans and realisable value of collateral held against these non-performing loan exposures to the gross loan exposure of stage 3 loans.
<b>Gross yield</b>	Statutory interest income divided by average interest earning assets.
<b>Jaws</b>	The difference between the rates of change in revenue and operating expenses. Positive jaws occurs when the percentage change in revenue is higher than, or less negative than, the corresponding rate for operating expenses.
<b>Loan loss rate</b>	Total credit impairment for loans and advances to customers over average loans and advances to customers.
<b>Net tangible asset value per share</b>	Ratio of net tangible assets (total tangible assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
<b>Net yield</b>	Gross yield less rate paid.
<b>NIM or Net interest margin</b>	Net interest income adjusted for interest expense incurred on amortised cost liabilities used to fund the Financial Markets business, divided by average interest-earning assets excluding financial assets measured at fair value through profit or loss.
<b>RAR per FTE or Risk adjusted revenue per full-time equivalent</b>	Risk adjusted revenue (RAR) is defined as underlying operating income less underlying impairment over the past 12 months. RAR is then divided by the 12 month rolling average full-time equivalent (FTE) to determine RAR per FTE.
<b>Rate paid</b>	Statutory interest expense adjusted for interest expense incurred on amortised cost liabilities used to fund financial instruments held at fair value through profit or loss, divided by average interest-bearing liabilities.
<b>RoE or Return on equity</b>	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.
<b>RoTE or Return on ordinary shareholders' tangible equity</b>	The ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average tangible equity, being ordinary shareholders' equity less the average goodwill and intangible assets for the reporting period. Where a target RoTE is stated, this is based on profit and equity expectations for future periods.
<b>TSR or Total shareholder return</b>	The total return of the Group's equity (share price growth and dividends) to investors.

# Viability statement

The directors are required to issue a viability statement regarding the Group, explaining their assessment of the prospects of the Group over an appropriate period of time and state whether they have reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due.

The directors are to also disclose the period of time for which they have made the assessment and the reason they consider that period to be appropriate.

In considering the viability of the Group, the directors have assessed the key factors, including the current and anticipated impact of COVID-19 likely to affect the Group's business model and strategic plan, future performance, capital adequacy, solvency and liquidity taking into account the emerging risks as well as the principal risks.

The viability assessment has been made over a period of three years, which the directors consider appropriate as it is within both the Group's strategic planning horizon and, the basis upon which its regulatory capital stress tests are undertaken and is representative of the continuous level of regulatory change affecting the financial services industry. The directors will continue to monitor and consider the appropriateness of this period.

The directors have reviewed the Corporate Plan, the output of the Group's formalised process of budgeting and strategic planning. For the 2021 Corporate Plan, the forward-looking cash flows and balances include the longer-term impact of COVID-19, specifically with regards to expected credit loss and the impact of global lower interest rates impact on revenues. The Corporate Plan is evaluated and approved each year by the Board with confirmation from the Group Chief Risk Officer that the Plan is aligned with the Enterprise Risk Management Framework and Group Risk Appetite Statement and considers the Group's future projections of profitability, cash flows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period. The Corporate Plan details the Group's key performance measures, of forecast profit, CET 1 capital ratio forecast, return on tangible equity forecasts, cost to income ratio forecasts and cash investment projections. The Board has reviewed the ongoing performance management process of the Group by comparing the statutory results to the budgets and Corporate Plan.

The Group performs enterprise-wide stress tests using a range of bespoke hypothetical scenarios that explore the resilience of the Group to shocks to its balance sheet and business model.

To assess the Group's balance sheet vulnerabilities and capital and liquidity adequacy, severe but plausible macro-financial scenarios explore shocks that trigger one or more of:

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

This year, the primary focus has been on the evolving macro-financial stress caused by the response of governments, businesses and individuals to COVID-19, with scenario analysis focused on mild, moderate, severe and extreme variants across the Group's footprint markets to ensure that the Group has sufficient capital to withstand this shock.

Under this range of scenarios, the results of these stress tests demonstrate that the Group has sufficient capital and liquidity to continue as a going concern and meet regulatory minimum capital and liquidity requirements.

To assess the Group's business model vulnerabilities, extreme and unlikely scenarios are explored that, by design, result in the Group's business model no longer being viable. Insights from these reverse stress tests can inform strategy, risk management and capital and liquidity planning.

Further information on stress testing is provided in the Risk management approach section (page 251).

The Board Risk Committee ("BRC") exercises oversight on behalf of the Board of the key risks of the Group and makes recommendations to the Board on the Group's Risk Appetite Statement. These risks include, amongst others; credit, traded, capital and liquidity, operational and technology, reputational and sustainability, compliance, information and cyber security and model risks.

The BRC receives regular reports that inform it of the Group's key risks, as well as updates on the macroeconomic environment, geo-political outlook, market developments, and regulatory updates in relation to capital, liquidity and risk. A report on COVID-19 risks was received and discussed at each meeting. In 2020, the BRC had deeper discussions on: Blue Sky Thinking/Horizon Scanning, Aviation Finance, Enterprise Risk Review function, Safety and Security Risk, Climate Risk management, Technology Obsolescence, Client Service Resilience and Operational Resilience, Wholesale Credit, Transition from IBOR to risk-free rates, CCIB Fraud Risk Review and SC Ventures – Venture Building.

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

For further details of information relevant to the directors, assessment can be found in the following sections of the annual report and accounts:

- The Group's business model (pages 20 to 23) and Strategy (pages 24 to 27)
- The Group's current position and prospects including factors likely to affect future results and development, together with a description of financial and funding positions are described in the client segment reviews and regional reviews (pages 29 to 37)
- An update on the key risk themes of the Group is discussed in the Group Chief Risk Officer's review, found in the Strategic Report (pages 47 to 52)
- The BRC section of the Directors' report (pages 115 to 120)
- The Group's Emerging Risks, sets out the key external factors that could impact the Group in the coming year (page 50 and pages 262 to 276).
- The Group's Enterprise Risk Management Framework details how the Group identifies, manages and governs risk (pages 248 to 253)
- The Group's Risk profile provides an analysis of our risk exposures across all major risk types (page 254 to 276)
- The capital position of the Group, regulatory development and the approach to management and allocation of capital are set out in the Capital review (pages 277 to 283)

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2023.

**Our Strategic report from pages 1 to 79 has been reviewed and approved by the Board.**



**Bill Winters**  
Group Chief Executive  
25 February 2021

A close-up photograph of a woman with brown hair, wearing clear safety glasses and a blue lab coat. She is looking down and to the left with a focused expression. The background is a blurred laboratory or industrial setting with white equipment and pipes.

# ► Our \$1 billion financing commitment ◀

As part of our efforts to help fight COVID-19, we committed \$1 billion in not-for-profit loans to finance companies that provide pandemic related goods and services. In May, Chinese company Vinda Household Paper became the first company in Asia to use the fund. The company borrowed \$23 million, opening a mask production line to meet the demand for personal protective equipment both in China and around the world. Dozens of companies have since followed suit and accessed the fund.

 Read more online at [sc.com/1bn](https://sc.com/1bn)



## Directors' report

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# Group Chairman's governance overview



**José Viñals**  
Group Chairman

**“The Board continued to prioritise making Standard Chartered more profitable and resilient, focusing on delivering safe and sustainable growth”**

As I highlighted in my Group Chairman's statement earlier, 2020 was a year of extraordinary global turbulence. As COVID-19 and geopolitical events evolved across our footprint, the Board accelerated its interactions to ensure it was kept updated on the potential impact of the pandemic on our clients, communities, colleagues and our shareholders, whilst maintaining effective Board oversight and good corporate governance.

Despite the multifaceted uncertainties externally, the Board continued to prioritise making Standard Chartered more profitable and resilient, focusing on delivering safe and sustainable growth. During the year, we discussed and approved our Corporate Plan and refreshed strategic priorities which set rightly ambitious, but achievable steps to make this possible. This requires a careful balancing act between business opportunities on the one hand, and risks and controls on the other. Ensuring good conduct and a culture of transparency and trust across the Group are also critical to the effective delivery of our strategic objectives.

The Board also spent considerable time discussing a number of material issues during the year. These included the withdrawal of the 2019 final dividend and share buy-back, our ongoing response to COVID-19 and the support provided to clients, colleagues and communities, US/China relations, geopolitical and sanction challenges in relation to Hong Kong, changes in the risk profile resulting from COVID-19, and the delivery of our digital ambitions.

The Board adapted rapidly to new ways of working, quickly adopting new technology for virtual meetings which were held frequently as the Board continued to monitor the evolving impact of COVID-19 across our markets. This required significant change to planned Board agendas given the various markets in our footprint and locations of Board members. The Board worked hard to ensure that all items on the forward plan were covered during the year, including training and external speakers to share perspectives on matters of significant strategic or geopolitical importance. The corporate governance summary on pages 90 to 107 highlights the significant breadth of topics and meetings held over the year and our progress against the Board action plan.

As the impact of the pandemic continued, we stepped up our engagement with our shareholders. In November, I hosted a virtual

Investor Stewardship event, joined by all of our Committee Chairs and institutional investors representing a sizeable proportion of our equity, as well as several shareholder representative bodies. We updated investors on the key activities and areas of focus for the Board and each of the Committees, followed by a question and answer session.

We were sadly unable to allow shareholders to attend our Annual General Meeting (AGM) in May 2020 given the restrictions in place at the time in the UK. We intended to hold an in-person engagement event later in the year, however, as the pandemic continued, a physical meeting proved impossible. Instead, we hosted our first ever virtual retail shareholder meeting in November, where shareholders were able to hear directly from me and Bill Winters, with all Board members available to participate in a virtual question and answer session. We were encouraged by the high level of participation and the positive feedback received, and following approval of the changes to our Articles of Association at the 2020 AGM, we will look to enhance virtual elements of our AGMs going forward.

Employee engagement was an area of additional focus during 2020, not least because of the impact of COVID-19 on employee welfare and ongoing changes in working arrangements, resulting in many colleagues working from home. The Board was keen to hear directly from employees and their experiences during these challenging times. Given travel restrictions, we were unfortunately unable to meet colleagues in our markets, but with the adoption of various technologies we hosted virtual townhall meetings in every major region in our footprint, with every Board member participating in at least one event. The response from our employees has been extremely positive and we will seek to build on this in the year ahead.

Improved linkages between the Group and subsidiary boards was a further key area of focus for us in 2020 following our Board effectiveness reviews last year and the creation of our Greater China & North Asia hub. We held regular meetings with subsidiary board members across our footprint to ensure a strong sharing of perspectives and the re-enforcing of linkages between the Group and all its key subsidiaries. I am pleased with the progress that has been made here. You will see reference to the annual subsidiary calls for the sharing of issues and views on page 107.

As part of Board succession planning, we welcomed Phil Rivett to the Board in May following the retirement of Louis Cheung earlier in the year. In December, Phil succeeded Naguib Kheraj as Chair of the Audit Committee while Naguib succeeded David Conner as Chair of the Board Risk Committee. In September, we announced that Maria Ramos would join the Board, Audit Committee and Board Risk Committee in January 2021. Our succession planning discussions also led us to set ambitious aspirations in relation to the diversity of our Board both in terms of ethnicity and the wider diversity agenda. Further details on Board and committee changes during 2020, forward succession planning and changes to our diversity policy are provided in the Governance and Nomination Committee report on pages 125 to 129. Following the recent announcement of Ngozi Okonjo-Iweala's appointment as Director-General of the World Trade Organisation from 1 March 2021, Ngozi will step down from the Board on 28 February 2021. Ngozi has made valuable contributions to the Board during her tenure and we wish her all the best in her new role.

The year ahead will remain challenging, and we have much to deliver. The Board has started the year focusing on the impact of climate change and our progress on our sustainability agenda. This is a good place to start the discussion for the future and the need to deliver in the changed environment in which we find ourselves today.

If we execute our Corporate Plan well, leading with our purpose, we will be able to deliver not just a leaner, more profitable and strongly capitalised bank in the coming years, but a better one. Better for our customers, our communities, our employees and our shareholders.

I would like to close by thanking my colleagues across the Group and my fellow Board members for their commitment and contribution over this intense and challenging period.

**José Viñals**  
Group Chairman

# Board of Directors

## Committee key

- Committee Chair shown in green
- A Audit Committee
- Ri Board Risk Committee
- V Brand, Values and Conduct Committee
- N Governance and Nomination Committee
- C Board Financial Crime Risk Committee
- R Remuneration Committee

## José Viñals (66)

Group Chairman

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



**Experience** José has substantive experience in the international regulatory arena and has exceptional understanding of the economic and political dynamics of our markets and of global trade, and a deep and broad network of decision-makers in the jurisdictions in our footprint.

**Career** José began his career as an economist and as a member of the faculty at Stanford University, before spending 25 years at the Central Bank of Spain, where he rose to be the Deputy Governor. José has held many other board and advisory positions, including Chair of Spain's Deposit Guarantee Fund, Chair of the International Relations Committee at the European Central Bank, member of the Economic and Financial Committee of the European Union, and Chair of the Working Group on Institutional Investors at the Bank for International Settlements. José joined the International Monetary Fund (IMF) in 2009 and stepped down in September 2016 to

join Standard Chartered PLC. While at the IMF, he was the Financial Counsellor and the Director of the Monetary and Capital Markets Department, and was responsible for the oversight and direction of the IMF's monetary and financial sector work. He was the IMF's chief spokesman on financial matters, including global financial stability. During his tenure at the IMF, José was a member of the Plenary and Steering Committee of the Financial Stability Board, playing a key role in the reform of international financial regulation.

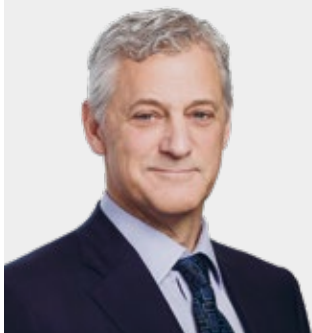
**External appointments** José is a Board Member of the Institute of International Finance (IIF) and a Member of the IIF's Group of Trustees of the Principles for Stable Capital Flows and Fair Debt Restructuring. He is also a member of the Board of Directors of the Bretton Woods Committee and serves as a Board Member of the Social Progress Imperative.

**Committees** N

## Bill Winters, CBE (59)

Group Chief Executive

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



**Experience** Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent.

**Career** Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010, to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an

adviser to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. In 2011, Bill founded Renshaw Bay, an alternative asset management firm, where he was chairman and CEO. He stepped down on appointment to the Standard Chartered PLC Board.

Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He received a CBE in 2013.

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

+ Bill Winters leads the Management Team

## Andy Halford (61)

Group Chief Financial Officer

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



**Experience** Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets.

**Career** Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years.

As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Strategy, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions.

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

+ Andy Halford also sits on the Management Team

**Naguib Kheraj (56)**  
Deputy Chairman

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



**Experience** Naguib has significant banking and finance experience.

**Career** Naguib began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in wealth management, institutional asset management and investment banking. Naguib was also a Barclays' nominated non-executive director of ABSA Group in South Africa and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove.

Naguib is a former non-executive director of NHS England and served as a senior adviser to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK. He also served as a member of the investment committee of the Wellcome Trust and the Finance Committee of the Oxford University Press.

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

**Committees** Ri A R C N

**Christine Hodgson, CBE (56)**  
Senior Independent Director

**Appointed** September 2013 and Senior Independent Director in February 2018.



**Experience** Christine has strong business leadership, finance, accounting and technology experience.

**Career** Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997, where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe. Christine stepped down as chair for Capgemini UK plc in March 2020. Christine was previously a trustee of MacIntyre Care, a non-executive director of Ladbrokes Coral Group plc, and stepped down from the board of The Prince

of Wales' Business in the Community on 9 February 2021.

**External appointments** Christine is chair of Severn Trent Plc and The Careers & Enterprise Company Ltd, a government-backed company established to help inspire and prepare young people for the world of work. She is also Senior Pro Chancellor and Chair of Council of Loughborough University and External Board Advisor to Spencer Stuart Management Consultants NV. Christine received a CBE for services to education in the Queen's New Year Honours 2020.

**Committees** R A C V N

**Gay Huey Evans, OBE (66)**  
Independent Non-Executive Director

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



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

**Career** Gay spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citibank, including head of governance, Citi Alternative

Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was previously a non-executive director at Aviva plc, the London Stock Exchange Group plc and Itau BBA International Plc. She received an OBE for services to financial services and diversity in 2016.

**External appointments** Gay is Chair of the London Metal Exchange, a non-executive director of ConocoPhillips and IHS Markit, and a non-executive member of the HM Treasury board. Gay also sits on the panel of senior advisers at Chatham House and the Board of the Benjamin Franklin House.

**Committees** C Ri

**Phil Rivett (65)**  
Independent Non-Executive Director

**Appointed** May 2020. Phil was also appointed to the Court of Standard Chartered Bank in May 2020.



**Experience** Phil has significant professional accountancy and audit experience, specifically focused in the financial services sector. He has a strong technical understanding and broad financial and business experience.

**Career** Phil joined PricewaterhouseCoopers (PwC) as a graduate trainee accountant in 1976, becoming a Partner in 1986. He spent more than 30 years as a Partner at PwC and was lead relationship Partner for several large FTSE 100 companies including a number of international banks and financial services institutions. He also has substantial international experience, having worked with banks across the Middle East and Asia, in particular China.

He became Leader of the Financial Services Assurance practice in 2007 and was appointed Chairman of its Global Financial Services Group in 2011. Phil has sat on a number of global financial services industry groups, producing guidelines for best practice in governance, financial reporting and risk management.

**External appointments** Phil is an independent non-executive director of Nationwide Building Society, the world's largest building society.

**Committees** A Ri N

**Jasmine Whitbread (57)**  
Independent Non-Executive Director

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



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

**Career** Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was

appointed as Save the Children's first international chief executive officer, a position she held until she stepped down in 2015. Jasmine stepped down as a non-executive director from the Board of BT Group plc in December 2019.

**External appointments** Jasmine is chief executive of London First, a business campaigning group with a mission to make London the best city in the world to do business and a non-executive director of WPP Plc. She will step down as chief executive of London First and become chair of Travis Perkins plc in March 2021.

**Committees** V R N

**David Conner (72)**  
Independent Non-Executive Director

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



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

**Career** David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and went on to hold a number of Asia-based senior management roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002.

David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but remained as a non-executive director on the board of OCBC Bank, before leaving the group in 2014. He was previously a non-executive director of GasLog Ltd.

**Committees** Ri A C V

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

**Byron Grote (72)**  
Independent Non-Executive Director

**Appointed** July 2014.



**Experience** Byron has broad and deep commercial, financial and international experience.

**Career** From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed as chief executive of BP Chemicals and a managing director of BP plc in 2000 and had regional group-level accountability for BP's activities in Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013, with responsibility for

the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV before stepping down in 2015.

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

**Committees** A R

**Ngozi Okonjo-Iweala (66)**  
Independent Non-Executive Director

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

Ngozi will be appointed as Director-General of the World Trade Organisation (WTO) from 1 March 2021 and will step down from the Board on 28 February 2021.



**Experience** Ngozi has significant geopolitical, economic, risk and development experience and expertise at a governmental and intergovernmental level.

**Career** A development economist, Ngozi spent 25 years working at the World Bank in various positions. After leaving in 2003, she served as the Finance Minister of Nigeria from 2003 to 2006. She returned to the World Bank in 2007, serving as a Managing Director until 2011, when she was appointed to the role of Minister of Finance and Coordinating Minister of Economy in the Nigerian government, a position she held until 2015. During her time in government, she spearheaded Nigeria's successful programme to obtain debt relief and is credited with developing reforms that helped improve governmental transparency to stabilise and grow the Nigerian economy. Ngozi was until recently chair of GAVI and

the African Risk Capacity, and co-chair of Lumos Global before stepping down in 2020.

**External appointments** Ngozi is an independent director of Twitter, Inc. and holds a number of prestigious international advisory positions, including the Asian Infrastructure Investment Bank. Ngozi is co-chair of the Global Commission on Economy and Climate. She is also a member of the G20 Eminent Persons Group, reviewing Global Financial Governance, an ambassador of the Open Government Partnership and is a trustee of the Carnegie Endowment for International Peace. Ngozi was appointed special envoy for the Access to COVID-19 Tools Accelerator as well as the African Union to address the economic challenges as a result of the COVID-19 pandemic during 2020.

**Committees** V

**Maria Ramos (62)**  
 Independent Non-Executive Director

**Appointed** January 2021. Maria was also appointed to the Court of Standard Chartered Bank in January 2021.



**Experience** Maria has extensive CEO, banking, commercial, financial, policy and international experience.

**Career** Based in South Africa, Maria served as chief executive officer of ABSA Group Limited (previously Barclays Africa Group), a diversified financial services group serving 12 African markets from 2009 to 2019. Before joining ABSA, Maria was the group chief executive of Transnet Ltd, the state-owned freight transport and logistics service provider for five years. Prior to her CEO career, Maria served for seven years as director-general of South Africa's National Treasury (formerly the Department of Finance) where she played a key role in transforming the National Treasury into one of the most effective and efficient state departments in the post-apartheid

administration. Maria has served on a number of international boards, including Sanlam Ltd, Remgro Ltd, and SABMiller plc and more recently was a non-executive director of The Saudi British Bank and Public Investment Corporation Limited before stepping down in December 2020.

**External appointments** Maria is Chair of AngloGold Ashanti Limited and a non-executive director of Compagnie Financière Richemont SA. She is also a member of the Group of Thirty, sits on the International Advisory Board of the Blavatnik School of Government at Oxford University, the advisory board of the Bretton Woods Committee, and the Board of Protectors of Ikamva Labantu Charitable Trust.

**Committees** (A) (Ri)

**David Tang (66)**  
 Independent Non-Executive Director

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



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

**Career** David has more than 30 years of international and Chinese operational experience in the technology and venture capital industries, covering venture investments, sales, marketing, business development, research and development, and manufacturing. From 1989 to 2004, David held a number of senior positions in Apple, Digital Equipment Corp and 3Com based in China and across the Asia Pacific region. From 2004 to 2010, David held various positions in Nokia, including corporate vice president, chairman of Nokia Telecommunications Ltd and vice chairman of Nokia (China) Investment Co. Ltd. He went on

to become corporate senior vice president, regional president of Advanced Micro Devices (AMD), Greater China, before joining NGP Capital (Nokia Growth Partners) as Managing Director and Partner in 2013.

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

**Committees** (V) (Ri)

**Carlson Tong (66)**  
 Independent Non-Executive Director

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



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

**Career** Carlson joined KPMG UK in 1979, becoming an Audit Partner of the Hong Kong firm in 1989. He was elected Chairman of KPMG China and Hong Kong in 2007, before becoming Asia Pacific chairman and a member of the global board and global executive team in 2009. He spent over 30 years at KPMG and was actively involved in the work of the securities and futures markets, serving as a member of the Main Board and Growth Enterprise Market Listing Committee of the Stock Exchange of Hong Kong from 2002 to 2008 (Chair from 2006 to 2008). After retiring from KPMG in 2011, he was appointed a non-executive director of the Securities and Futures Commission, becoming its Chair in

2012 until he stepped down in October 2018. He oversaw a number of major policy initiatives during his term as the chair including the introduction of the Hong Kong and Shanghai/Shenzhen Stock connect schemes and the mutual recognition of funds between the mainland and Hong Kong. Carlson was appointed as a non-executive director of the Hong Kong International Airport Authority in 2017, a position he held until he stepped down in July 2020.

**External appointments** Carlson sits on various Hong Kong SAR government bodies, including as chair of the University Grants Committee and a member of the Hong Kong Human Resource Planning Commission. Carlson is also an observer on behalf of the Hong Kong Government for Cathay Pacific Airways Ltd.

**Committees** (A) (Ri) (C)

**Amanda Mellor (56)**  
 Group Company Secretary

**Appointed** Amanda was appointed Group Company Secretary in May 2019.

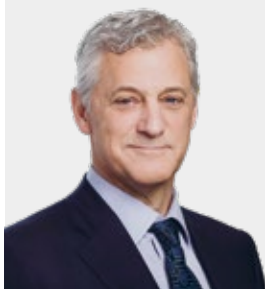


**Experience** Prior to joining Standard Chartered, Amanda was Group Secretary and Head of Corporate Governance at Marks and Spencer Group plc (M&S) from 2009-2019, where she was also an executive member of the Operating Committee. From 2004-2009, she was Head of Investor Relations at M&S having been Director of Corporate Relations at Arcadia Group plc and the Burton Group plc. Prior to working in investor relations, Amanda worked in investment banking at James Capel and Robert Fleming.

**Career** Amanda is a non-executive director of Volusion Group PLC and a member of all their board committees, having previously served as a non-executive director and Chair of the Remuneration Committee of Kier Group plc. Amanda served as a member of the Council and the Remuneration Committee of Leeds University from 2013-2019, where she is also a visiting professor of the Inter-Disciplinary Ethics Applied Centre. Amanda is a Fellow of the Institute of Chartered Secretaries.

# Management Team

**Bill Winters, CBE (59)**  
Group Chief Executive



**Andy Halford (61)**  
Group Chief Financial Officer



**Simon Cooper (53)**  
CEO, Corporate, Commercial  
& Institutional Banking and  
Europe & Americas



**Appointed** Simon joined the Group as CEO, Corporate & Institutional Banking in April 2016. He assumed additional responsibility for Commercial Banking in March 2018 and the Europe & Americas region in January 2021.

**Career** Simon was previously group managing director and chief executive of Global Commercial Banking at HSBC. He has extensive experience across our markets and client segments. Simon joined HSBC in 1989 and held a number of senior roles there, including deputy chairman and

chief executive officer, Middle East and North Africa; chief executive officer, Korea; and head of Corporate and Investment Banking, Singapore. He has significant experience in the areas of corporate finance, corporate banking and transaction banking.

**External appointments** Simon is a member of the advisory board of the Lee Kong Chian School of Business and a trustee of the Standard Chartered Foundation.

**David Fein (60)**  
Group General Counsel



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

**Career** David has held various senior roles in the US Government, including as US Attorney for the District of Connecticut and as Associate Counsel to the President. He has extensive experience fighting financial crime and a track record of forming and supporting public-private partnerships.

**External appointments** David is Chair of the United for Wildlife Financial Taskforce, a member of the Board of Trustees and Treasurer of American Friends of The Royal Foundation of The Duke and Duchess of Cambridge and a member of the Board of Guiding Eyes for the Blind.

**Dr. Michael Gorriz (61)**  
Group Chief Information Officer



**Appointed** Michael joined Standard Chartered as Group Chief Information Officer (CIO) in July 2015.

**Career** An industry award winner, Michael joined from Daimler AG where he was most recently vice president and CIO with responsibility for the smooth operation of all Daimler systems and the management of IT projects globally. He has held various CIO roles within the Daimler group and has spent many years working across Standard Chartered's footprint.

**External appointments** None

**Judy Hsu (57)**  
CEO, Consumer, Private  
and Business Banking



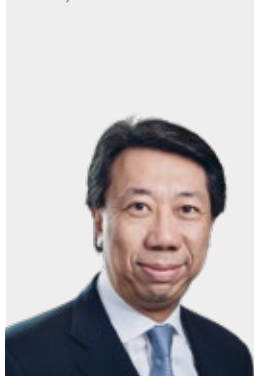
**Appointed** Judy was appointed CEO, Consumer, Private and Business Banking on 1 January 2021.

**Career** Prior to her most recent appointment, Judy was Regional CEO, ASEAN & South Asia, a position she held from June 2018. Judy was the country CEO for Standard Chartered Singapore from 2015 to 2018. She joined Standard Chartered in December 2009 as the Global Head of Wealth Management and led the strategic advancement of the Bank's wealth

management business. Prior to this, Judy spent 18 years at Citibank, where she held various leadership roles in its Consumer Banking business in Asia. Her last role at Citibank was Regional Head of Retail Bank for Asia Pacific and Country Head for International Personal Banking.

**External appointments** Judy sits on the Statutory Board of Workforce Singapore and the Board of Urban Redevelopment Authority, Singapore.

**Benjamin Hung (56)**  
CEO, Asia



**Appointed** Ben was appointed CEO, Asia on 1 January 2021.

**Career** He joined Standard Chartered in 1992 and has held a number of senior management positions spanning corporate and retail banking. Prior to his current role, Ben was Regional CEO for Greater China & North Asia and CEO for the Bank's Retail Banking and Wealth Management businesses globally. He is currently based in Hong Kong and has international banking experience in the United Kingdom and in Canada. Ben was previously chairman of the Hong Kong Association of Banks, a member of the Financial Services Development Council and a board member of the Hong

Kong Airport Authority and the Hong Kong Hospital Authority. He was also a Council Member of the Hong Kong University.

**External appointments** Ben is an independent non-executive director of the Hong Kong Exchanges and Clearing Limited and a member of the Hong Kong Chief Executive's Council of Advisers on Innovation and Strategic Development. He also sits on the Exchange Fund Advisory Committee and is a member of the General Committee of the Hong Kong General Chamber of Commerce.

**Tanuj Kapilashrami (43)**  
Group Head, Human Resources



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

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

**External appointments** Tanuj is a non-executive director of Sainsbury's PLC and a member of their Nomination and Remuneration Committees. She is a member of the Asia House board of trustees, of which Standard Chartered is a founding stakeholder. Asia House is a London-based centre of expertise on trade, investment and public policy whose mission it is to drive political, economic and commercial engagement between Asia and Europe. Tanuj is also a board member of the UK Financial Services Skills Commission.

**Sunil Kaushal (55)**  
CEO, Africa & Middle East



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

**Career** Prior to his current role, he was regional CEO South Asia, responsible for Standard Chartered's operations in South Asia (which included India, Bangladesh, Sri Lanka, and Nepal). Sunil has over 32 years of banking experience in diverse markets and has been with Standard Chartered for approximately 23 years, holding senior roles across the Wholesale and Consumer Bank. He has rich experience across the Group's footprint, having served as the Head of Corporate Banking in UAE, Head of Originations and Client Coverage in

Singapore, Global Head Small and Medium Enterprises (SME) and New Ventures in Singapore and Chief Executive Officer of Standard Chartered Bank (Taiwan) Ltd. Before joining Standard Chartered in 1998, Sunil held various banking positions at a number of leading international financial institutions.

**External appointments** None

**Tracey McDermott, CBE (51)**  
Group Head, Corporate Affairs,  
Brand & Marketing, Conduct,  
Financial Crime and Compliance



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

**Career** Prior to joining the bank, Tracey served as Acting Chief Executive of the Financial Conduct Authority (FCA) from September 2015 to June 2016. She joined the then Financial Services Authority (FSA) in 2001 where she held a number of senior roles, including: Director of Supervision and Authorisations, and Director of Enforcement and Financial Crime. Tracey also served as a Board Member of the FSA from April 2013, as a member of the Financial Policy Committee

of the Bank of England, and as non-executive director of the Prudential Regulation Authority (PRA) from September 2015 to June 2016. Prior to joining the FCA, Tracey worked as a lawyer in private practice, having spent time in law firms in the UK, USA and Brussels. In 2016, Tracey received a CBE for her services to financial service consumers and markets.

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

**Mark Smith (59)**  
Group Chief Risk Officer



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

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

chief operating officer, Global Corporate & Institutional Banking. He has worked in London and Hong Kong.

**External appointments** Mark is chair of the International Financial Risk Institute.

**David Whiteing (52)**  
Group Chief Operating Officer



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

**Career** David joined Standard Chartered from the Commonwealth Bank of Australia where he was the Group CIO, responsible for all of the technology and operations teams of the Group and for delivering the Group's strategic pillar of 'world leading application of operations and technology.' He is a highly experienced executive with a track record of delivering cultural transformation

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

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

Tracy Clarke was Regional CEO, Europe & Americas and CEO, Private Bank during the year before retiring from the Group, including the Management Team, on 31 December 2020.

Claire Dixon will join the Management Team on 1 March 2021 as the Group Head of Corporate Affairs, Brand & Marketing. Tracey McDermott will continue to run Conduct, Financial Crime and Compliance.

# Corporate governance

The Board spends significant time considering and interacting with its key stakeholders to better understand their views and perspectives

## Our stakeholders, their perspectives: Driving commerce and prosperity through our unique diversity



### Clients

- Differentiated products across our unique footprint, preferred bank
- Digitally enabled and positive experience



### Suppliers

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



### Regulators and governments

- Robust capital base and strong liquidity position
- Standards for conduct and accountability for actions



### Society

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



### Investors

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



### Employees

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

## Key areas of Board discussion during 2020

The Board starts each year discussing its key priorities which help shape the forward plan. The agenda is structured to create the right balance between standing items, governance requirements, and areas of strategic and operational focus. The following pages provide insight into the content and structure of Board meetings during 2020, as well as the Board's consideration and interaction with stakeholders.

Board meetings are an important mechanism to facilitate discussion and action. Some of the areas detailed on the following pages formed part of the standing agenda for each meeting, while others were reviewed periodically through the year.

Directors are alert to their statutory duties and obligations, including those outlined under section 172 of the Companies Act 2006 (s.172), and this forms an integral part of director induction and annual training. Directors recognise the importance of promoting open dialogue and the need to foster positive stakeholder relationships.

The impact on stakeholders, their views and their feedback are collectively at the heart of Board discussions and actions, and directors spend significant time interacting with key stakeholders to better understand their views and perspectives. Some examples of this can be found in the s.172 disclosure on pages 54 to 71, within spotlight items on the following pages and on pages 102 to 107.

The Board will continue to enhance ways to ensure that stakeholders are given consideration as part of the Board's decision-making.

## COVID-19 response

The pandemic crisis has significantly impacted people across the world, altering the way they work and how they live their lives.

Standard Chartered is no exception, with the ever-changing pandemic landscape affecting how we operate across all of our markets. During this challenging time, upholding effective governance remotely has been a key priority for the Board.

The Board has played a crucial role in steering the Group's COVID-19 response, assessing and evaluating potential actions. The Board's focus, as the pandemic continued throughout this year, has been on protecting and advancing the interests of shareholders while also ensuring the wellbeing of colleagues, supporting the Group's customers and clients, and showing solidarity with our communities. Most importantly, the Board has aspired to respond to this crisis, and everything it does, with humanity. In order to assist with this aim, the Board has delegated specific responsibilities to its committees and senior management team. This, combined with key stakeholder and expert opinions where necessary, ensured effective and considered decision-making during 2020.

This year the Group committed to providing \$1 billion in not-for-profit loans to help finance companies that supply goods and services in the battle with COVID-19. The Group also created a \$50 million Global Charitable Fund to provide emergency support, and longer-term assistance, for the communities most impacted by the pandemic. Find out more about the Group's responses to COVID-19, and how we have supported our clients, colleagues and communities on pages 6 to 9.

The COVID-19 crisis has reinforced the relevance of the Group's strategic priorities and has not prevented the Board from interacting with key stakeholders. The Board continues to engage with stakeholders virtually, both individually and as a group. All Board and committee meetings since March 2020 were adapted into virtual meetings, utilising interactive technology to ensure agile and robust engagement. In addition, a number of virtual ad hoc Board meetings were held through the year to ensure key areas of discussion were not compromised. Weekly risk reports were produced and provided to the Board during the peak of the pandemic.

## Key areas of Board discussion during 2020 continued

### Group strategy

- Reviewed and approved the Group's refreshed strategic priorities and critical enablers
- Reviewed and approved the five-year Corporate Plan as a basis for preparation of the 2021 budget, receiving confirmation from the Group Chief Risk Officer that the plan is aligned to the Enterprise Risk Management Framework and the Group Risk Appetite Statement
- Reviewed and scrutinised the strategic and operational performance of the business across client segments, product groups and regions, which included details of their priorities, progress, opportunities and response to current events, including:
  - The Greater China and North Asia region, particularly China, Hong Kong and the Greater Bay Area strategy
  - The Middle East strategy, its priorities, the progress and opportunities
  - Priorities and progress against the strategy in Europe and Americas
  - Key activities and progress of SC Ventures and detail on managing risk associated with early stage venture
  - Corporate and Institutional Banking and Commercial Banking businesses, including performance and progress against the refreshed strategy
- Reviewed and discussed the Group's sustainable finance offering
- Reviewed and scrutinised the Group's data and analytics strategy
- Discussed the Group's technology strategy and core banking programme
- Discussed the Group's Brexit preparedness
- Approved the revised terms for the sale of the Group's interest in PT Bank Permata Tbk
- Discussed growth strategy for the Group's retail, affluent retail and wealth businesses
- Debated the Group's operational alignment and operating model
- Received and discussed regular corporate development updates
- Discussed the Group's digital bank strategy and approved initiatives in relation to digital bank partnerships
- Reviewed the performance, opportunities and lessons from the launch of Mox Bank
- Received an update on and discussed the key activities and progress of SC Ventures including detail on the new types of risks in digital business models
- Discussed progress of the costs and investment initiatives and programmes
- Discussed the Group's investment in China Bohai Bank six months after the Initial Public Offering

#### Spotlight

#### Refreshing the Group's strategic priorities

Providing oversight of the Group's strategy is a central role of the Board. In June 2020, the Board held a two-day strategy session at which it focused on the evolution of the Group strategy towards four strategic priorities: Digital Network; Affluent; Mass Retail; and Sustainability, underpinned by three critical enablers: People and Culture; Innovation and Productivity and New Ways of Working. The Board spent time probing and scrutinising the refreshed strategic priorities supporting the approach to extend the Group's existing scale and impact in a number of key areas, ultimately improving our return on tangible equity and delivering benefits to our key stakeholders. Further detail on the Group's refreshed strategic priorities and critical enablers can be found in the Strategic report on pages 26 and 27.

#### Stakeholders

-  Clients
-  Suppliers
-  Regulators and governments
-  Society
-  Investors
-  Employees

### Risk management

- Received and discussed regular risk reports from the Group Chief Risk Officer including updates on the impact of COVID-19 on the Group's operations, financial health and resilience, business resilience, liquidity and capital ratios
- Approved material changes to the Enterprise Risk Management Framework arising from the 2020 review
- Discussed and reviewed IT Governance
- Received an update on, and discussed, the Group's Information and Cyber Security strategy, risk profile and progress in respect to the transformation and remediation programme
- Approved the renewal of the Group's insurance policies for 2020/21
- Approved the risk appetite validation of the 2021 Corporate Plan
- Engaged with the PRA on the findings of their 2020 Periodic Summary Meeting Letter

#### Spotlight

#### COVID-19 risk reports

During the peak of the pandemic this year, the Board received weekly reports from the Group Chief Risk Officer regarding the impact of COVID-19 on the financial markets, the Group's client segments, product groups and markets as well as employees and the communities in which we operate. Updates were later incorporated into Board papers throughout the year.

#### Stakeholders

-  Clients
-  Suppliers
-  Regulators and governments
-  Society
-  Investors
-  Employees

## Key areas of Board discussion during 2020 continued

### Financials and performance

- Approved the Group's 2021-25 Corporate Plan and 2021 budget
- Monitored the Group's financial performance
- Approved the full year and half year results
- Monitored and assessed the strength of the Group's capital and liquidity positions
- Considered the Group's approach to capital returns taking into account the significant change in the external environment and the regulatory landscape. Agreed the subsequent withdrawal of the 2019 dividend, suspension of the buy-back programme and took the decision not to pay any dividends in 2020
- Supported the launch of a \$50 million global fund to provide assistance to those across the Group's markets affected by COVID-19
- Received bi-annual updates on and discussed the Group's major investment programmes in 2020 including an update on the evolution to client-led operations
- Received bi-annual updates on, and discussed, investor relations matters
- Discussed balance sheet optimisation and UK Solo resilience
- Approved a number of internal capital actions in relation to the Group's exit from the Principal Finance business

#### Spotlight

#### Withdrawal of 2019 final dividend

In response to a request from the PRA and in reaction to the impact of the COVID-19 crisis, the Board took the decision to withdraw its recommendation to pay a 20 cents per ordinary share final dividend for 2019 and to suspend the buy-back programme. The Board took the decision after significant discussion and having taken into account the views and impact on key stakeholders.

#### Stakeholders



Regulators and governments



Investors



Employees

### People, culture and values

- Approved the Group's 2019 Modern Slavery Statement
- Discussed progress made against the refreshed people strategy
- Discussed aspects of the Group's global employee engagement survey, My Voice
- Discussed the Group's approach to the Future Workplace, Now initiatives
- Received an update on the progression and evolution of the Management Team's succession plans
- Discussed the Group's Global Diversity & Inclusion initiatives
- Discussed and approved the addition of two new aspirations into the Board Diversity Policy
- Reviewed an annual report update on the operation and effectiveness of the Group's Speaking Up programme

#### Spotlight

#### Board Diversity Policy

This year the Board introduced two progressive aspirations into the Board Diversity Policy, demonstrating the Board's commitment to reflecting the business and network we operate and to ensure that we better reflect the Group's aspirations in relation to other strands of diversity. These changes included the adoption of an aspiration that a minimum of 30 per cent of the Board is from an ethnic minority background and for the Board to align with other aspects of diversity. We will report on progress against these aspirations alongside the more long-standing aspirations in next year's report. Further details are set out on pages 127 and 128.

#### Stakeholders



Regulators and governments



Society



Investors



Employees

### External environment

- Received updates on the macroeconomic headwinds and tailwinds in the global economy, including an assessment of the impact on the key drivers of the Group's financial performance
- Received internal and external briefings and input across a range of subjects, including:
  - Overview of the growth outlook and risks across Africa and Middle East regions, and insights into the prospects and outlook across Europe, UK and the US
  - US-China relations and trade tensions, including impact on Hong Kong
  - Global response to COVID-19, global health and healthcare policy
  - Impact of COVID-19 on the global economy
  - Developments and key trends in international trade

#### Spotlight

#### Geopolitical landscape

The Board invited a number of guest speakers to attend Board sessions providing important and specialist insight and context to the Board discussion, on a variety of highly relevant geopolitical matters, including: US-China tensions; Hong Kong regulatory environment; US political context and the impact of the US elections; and developments in global trade.

#### Stakeholders



Clients



Suppliers



Regulators and governments



Society



Investors



Employees

### Governance

- Approved the appointments of Phil Rivett and Maria Ramos to the Board and approved changes to the Chairs of the Board Risk and Audit Committees
- Agreed new Articles of Association to be approved by resolution at the 2020 AGM
- Received reports at each meeting from the Board committee Chairs on key areas of focus for the committees and quarterly updates from Standard Chartered Bank (Hong Kong) Limited and its Audit and Board Risk Committees
- Approved the re-appointment of independent external adviser to the Board on cyber security and cyber threats
- Authorised various potential conflicts of interest relating to directors' external appointments
- Approved changes to the Group Sources of Authority Framework to support changes to the Group structure
- Discussed the observations and themes arising from the 2020 internal Board and committees' effectiveness review and approved the 2021 Action Plan
- Approved the adoption of the Board's new formal Terms of Reference and the updated Terms of Reference for each of its committees
- Further developed meaningful linkages between the Board and its subsidiaries at chair, board and committee level

#### Spotlight

#### Subsidiary governance

The Board made significant progress in developing and enhancing its linkages and engagement with the Group's subsidiary boards during the year through a variety of forums. This included: the Group Chairman's virtual meetings with subsidiary chairs; subsidiary board committee chairs calls with the Audit, Board Risk, Board Financial Crime Risk and Remuneration Committees; and Board member attendance at subsidiary board and/or committee meetings, including those held by Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank Nigeria Limited.

Further detail regarding the Board's engagement with the Group's subsidiaries can be found on page 107.

#### Stakeholders



Clients



Suppliers



Regulators and governments



Society



Employees

### Shareholder and stakeholder engagement

- Engaged virtually with investors, held meetings with brokers, discussed the views of institutional shareholders
- Responded to retail shareholders' questions received in advance of the 2020 AGM
- Held a virtual retail shareholder event
- Held a virtual stewardship event
- Engaged with key clients and regulators
- Discussed support provided to clients, colleagues and communities during the pandemic
- Received bi-annual updates from Investor Relations, including share price and valuation analysis, market engagement and ownership analysis and sell side sentiment
- Received an update on and discussed the Group's global community initiative, Futuremakers by Standard Chartered
- Approved the launch of a shareholder tracing programme

#### Spotlight

#### Virtual retail shareholder event

Given the impact of COVID-19, we were forced to hold the Standard Chartered PLC AGM in May 2020 as a procedural meeting, in line with the emergency framework approved by the government in the UK. We were unable to invite shareholders to attend the meeting, but instead asked them to vote in advance and submit questions by email. While we had every intention of holding a retail shareholder event later in the year, COVID-19 restrictions in the UK continued. Instead the Board hosted a virtual event, giving shareholders the opportunity to hear directly from the Board on topics raised by shareholders through an interactive Q&A session. Some of the areas covered included: performance against the Group's refreshed strategic priorities; the impact of COVID-19 across the Group's markets; the decision to withdraw the 2019 final dividend; as well as detail on the initiatives the Group had put in place to support our clients, colleagues and communities.

#### Stakeholders



Regulators and governments



Society



Investors



Employees

→ For a detailed overview of our strategy see [pages 24 to 27](#)

→ Examples of how the Board considered stakeholder perspectives in some principal decisions during the year are provided on [pages 55 and 60](#)

## Board and committee structure: decisions, responsibilities and delegation of authority

### Standard Chartered PLC

The Board is collectively responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing its conduct and affairs for promoting the long-term success of the Group and for ensuring leadership within a framework of effective controls.

The Board sets the strategic direction of the Group, approves the strategy and takes the appropriate action to ensure that the Group is suitably resourced to achieve its strategic aspirations.

The Board considers the impact of its decisions and its responsibilities to all of the Group's stakeholders, including the Group's employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates.

The Board discharges its responsibilities directly or, in order to assist it in carrying out its function of ensuring effective independent oversight and stewardship, delegates specified responsibilities to its committees. Details of the significant topics discussed and considered by the Board committees in 2020 can be found in this report.

Biographies for each director are set out on pages 83 to 86.



#### Audit Committee

Oversight and review of matters relating to financial reporting, the Group's internal controls and internal financial controls, and the work undertaken by Conduct, Financial Crime and Compliance, Group Internal Audit and the Group's Statutory Auditor, Ernst & Young LLP (EY).



Read more on [page 108](#)

#### Board Risk Committee

Oversight and review of the Group's Risk Appetite Statement, the appropriateness and effectiveness of the Group's risk management systems and the principal risks to the Group's business. Furthermore, consideration of the implications of material regulatory change proposals and due diligence on material acquisitions and disposals.



Read more on [page 115](#)

#### Brand, Values and Conduct Committee

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



Read more on [page 121](#)

#### Governance and Nomination Committee

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



Read more on [page 125](#)

#### Board Financial Crime Risk Committee

Oversight and review of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor and prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.



Read more on [page 130](#)

#### Remuneration Committee

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



Read more on [page 133](#)

### Group Chief Executive

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

The Board delegates authority for the operational management of the Group's business to the Group Chief Executive for further delegation by him in respect of matters that are necessary for the effective day-to-day running and management of the business. The Board holds the Group Chief Executive accountable in discharging his delegated responsibilities.



### Management Team

The Management Team comprises the Group Chief Executive and the Group Chief Financial Officer, regional CEOs, client segment CEOs, and our global function heads. It has responsibility for executing the strategy. Details of the Group's Management Team can be found on [pages 87 to 89](#).

Terms of Reference for the Board and each committee are in place to provide clarity over where responsibility for decision-making lies. These are reviewed annually against industry best practice and corporate governance provisions and guidance, including the PRA Supervisory Statement on Board Responsibilities.

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



Written Terms of Reference for the Board and its committees can be viewed at [sc.com/termsreference](https://www.sc.com/termsreference)

## Our Board meetings

The Board, supported by the Group Company Secretary, recognises the importance of maintaining a robust schedule of meetings and a rolling agenda to ensure its time is used most effectively and efficiently. Flexibility in the programme is key and allows specific items to be added to any agenda so that the Board can focus on important matters at the appropriate time.

In response to the impact of the pandemic, the Board was quick to adapt to new ways of operating. The Board significantly increased the number of ad hoc meetings it held this year, representing an increase of 60 per cent compared to 2019. The number of informal sessions and interactions, which allow Board members to discuss areas of the business, strategy and the external environment with members of the Management Team and/or external advisers, were also notably increased during the year. The Group Chairman continued to engage privately with the Deputy Chairman, the Senior Independent Director and the INEDs to assess their views and discuss matters arising.

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

Sir Iain Lobban, who is engaged by the Board to act as an independent adviser to the Board and its committees on cyber security and cyber threat management, attended a number of Board and committee meetings to provide an independent and current view on the Group's progress in this area. The Board continue to find Sir Iain's input relevant, practical and challenging. In 2020, Sir Iain Lobban's appointment was renewed for a further 12-month term.

## Our Board committees

The Board places significant reliance on its committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the committees and the Board as a whole, not least as it is impracticable for all INEDs to be members of all of the committees. Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each committee and overlapping membership between Board committees where necessary. Alongside interconnected committee membership, the Board receives a written summary of each of the committee's meetings and verbal updates at the Board, where appropriate.

Further details on each committee, including their oversight and focus during 2020, can be found in the Board committee reports starting on page 108.

## Code compliance

The UK Corporate Governance Code 2018 (the Code) and the Hong Kong Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules (HK Code) are the standards against which we measured ourselves in 2020.

The directors are pleased to confirm that Standard Chartered PLC (the Company) continued to comply with the provisions set out in the Code and the HK Code for the year under review other than those identified below.

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

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

-  Due to inadvertent oversight, the Company did not maintain on the Hong Kong Stock Exchange Limited's website an updated list of its directors identifying their roles and functions in October and November 2020, and therefore deviated from provision A.3.2 of the HK Code. The Company did maintain detail on its own website, a key aspect of the provision, and notified the market via regulatory announcements on the London Stock Exchange and Hong Kong Stock Exchange Limited. The deviation was rectified by uploading an updated list of its directors immediately upon discovering the oversight.
-  Copies of the UK Corporate Governance Code and the Hong Kong Corporate Governance Code can be found at [frc.org.uk](https://www.frc.org.uk) and [hkex.com.hk](https://www.hkex.com.hk) respectively
-  To the extent applicable, information required by paragraphs 13(2)(c), (d), (f), (h) and (i) of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is available in Other disclosures on [pages 167 to 176](#)

## Development of Board activities in 2020

Eight scheduled Board meetings were due to take place this year, three of which were to be held overseas. As the pandemic emerged across our markets, the Board had to adapt quickly, utilising interactive technology to ensure agile and robust engagement. From March, all Board and committee meetings were shifted to a virtual format.

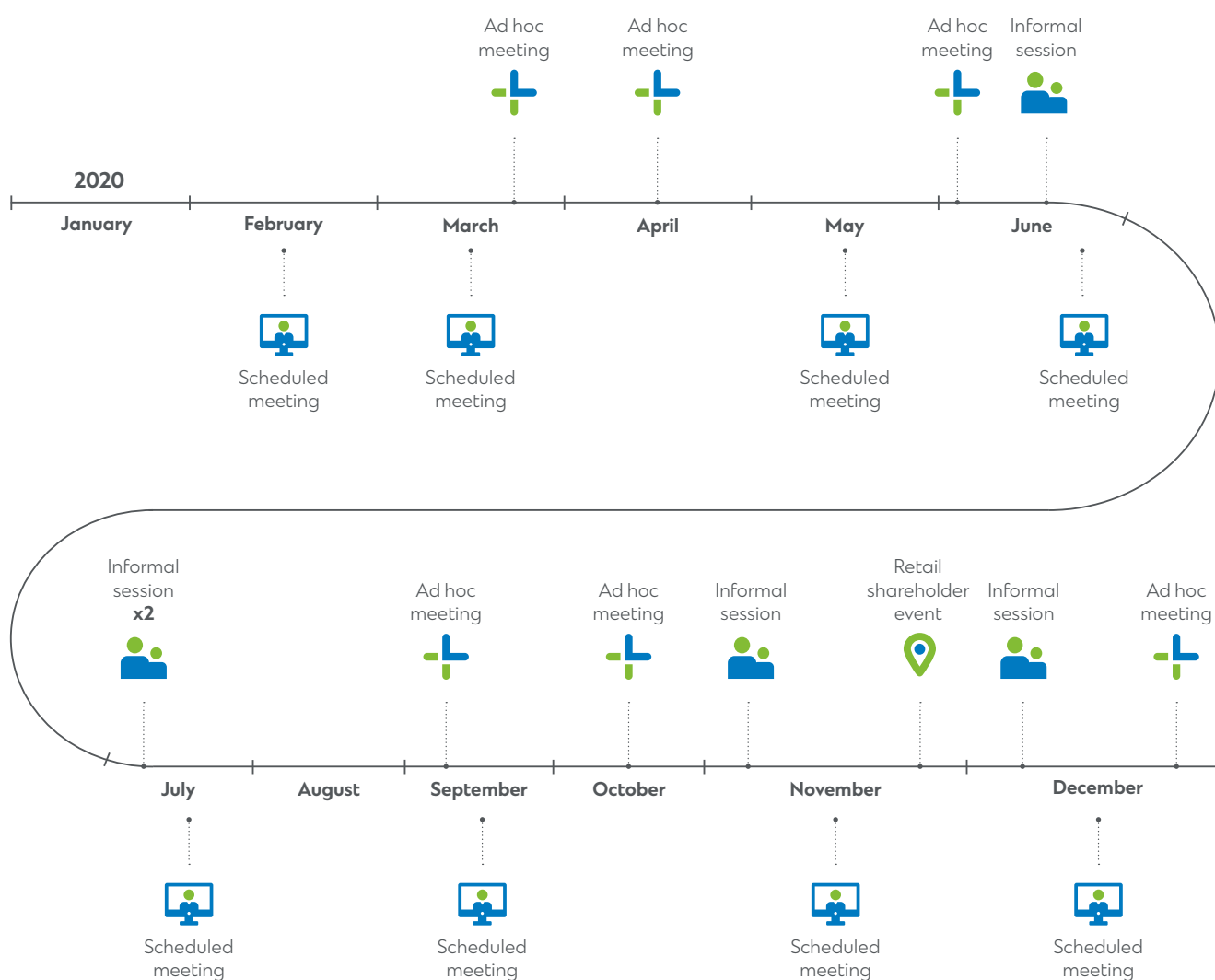
As a truly international Board composed of directors residing across our markets, the move to a virtual meeting format meant that the structure of the Board agendas for the year had to be altered to take account of the multiple time zones.

Scheduled meetings were condensed, and a number of additional ad hoc meetings and informal sessions were arranged to ensure key areas of discussion were not compromised. This approach also provided the Board with the opportunity to gain further external perspective from a range of subjects as well as informal training sessions.

The Group Chairman adjusted quickly to the virtual Board meeting format, delivering strong leadership and ensuring, alongside the rest of the Board, effective, robust and collaborative discussion during Board meetings and sessions.

The diagram on this page shows the Board's collective engagement during the year.

## Board activities during 2020



## Breakdown of Board composition, roles and attendance in 2020

	AGM <sup>1</sup>	Retail shareholder event <sup>2</sup>	Attendance		Responsibilities
			Scheduled	Ad hoc	
<b>Group Chairman</b> J Viñals	Y	Y	8/8	6/6	Responsible for leading the Board, ensuring its effectiveness in all aspects of its role and developing the Group's culture in conjunction with the Group Chief Executive. Promotes high standards of integrity and governance across the Group and ensures effective communication between the Board, management, shareholders and wider stakeholders.
<b>Deputy Chairman</b> N Kheraj <sup>3</sup>	Y	Y	8/8	5/6	Provides support and guidance to the Group Chairman as required and, in coordination with the Group Chairman, acts as an ambassador for the Board and Group in their relationships with governments, regulators, colleagues, and clients. Deputises for the Group Chairman at Board, general shareholder, or other meetings when the Group Chairman is unable to attend.
<b>Senior Independent Director</b> C M Hodgson, CBE	Y	Y	8/8	6/6	Provides a sounding board for the Group Chairman and discusses concerns that are unable to be resolved through the normal channels or where such contact would be inappropriate with shareholders and other stakeholders. Chairs the Governance and Nomination Committee when considering succession of the Group Chairman. Is available to shareholders if they have concerns that cannot be resolved or for which the normal channels would be inappropriate. Can be contacted via the Group Company Secretary at 1 Basinghall Avenue, London EC2V 5DD.

<b>Executive Directors</b>	Retail shareholder event <sup>2</sup>	Attendance		Responsibilities
		Scheduled	Ad hoc	
<b>Group Chief Executive</b> W T Winters	Y	8/8	6/6	Responsible for the management of all aspects of the Group's businesses, developing the strategy in conjunction with the Group Chairman and the Board and leading its implementation.
<b>Group Chief Financial Officer</b> A N Halford	Y	8/8	6/6	Responsible for Finance, Corporate Treasury, Strategy, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions.

<b>Independent Non-Executive Directors</b>	Retail shareholder event <sup>2</sup>	Attendance		Responsibilities
		Scheduled	Ad hoc	
D P Conner	Y	8/8	6/6	Provides an independent perspective, constructive challenge, and monitors the performance and delivery of the strategy within the risk appetite and controls set by the Board.
B E Grote	Y	8/8	6/6	
G Huey Evans, OBE	Y	8/8	6/6	
N Okonjo-Iweala <sup>3</sup> (will step down from the Board on 28 February 2021)	Y	8/8	4/6	
P G Rivett (appointed to the Board on 6 May 2020)	Y	6/6	4/4	
D Tang	Y	8/8	6/6	
C Tong <sup>3</sup>	Y	8/8	5/6	
J M Whitbread	Y	8/8	6/6	
L Cheung (retired from the Board on 25 March 2020)	N/A	2/2	0/0	
M Ramos (appointed to the Board on 1 January 2021)	N/A	0/0	0/0	

- Given the challenges of the COVID-19 outbreak, including restrictions put in place by the UK Government regarding the maximum number of attendees at meetings at the time, Standard Chartered PLC's AGM on 6 May 2020 was held as a procedural meeting to meet its statutory obligations. Shareholders were asked not to attend but instead to vote in advance and submit any questions via email. The Group Chairman, Deputy Chairman and Senior Independent Director engaged via teleconference. Further details regarding the AGM can be found on page 104.
- The Board held a virtual retail shareholder event on 23 November 2020. Further details can be found on page 104.
- A number of ad hoc meetings were arranged during the year. As they took place outside of the scheduled Board calendar, it impacted the ability of our directors to attend these meetings. All directors who were unable to attend received accompanying material and had opportunities to provide comments to the Board. Further detail is provided below:
  - Naguib Kheraj was unable to attend the ad hoc meeting held on 14 December 2020 as a result of a long-standing external board commitment
  - Ngozi Okonjo-Iweala was unable to attend the ad hoc meetings held on 4 June and 28 October 2020 as a result of a long-standing external board commitment and previously arranged external business engagement, respectively
  - Carlson Tong was unable to attend the ad hoc meeting held on 28 October 2020 as a result of a previously arranged external business engagement

All directors attended all scheduled meetings for 2020.



















 The roles of the Group Chairman and Group Chief Executive are distinct from one another and are clearly defined in detailed role descriptions which can be viewed at [sc.com/roledescriptions](https://www.sc.com/roledescriptions)

## Composition of the Board as at 31 December 2020

The Group Chairman is committed to ensuring optimal Board effectiveness. A key mechanism to drive this is the appropriate composition and balance of individuals.

The Board is comprised of a majority of independent non-executive directors.

→ Detail regarding Board diversity can be found within the Governance and Nomination Committee report on [pages 125 to 129](#)

Group Chairman	INEDs	INEDs that have joined
 <b>Group Chairman</b> J Viñals	 <b>Deputy Chairman</b> N Kheraj	 P G Rivett 
	 <b>Senior Independent Director</b> C M Hodgson, CBE	Phil Rivett, who has more than 40 years of professional accountancy and audit experience specifically focused in the financial services sector, was appointed to the Board as an INED on 6 May 2020 and stood for election at this year's AGM. The resolution to elect Phil Rivett was successfully passed by shareholders.
<b>Executive Directors</b>	 D P Conner	
 <b>Group Chief Executive</b> W T Winters, CBE	 B E Grote	
 <b>Group Chief Financial Officer</b> A N Halford	 G Huey Evans, OBE	
	 N Okonjo-Iweala Following the recent announcement of Ngozi Okonjo-Iweala's appointment as Director-General of the World Trade Organisation from 1 March 2021, Ngozi will step down from the Board on 28 February 2021.	 M Ramos <b>1 January 2021</b> 
	 D Tang	Maria Ramos joined the Board as an INED on 1 January 2021. Maria has deep executive and non-executive experience covering banking, commercial, financial, policy and international sectors. Maria will stand for election at the 2021 AGM. All other Board directors will stand for re-election.
	 C Tong	
	 J M Whitbread	
		<b>INEDs that have stepped down</b>
		 L Cheung 
		After seven years as an INED, Louis Cheung retired from the Board on 25 March 2020.

→ The biographies of each director are set out on [pages 83 to 86](#)

## Director induction

One new director, Phil Rivett, was appointed to the Board during 2020. Phil possesses highly relevant skills and a breadth of knowledge relevant to the Board debate. Phil has significant professional accountancy and audit experience, specifically focused in the financial services sector. He has a strong technical understanding and broad financial and business experience.

Prior to being appointed to the Board and subsequently Audit Committee Chair, Phil was given a number of induction sessions to ensure a smooth transition into taking up his roles. He shadowed the existing Audit Committee Chair during the Company's half year and third quarter results processes, as well as meeting the outgoing and incoming statutory auditor lead partners.

On joining the Board, Phil undertook a wide-ranging and robust induction programme to ensure that he was well placed to make a positive contribution from the outset. While this was adapted into a virtual format in light of travel restrictions across our markets, this was no less comprehensive. Whilst a proportion of the induction is relevant to all new Board members, the content of the programme is tailored to meet each director's individual level of experience and expertise. In the case of Phil, a key element of the programme was ensuring he developed a detailed understanding of the Group's strategy and the complexities of operating through client segments, product groups and regional businesses.

Maria Ramos joined the Board on 1 January 2021. Maria brings a wealth of CEO, banking, commercial, financial, policy and international experience to the Board. Maria also brings considerable non-executive experience, having served on international boards. Good progress has been made regarding Maria's induction plan so far this year.

The Group Corporate Secretariat is resourced to support the INEDs as they undertake their induction programmes. They are typically completed within the first six to nine months of an INED appointment.

## Ongoing development plans

Training and development of our directors is ongoing and does not end following their induction. Continuous development of our Board directors is crucial to maintaining a highly engaged, well-informed and effective Board. Mandatory learning and training are key elements of directors' fit and proper assessments as mandated under the Senior Managers Regime. During the year, all directors received a combination of mandatory learning and training, internal and external briefings, presentations from guest speakers and papers on a range of topics to ensure the directors are well-informed and that the Board remains highly effective. The Board committee members also received specific training relevant to the work of their committee. The Group Chairman reviews with each director their training and development needs both in real time and as part of the annual performance cycle. Where it is recognised that the Board or individual directors need further training or development in key areas, additional sessions are arranged with subject matter experts.

The directors' ongoing training in 2020 took the form of formal refresher sessions and informal meetings, covering a variety of topics throughout the year, the majority held virtually in light of the pandemic. The table below gives further detail on who received these briefings.

All of the directors have access to the advice of the Group Company Secretary, who provides support to the Board and is responsible for advising the Board on governance matters. Directors also have access to independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors.

## 2020 Director Training Overview

	Induction training <sup>1</sup>	Directors' duties and regulatory updates <sup>2</sup>	Political landscape post US elections <sup>2</sup>	Geopolitical and global trade developments <sup>2</sup>	Group public cloud strategy; big data and analytics	Digital assets
J Viñals	N/A	✓	✓	✓	✓	✓
W T Winters, CBE	N/A	✓	✓	✓	✓	✓
A N Halford	N/A	✓	✓	✓	✓	✓
D P Conner	N/A	✓	✓	✓	✓	✓
B E Grote	N/A	✓	✓	✓	✓	✓
C M Hodgson, CBE	N/A	✓	✓	✓	✓	✓
G Huey Evans, OBE	N/A	✓	✓	✓	✓	✓
N Kheraj	N/A	✓	✓	✓	✓	✓
N Okonjo-Iweala	N/A	✓	✓	✓	✓	✓
P G Rivett <sup>3</sup>	✓	✓	✓	✓	✓	✓
D Tang	N/A	✓	✓	✓	✓	✓
C Tong	N/A	✓	✓	✓	✓	✓
J M Whitbread	N/A	✓	✓	✓	✓	✓
L Cheung <sup>4</sup>	N/A	N/A	N/A	N/A	N/A	N/A

1 Applicable to directors who received induction training during 2020

2 External speaker

3 Phil Rivett joined the Board on 6 May 2020

4 Louis Cheung retired from the Board on 25 March 2020

✓ Director attended the session

✓ Director did not attend the session but received accompanying material and had opportunities to raise questions with the Group Chairman and Group Company Secretary

# Board effectiveness

Following the thorough evaluation of the Board by Independent Board Evaluation at the end of last year in parallel to the review carried out by the PRA, this year's Board and committees' effectiveness review was conducted internally, facilitated by the Group Company Secretary, and in accordance with the UK Corporate Governance Code.

## Progress against the 2020 Action Plan

The 2020 Action Plan set out a number of actions to be achieved following the external effectiveness reviews conducted by Independent Board Evaluation and the PRA in 2019. The 2020 Action Plan was regularly reviewed during the year and good progress had been made against many of the actions as evidenced by this year's internal Board effectiveness review. While the ambition of the plan meant that it was a 12-18 month programme, limitations to travel during the year has impacted on the delivery of some specific actions which have been carried forward to 2021.

## 2020 Board effectiveness review

Questionnaires were sent to each director for completion, seeking to draw out and explore some of the themes highlighted in last year's review as well as pose some wide-ranging and probing questions. The results were compiled into a detailed report and conclusions were discussed with the Group Chairman and by the Governance and Nomination Committee ahead of a Board discussion. Here, the key findings and recommendations were presented along with an action plan for 2021, which was approved by the Board. Details of the key observations from this year's review and the agreed Action Plan are set out on this page.

The Board's six committees were also included as part of the effectiveness review. The observations and key themes were shared with the relevant committee Chairs before discussion by each of the committees and action plans for 2021 approved. Details of the key observations and action plans for each of the committees can be found within each of the committees' reports.

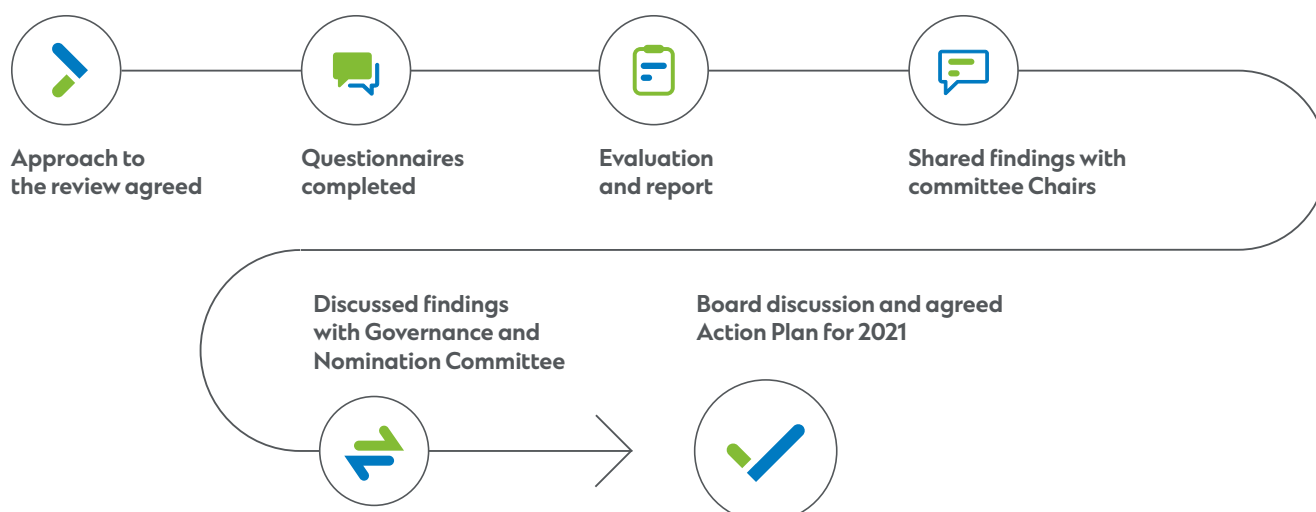
## Key observations from the 2020 internal effectiveness review

- The Board has made good progress in meeting its priorities against a difficult backdrop which prevented in-person engagement between the Board or with stakeholders across our markets
- Positive progress was made against the KPIs and on the quality of Board papers and management information. Directors were encouraged to continue giving feedback in this area
- Suggestions and recommendations made to further drive efficiencies in the operation of the Board committees
- Improvements were made to the linkages with subsidiary boards and committees through active engagement
- Further scope for Board training in respect to information cyber security and technology

## 2021 Action Plan

- Review efficiency of Board and committee structures. Review allocation of current committee matters across the Board and its committees
- Continue to drive employee engagement with more events (virtually, if necessary), including more informal virtual sessions with colleagues and country teams
- Arrange for Board members to meet country management teams (virtually, if necessary) to extend understanding and relationships
- Continue focus on technology, IT and SC Ventures and establish a programme to expose the Board to both the challenges and the opportunities for the Group in this area

## Internal evaluation process



## Group Chairman's performance

The Senior Independent Director, Christine Hodgson, led the process of reviewing the Group Chairman's performance. She met and spoke with the INEDs separately, without the Group Chairman present, to evaluate his performance, taking into account the views of the executive directors. The feedback was collated, and consolidated feedback was shared with José Viñals.

## Directors' performance

Evaluation of individual director performance was carried out by the Group Chairman in 2020. These one-to-one discussions provided an opportunity for each of the INEDs, to discuss with José Viñals, among other things:

- Their performance against the core competencies and their individual effectiveness
- Their time commitment to the Group, including (where relevant) the potential impact of any outside interests
- Their ongoing development
- The Board's composition, taking into account when each INED envisaged stepping down from the Board
- The current and future committee membership and structure

These performance reviews are used as the basis for recommending the re-election of directors by shareholders at the 2021 AGM and to assist the Group Chairman with his assessment of the INEDs' competencies. In addition, the Group Chairman has responsibility for assessing on an annual basis, the fitness and propriety of the Company's INEDs and the Group Chief Executive Officer under the Senior Managers Regime. These assessments were carried out in respect of each INED and the Group Chief Executive at the end of 2020.

## Director independence

In determining the independence of a non-executive director, the Board considers each individual against the criteria set out in the UK Corporate Governance Code, the Hong Kong Listing Rules and also considers their contribution and conduct at Board meetings, including how they demonstrate objective judgement and independent thinking.

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

## Time commitment

Our INEDs commit sufficient time in discharging their responsibilities as directors of Standard Chartered. In general, we estimate that each INED spent approximately 35 to 70 days on Board-related duties, and considerably more for those who chair or are members of multiple committees.

## External directorships and other business interests

Board members hold external directorships and other outside business interests. We recognise the significant benefits that greater boardroom exposure provides for our directors. However, we closely monitor the nature and number of external directorships our directors hold, in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Standard Chartered, and to ensure that all of our Board members remain compliant with the PRA directorship requirements, as well as the shareholder advisory groups' individual guidance on 'over-boarding'. These requirements impose a limit on the number of directorships both executive and independent non-executive directors are permitted to hold.

Details of the directors' external directorships can be found in their biographies on pages 83 to 86. Before committing to an additional appointment, directors confirm the existence of any potential or actual conflicts, that the role will not breach their limit as set out by the PRA, and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director of the Company.

Our established internal processes ensure that directors do not undertake any new external appointments without first receiving formal approval of the Board. The Board has delegated authority to make such approvals to the Group Chairman, with the exception of his own appointments. Of those INEDs who took on new external directorships during the year, two were regarded as significant directorships (appointed to the board of a listed company) and as such were announced to the market in line with our listing obligations. Further detail on the specific appointments are provided below:

- Gay Huey Evans was appointed an INED of IHS Markit on 21 August 2020 and Jasmine Whitbread will be appointed Chair of Travis Perkins plc on 31 March 2021. Gay and Jasmine individually discussed their respective appointments with the Group Chairman in advance of accepting the positions and each provided assurance that their appointments would not impact their abilities to devote sufficient time and focus to both their Board and committee responsibilities
- Gay and Jasmine continue to hold no more than the maximum number of INED directorships permitted under the PRA rules. Gay stepped down from the board of Itau BBA International Plc on 21 August 2020 and Jasmine will step down as chief executive of London First on 31 March 2021, ensuring that both directors are able to continue to devote sufficient time to Standard Chartered

The Board's executive directors are permitted to hold only one non-executive directorship. Of our executive directors, Andy Halford is the Senior Independent Director and Chair of the Audit Committee at Marks and Spencer Group plc, listed on the FTSE 250, and Bill Winters is a non-executive director of Novartis International AG, listed on SIX Swiss Exchange.

# Stakeholder engagement

## Ensuring strong engagement across our markets



Clients



Society



Suppliers



Investors



Regulators and governments



Employees

The Board recognises the significance of stakeholder consideration and engagement as part of Board discussions and decision-making. A key enabler of stakeholder engagement in recent years has been Board and/or director visits to the Group's markets. Mandatory restrictions and social distancing measures brought in across our markets at different times, to limit the spread of COVID-19 across the Group's footprint, prevented most traditional approaches to engagement this year. As with Board meetings, engagement with stakeholders during 2020 were adapted and became virtual experiences. While utilising interactive technology ensured effective and efficient dialogue in some areas it did prevent the breadth of engagement which the Board would usually undertake.

Engagement with our stakeholders, regardless of whether in physical or virtual form, continues to enhance the Board's understanding of how the Group is operating across our diverse markets, how the strategy is landing, as well as the changing nature of the business and the sector.

In addition to collective Board engagement with stakeholders, our INEDs and the external adviser members to the Board Financial Crime Risk Committee engaged directly with a wide range of management and stakeholders during the year. Informal and formal sessions with individuals and groups across our footprint provide INEDs and external adviser members with a deeper understanding of the business and the market environment within which the Group operates.

Further detail regarding the Board's engagement with our stakeholders can be found on the following pages.

### Stakeholder consideration supports good governance and the following elements illustrate different aspects of this:

- Testing the execution of the Group's strategic priorities
- Enhanced understanding of the changing nature of the business and its wider market
- A mechanism for better informed decision-making
- More effective risk management
- Promoting a shared vision and purpose among key stakeholders
- Sharing of experience, knowledge and expertise across different groups
- Helping identify strategies to promote competitive strength

# Engagement with investors

## Our approach

The Board recognises the importance of delivering robust returns and long-term sustainable value for the Company's shareholders. Trusted and open relationships with our investors are important to us, and we believe they are strengthened by ensuring we consistently and openly seek feedback.

The Group Chairman and other Board directors maintain direct contact with investors and advisory voting bodies, and receive regular updates from the Investor Relations team, including reports on market and investor sentiment.

During the year, we maintained a comprehensive programme of engagement with investors and other key stakeholders, including investor advisory bodies and credit rating agencies, and provided updates on progress made to transform our business for improved returns.

José Viñals and the INEDs engaged directly with shareholders through the year, hosting the 2020 Virtual Retail Shareholder Event as well as Virtual Stewardship Event, the latter attended by a number of the Group's largest institutional investors. In addition, Christine Hodgson, Chair of the Remuneration Committee, continued to discuss with and collect feedback from shareholders on a range of remuneration matters.

Bill Winters and Andy Halford are the primary spokespeople for the Group. Throughout the year they engaged extensively with existing shareholders and potential new investors during individual or group virtual meetings and conferences. In addition, each member of the Management Team responsible for a client segment or a geographic region, as well as the Group Treasurer, virtually met with investors to promote greater awareness and understanding of the strategy in their respective areas, as well as taking the opportunity to receive investor feedback first hand.

## Institutional shareholders

The Group maintains a diverse, high-quality and predominantly institutional shareholder base. The Investor Relations team has primary responsibility for managing day-to-day communications with these shareholders and provides support to the Group Chairman, Group Chief Executive, Group Chief Financial Officer, other Board members and senior management in conducting a comprehensive engagement programme.

+ Presentation material and webcast transcripts are made available on the Group's website and can be viewed at [sc.com/investors](https://sc.com/investors)



### Virtual Stewardship Event

The Group Chairman and Chairs of the Board committees hosted a virtual stewardship event on 23 November 2020. The event was attended by investors representing a sizeable proportion of our equity as well as several shareholder representative bodies. The Group Chairman and committee Chairs provided strategic updates regarding Board and committee activities during the year. This was followed by a Q&A session. The event was held via videoconference, with Q&A facilitated through a web-based platform.

## Debt investors and credit rating agencies

Our Treasury team has primary responsibility for managing the Group's relationships with debt investors and the three major rating agencies, with local market chief executives and chief financial officers leading on smaller subsidiary ratings. In 2020, management met mostly virtually with debt investors across Europe, North America and Asia, and maintained a regular dialogue with rating agencies. It is important that the Group, as an active issuer of senior unsecured and non-equity capital, maintains regular contact with debt investors to ensure continued appetite for the Group's credit. The Group's credit ratings are a key part of the external perception of our financial strength and creditworthiness.

+ Further information can be viewed at [sc.com/investors](https://sc.com/investors)

## Engaging with investors: what we did during 2020



**February**  
2019 Full Year results



**March**  
Investor conferences and roadshows



**April**  
2020 First Quarter results



**May**  
AGM



**June**  
Investor conferences and roadshows



**July**  
2020 Half Year results



**August**  
Investor conferences and roadshows



**September**  
Investor conferences and roadshows



**October**  
2020 Third Quarter results



**November**  
Virtual Retail Shareholder Event and Stewardship Event, investor conferences and roadshows

## Engagement with investors continued

### Retail shareholders

#### AGM

The Group Company Secretary oversees communication with our retail shareholders. Given the challenges of the COVID-19 pandemic, including restrictions put in place by the UK Government regarding the maximum number of attendees at meetings at the time, the Company's AGM on 6 May 2020 was held as a procedural meeting to meet its statutory obligations. Shareholders were asked not to attend but instead to vote in advance and submit any questions by email. All the proposed resolutions were passed, with shareholder support for each ranging from 95.50 per cent to 99.99 per cent. Resolution 2, to declare a final dividend of \$0.20 per ordinary share for the year ended 31 December 2019, was withdrawn by the Board in response to a request from the PRA and as a consequence of the unprecedented challenges facing the world as a result of the COVID-19 pandemic.



#### Virtual Retail Shareholder Event

At the time of this year's AGM, it was announced that Standard Chartered PLC would aim to hold a dedicated retail shareholder event with the Board later in the year. As restrictions in the UK continued, the Board decided to host a virtual event instead. The event, which took place on 23 November 2020, gave shareholders the opportunity to hear directly from the Board on a range of issues, including performance against the Group's refreshed strategic priorities, the impact of COVID-19 across its markets and the initiatives the Group had put in place to support our clients, colleagues and communities.

The event was held via teleconference, with the Q&A session facilitated through a web-based platform. The platform enabled shareholders to view the questions that others had asked, and vote on those questions they viewed as most important for the Board to address during the event. The questions asked covered a variety of topics, including sustainable growth, shareholder value, the withdrawal of the 2019 final dividend and the impact of geopolitical developments.

Shareholder uptake for the event was high and the Board received positive feedback regarding the electronic format.



The results of the voting at the 2020 AGM can be viewed at [sc.com/investors](https://sc.com/investors)

## Engagement with clients and suppliers



Clients are central to everything we do in the Group and the Board recognises the importance of promoting robust relationships with them. In previous years, a large proportion of key customer engagements were built into Board and director visits to the Group's markets. Limitations on international travel meant that our usual approach could not be carried out during 2020. Members of the Board adapted rapidly to the pandemic, holding a number of calls with clients as well as receiving updates from senior management on the wider Group's interaction. In addition, members of the Board virtually engaged with suppliers during the year.

## Engagement with regulators and governments



As an international banking Group, the Board regularly engages with relevant authorities across our footprint. Uncertainty caused by the pandemic and evolving geopolitical events has only served to reinforce the importance of supporting the effective functioning of the financial system and economic environment. As with most forms of stakeholder engagement during 2020, physical meetings were modified to virtual interactions and calls as the year progressed. The Board engaged with regulators and governments via a number of forums, either collectively or individually.

## Engagement with society



The Board receives regular updates from management concerning the communities and environment in which we operate. During the outbreak of the pandemic, updates were presented to the Board on a fortnightly basis to monitor the evolving impact across our footprint. As part of this process, the Board endorsed the initiatives, approach and leadership management had taken in launching the \$50 million global fund to provide assistance to those affected by COVID-19.

Due to travel restrictions in place through 2020, the Board was unable to physically visit many of the Group's markets. As such, external and internal speakers provided input to the Board's discussion throughout the year, which covered some key societal issues around the evolving geopolitical landscape, the longer-term impact of the pandemic and the future of global trade.

## Engagement with employees



The Board values the opportunity to engage with employees and the wider workforce and understands the importance of the business having a firm understanding of their views, ideas and concerns. The Board is also acutely aware of the role it has in maintaining a genuine and open two-way dialogue with employees. As with other forms of stakeholder interaction this year, traditional approaches to employee engagement were adapted in light of the pandemic. The Board took every opportunity to engage with employees, either collectively or individually during the year, helping to gain a genuine understanding of their views and issues.

Similar to last year, the Board continued to adopt an alternate approach to the workforce engagement methods set out in the UK Corporate Governance Code. The primary reason for taking a different approach was that as a global organisation with more than 83,000 employees across 59 diverse markets, it is vital that any Board engagement should gather unfiltered feedback which is representative of the whole workforce in order to be truly effective.

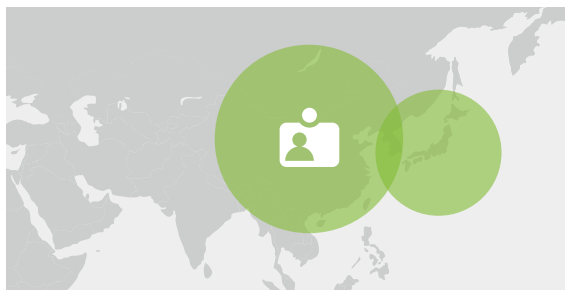
A more formalised framework was put in place to supplement the channels which already exist, for the Board to understand the views of the workforce, which includes: the annual My Voice survey; the confidential Speak Up process; information reported from senior management on culture; disciplinarys and grievances data and themes; and direct engagement the Board has with employees as it engages with its markets, collectively and individually. The key themes and action plans were reported to, and discussed by, the Brand, Values and Conduct Committee before being reported to the Board.

Last year, we experimented with the introduction of an additional method of direct engagement and two-way dialogue between the Board and our employees, consisting of two interactive engagement sessions, held between employees and the Board. Building on the positive feedback from employees who participated and constrained by restrictions on travel, the Board enhanced its engagement this year by hosting four events, each dedicated to a particular region of the Group's footprint at the time. These included Europe & Americas, Greater China & North Asia, ASEAN & South Asia and Africa & the Middle East. The events were facilitated through a teleconference, with a live Q&A session accessed via a web-based platform.

Employee feedback from all four engagements sessions was positive, with employees appreciating the interactive Q&A element that allowed them to vote on popular questions.

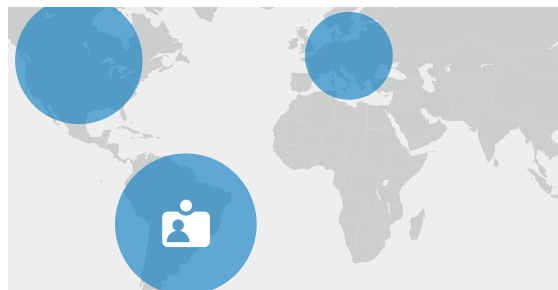
### Board engagement with employees

#### Greater China & North Asia



November 2020

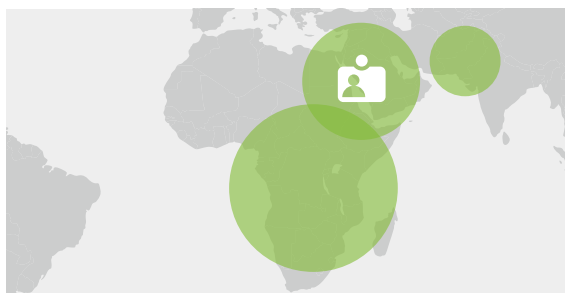
#### Europe & Americas



July 2020

The Group Chairman hosted each of the employee engagement sessions and was joined by a combination of all INEDs over the four events. The composition of those who attended was carefully considered in order to ensure a good balance of skills, experience, knowledge and perspectives for each region, promoting insightful and tailored engagement.

#### Africa & Middle East



November 2020

#### ASEAN & South Asia



September 2020

# Engagement with employees continued

Employees were asked during the sessions which areas they would like to see the Board have greater impact. The top responses received included explaining the rationale for the Group's strategy, supporting talent development, committing to fintech, digital transformation and emerging technologies, championing diversity in senior teams, and promoting a culture where colleagues are encouraged to offer challenging and diverse views.

When asked about what the Group had done well during the pandemic, employees consistently selected the widespread adoption of flexible working, and expressed a desire to see this embedded in the future. Colleagues also acknowledged the Group's efforts to prioritise their wellbeing.

## Review of employee engagement

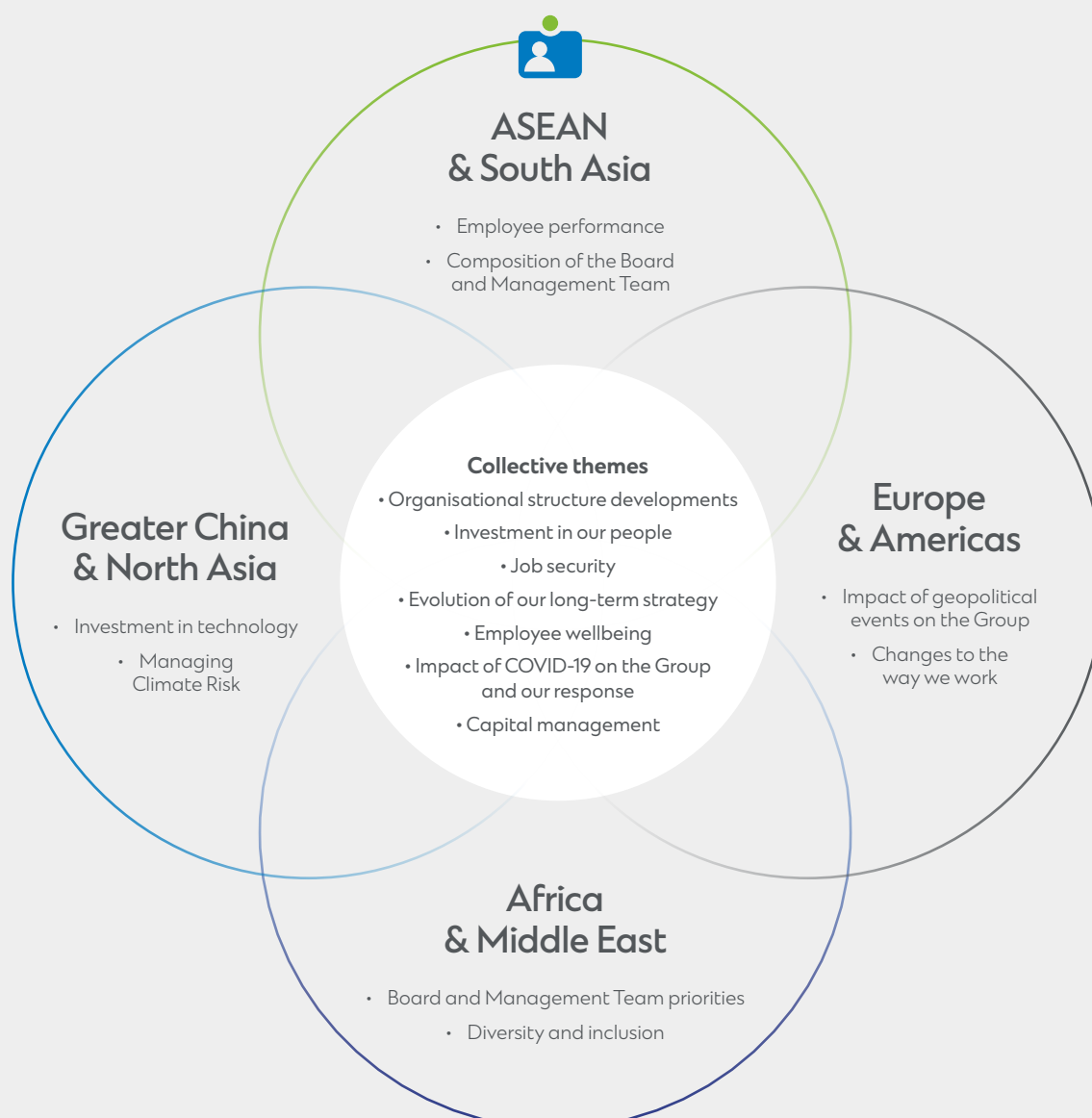
The Board was encouraged by the level of interest employees had shown in engaging directly with Board members and remains committed to evolving and refining this form of engagement to ensure they remain genuine interactions.

The Brand, Values and Conduct Committee conducted and agreed a number of proposals to further enhance our employee engagement programme and develop this for the year ahead.

➔ Further detail regarding employee engagement this year can be found within the Brand, Values and Conduct Committee report starting on [page 121](#)

## Key themes raised by employees during engagement sessions

The Q&A element of the sessions provided the Board with deep insight into employee views, concerns and interests. Some of the items covered varied by region, however, there were also several collective themes that were discussed across more than one region. A number of them are illustrated below.



## Engagement and linkages with the Group's subsidiaries

The Board and its committees recognise the importance of creating, maintaining and building upon appropriate linkages with the Group's subsidiaries. As with the majority of stakeholder engagement during 2020, the Board's ability to physically meet with people from across the Group's footprint was limited. Despite this, the Group Chairman and INEDs engaged with the Group's subsidiaries through a number of forums. This included chair and committee chair engagement sessions, as well as other forms of interaction.

Following the Board's global subsidiary governance conference last year, the Group Chairman hosted three subsidiary chair engagement sessions during 2020. Each event opened with remarks from the Group Chairman, followed by a Q&A session. All three sessions were held virtually, with the Group Chairman encouraged by the high level of interaction. Items discussed across the three sessions included:

- Group performance
- Impact of COVID-19 across the Group's markets
- Geopolitical developments
- Sustainability
- Areas of focus for the Group's boards
- Board effectiveness

The Audit Committee held its annual conference call during the year, which was hosted by the Audit Committee Chair and attended by the chairs of subsidiary audit committees. The Group Head, Finance, Group Head of Internal Audit, Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance, lead audit partner of the Group's outgoing statutory auditor at the time, KPMG, lead audit partner of the Group's incoming statutory auditor at the time, EY, and the Group Company Secretary also participated in the call. Items discussed during the call included:

- 2020 Audit Committee focus areas
- Developments that had an impact on the Audit Committee's work, including COVID-related impacts
- Financial reporting developments including IFRS 9 models
- Conduct, financial crime and compliance developments
- Group Internal Audit strategy and Quality Assurance review
- Group statutory auditor transition from KPMG to EY

In response to feedback on the structure of this call, the format of subsequent committee chair engagement sessions was modified from traditional conference calls to video conference calls, which facilitated a more engaging and livelier environment for discussion and Q&A.

In conjunction with the Chair of the Board Financial Crime Risk Committee, the Board Risk Committee Chair hosted its annual conference call with chairs of the subsidiary board risk committees. The Group Chairman, Group Chief Risk Officer, Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance, Co-Heads

of Financial Crime Compliance, Group General Counsel and the Group Company Secretary also participated in the call. Items examined during the call included:

- 2020 Board Risk Committee and Board Financial Crime Risk Committee focus areas
- Developments that had an impact on both Committees' work, including the impacts of COVID-19
- Group Chief Risk Officer's 2020 priorities
- Financial crime compliance developments

Building upon existing linkages with the Group's subsidiaries, the Remuneration Committee Chair held the first conference call attended by the subsidiary remuneration committee chairs and the chairs of subsidiary boards that have remuneration responsibilities. The Group Chairman, a member of the Remuneration Committee, the Global Head, Performance, Reward & Employee Relations, Head, Executive Compensation and Reward Governance, regional heads of Performance, Reward & Benefits and the Group Company Secretary also participated in the call. Participants noted the importance for remuneration committees to be connected across the organisation and to foster knowledge-sharing as the focus on remuneration governance increases. Items covered during the call included:

- 2020 Remuneration Committee focus areas including monitoring the short and long-term impact of the pandemic on remuneration
- Implementation of required changes under new legislation and regulation
- 2020 to 2021 Performance, Reward and Benefits priorities

All Board Committee Chairs who hosted audio and/or video conference calls welcomed feedback and suggestions on how improvements could be made to the format for future sessions. The engagement calls were well received by its participants, with particular praise for the live Q&A element that was built into the agenda for each session.

Formal reporting mechanisms to improve linkages between Standard Chartered Bank (Hong Kong) Limited (SCB Hong Kong), Standard Chartered Bank and Standard Chartered PLC were enhanced during the year. This included the Group Chairman and some committee chairs attending subsidiary board meetings and subsidiary chairs attending aspects of the Group Board meetings:

- The Group Chairman attended a SCB Hong Kong Board meeting
- The Chair of the Audit Committee at the time attended a SCB Hong Kong audit committee meeting
- The chair of SCB Hong Kong attended part of a Board meeting
- The chair of the audit committee for SCB Hong Kong attended an Audit Committee meeting



Further detail regarding how the Group engages with its stakeholders can be found on [pages 54 to 71](#)

# Audit Committee



“Unsurprisingly, the impacts of COVID-19 have been a significant focus for the Committee this year”

## Committee composition

	Scheduled meetings	Ad hoc
P G Rivett (Chair) (Appointed 6 May and became Chair on 1 December 2020)	5/5	0/0
D P Conner	8/8	1/1
C M Hodgson, CBE	8/8	1/1
B E Grote	8/8	1/1
N Kheraj	8/8	1/1
C Tong	8/8	1/1

Maria Ramos joined the Committee on 1 January 2021.

**Other attendees at Committee meetings in 2020 included:** Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel, Group Head of Internal Audit; the Group Head of Conduct, Financial Crime and Compliance; the Group Head, Central Finance; representatives from Group Finance; Group Statutory Auditor and Group Company Secretary.

Prior to KPMG's resignation as the Group's Statutory Auditor after the completion of our consolidated accounts for the year ended 31 December 2019, EY attended two Committee meetings as an observer.

Phil Rivett attended two Committee meetings as an observer, until his appointment as a Committee member on 6 May 2020.

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

The Committee members have detailed and relevant experience and bring an independent mindset to their role. The Board is satisfied that Phil Rivett has recent and relevant financial experience and that the other Committee members also have a depth of experience having managed complex balance sheets or having knowledge of financial reporting in international business.



Biographical details of the committee members can be viewed on [pages 83 to 86](#)

## Main responsibilities of the Committee

The Committee is responsible for oversight and advice to the Board on matters relating to financial reporting. The Committee's role is to review, on behalf of the Board, the Group's internal controls and internal financial controls. The Committee has exercised oversight of the work undertaken by Conduct, Financial Crime and Compliance (CFCC), Group Internal Audit (GIA) and the Group's Statutory Auditor, EY. The Committee reports to the Board on its key areas of focus following each Committee meeting.



The Committee has written Terms of Reference that can be viewed at [sc.com/termsreference](https://www.sc.com/termsreference)

As the new Chair of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 31 December 2020.

In addition to the disclosure requirements relating to audit committees under the UK Corporate Governance Code 2018, the following report sets out the areas of significant focus for the Committee and its activities over the course of the year. The report also covers the review undertaken on the effectiveness of the Group's Statutory Auditor, EY and ongoing oversight of the effectiveness of the GIA function. Assurance has been sought and received by the Committee concerning the resourcing of Group Finance, GIA and CFCC.

Since April 2019, meetings have taken place as dual Audit Committee meetings of Standard Chartered PLC and Standard Chartered Bank, under the governance structure put in place to reflect the Group's corporate entity restructuring. I joined the Audit Committee on 6 May and became Chair on 1 December 2020. I had an ample period of time shadowing Naguib Kheraj, the outgoing Committee Chair, which provided critical insight into the ways of working for this role. I would like to thank Naguib for the time he dedicated to this and the comprehensive handover I received. I am delighted that Naguib remains a member of the Audit Committee. I would also like to welcome Maria Ramos, who joined the Committee on 1 January 2021.

Unsurprisingly, the impacts of COVID-19 have been a significant focus for the Committee this year. In particular, time has been spent reviewing credit impairment provisions, key accounting issues and significant accounting estimates and judgements made by management to ensure appropriateness and that the Group's public disclosures are transparent with regard to the impacts of COVID-19. In particular, focus has been placed on the judgements and management overlays relating to IFRS 9, which is a technically complex area. Attention was placed on the Monte Carlo model and observations made that the macroeconomic variables used by this model can be narrow. In response to challenge from the Committee, management provided assurance that the parameters used for this model were being updated in order to generate a wider set of scenarios. Significant time and focus has also been placed on the judgements involved in aviation and shipping, given the turbulent external environment.

As a result of COVID-19, GIA took a revised approach to the Group's audits. GIA focused on providing timely, nimble and independent assurance over the Group's approach to managing COVID-19. This revised approach was based on the principle that GIA should protect the Group and its assets, while minimising disruption to the first and second lines of defence. Throughout the year, the Committee continued to probe that the Group's internal controls infrastructure was not being adversely impacted by working from home (WFH) arrangements, as a result of lockdowns across the Group's network. The Committee was able to seek and receive assurance that the Group's response to and operations during COVID-19 remained appropriate for our shareholders, customers and colleagues.

2020 has been EY's first year as the Group's Statutory Auditor, and notably it has been a challenging environment to perform audit work, given the impacts of COVID-19 lockdowns across the Group's network. I am pleased to report that EY has brought both fresh perspective and independent challenge this year, which is beneficial for management. A number of subject matter experts from EY have presented to the Committee over the course of the year on areas such as Aviation Finance, the UK Audit Reform and Regional/Country overviews on key markets in which the Group operates. This is a practice that we will encourage for 2021 and beyond.

The Committee has exercised its authority delegated by the Board for ensuring the integrity of the Group's published financial information by discussing and challenging the judgements and disclosures made by management, and the assumptions and estimates on which they are based. The Committee has exercised judgement in deciding which of the issues it considered to be significant in the financial statements, and this report sets out the material matters that it has considered in these deliberations. Management reporting to the Committee from across the business has provided the opportunity for the Committee to challenge, probe, discuss and seek assurance from management, enabling the Committee to provide an independent perspective.

As a result of the Committee's work in 2020, assurance has been provided to the Board on the quality and appropriateness of the Group's financial reporting, in particular taking account of COVID-19 impacts, and on internal audit, compliance and regulatory matters, to continue to safeguard the interests of the Group's broader stakeholders. The following pages provide insight and context into the Committee's work and activities during the year.

**Phil Rivett**  
Chair of the Audit Committee

## Activities during the year

### Financial reporting

- Satisfied itself that the Group's accounting policies and practices are appropriate
- Reviewed the clarity and completeness of the disclosures made within the published financial statements
- Considered any changes in disclosures arising from best practice in applying the UK Finance Code for Financial Reporting Disclosure, recommendations from the Taskforce on disclosures on expected credit losses (DECL), high-quality practices with regards to implementation of expected credit losses (ECL) suggested by the PRA and Financial Reporting Council (FRC) publications on aspects of UK reporting
- Monitored the integrity of the Group's published financial statements and formal announcements relating to the Group's financial performance, reviewing the significant financial judgements and accounting issues

Significant accounting judgements considered during 2020 are shown below.

The Committee can confirm that the key judgements and significant issues reported are consistent with the disclosures of key estimation uncertainties and critical judgements as set out in Note 1 starting on page 304.

Key area	Action taken
<b>Impairment of loans and advances</b>	<p>Reviewed and challenged, on a quarterly basis, reports detailing the composition and credit quality of the loan book, concentrations of risk and provisioning levels.</p> <p>Reviewed and considered judgemental post model adjustments and management overlays in both the wholesale and retail portfolios on a quarterly basis that were required to estimate ECL as the significant volatility in economic forecasts meant that certain ECL models operated outside of the boundaries to which they were calibrated. In addition, the models were not able to capture the full level of uncertainty related to COVID-19, and in particular, the impact of government-relief measures in many markets in which the Group operates. The Committee was also briefed on the performance of the IFRS 9 models and the remediation plans in place to address material non-performance issues where these had been identified, the most significant of which was the redevelopment and implementation of the Large Corporate Probability of Default model. This included considering the appropriateness of the staging of higher risk loans. The expectation of elevated losses in industries and locations that have been particularly affected by lockdowns was also considered. In respect of high-risk credit grade exposures, the Committee was also briefed on business plans, including remedial actions and management assessment of the recoveries and collateral available.</p>
<b>Impairment of aircraft</b>	<p>Reviewed and challenged, on a quarterly basis, management's assessments of impairment losses on aircraft operating lease assets, including the assumptions used to determine asset value-in-use (ViU) and market valuations. In particular, the Committee challenged management's assessments and the detailed sensitivity analysis to ensure that the implications of COVID-19 had been fully considered, as the aircraft industry was particularly affected by COVID-19 and lockdowns. The Committee reviewed detailed sensitivity analysis on the factors that would impact the ViU assessments including residual values, remarketing periods after lease terminations, reductions in market rental rates and discount rates while assessing the impairment calculations for the aircraft. The Committee also focused its review on lease payment deferrals granted to lessees as a result of COVID-19 to assess any potential impact on the ViU assessments for the related aircraft and monitored progress on repayments of the deferrals and any extensions.</p>
<b>Goodwill impairment</b>	<p>Reviewed management's annual assessment of impairment covering key assumptions (including forecasts, discount rate, significant changes from the previous year), headroom availability and sensitivities to possible changes in key assumptions.</p> <p>The goodwill impairment calculations were another area with additional focus as a result of COVID-19 as the forecasts, discount rates and GDP growth rates, which are all components of the ViU valuations for the cash-generating units, were negatively impacted resulting in some impairments.</p>

## Activities during the year continued

<b>Carrying value of investments in associates</b>	Reviewed and considered management's carrying value assessments on the Group's investment in China Bohai Bank, covering key assumptions and potential sensitivity to changes. The Committee reviewed management's assessment that the Group maintained significant influence after being diluted as part of the initial public offering in July 2020 and satisfied itself that it remained appropriate to continue to equity account for the investment. The Committee also reviewed the change in the methodology for equity method accounting to incorporate a three-month lag, now China Bohai Bank is a public company and its results are not available on the same timetable as the Group publishes its results. The Committee also reviewed the methodology changes to the China Bohai Bank ViU calculation as set out in Note 32 on pages 399 and 400 after the initial public offering in July 2020.
<b>Recoverability of parent company's investment in subsidiaries</b>	Discussed and received confirmation from management that it had adequately assessed the recoverability of investments in subsidiaries, together with any intercompany indebtedness.
<b>Information Technology – user access management</b>	Received an update from EY where new and existing IT observations had been identified related to user access management supporting in-scope applications including privileged access, user access review and other user access management controls. The Committee discussed how management and EY are working to assess this matter and sought and received assurance this matter is receiving senior management attention.

### Other areas of focus:

<b>Classification of assets as held for sale</b>	Reviewed management's assessment of whether assets or disposal groups should be reclassified as held for sale. This included reviewing the facts and circumstances for the proposed sale of shipping assets, the Group's investment in PT Bank Permata Tbk and Principal Finance investments.
<b>Restructuring costs</b>	Reviewed and considered, on a quarterly basis, income statement charges classified as restructuring.
<b>Capitalisation of software assets</b>	Assessed the findings of management's review of the Group's software asset capitalisation processes, including recommendations for changes from a project based to an application-based methodology and revisions to estimated useful lives. The Committee also reviewed and considered the results of management's impairment review for the software assets.
<b>Hedge accounting</b>	Reviewed the ineffectiveness reported in operating income from hedge accounting and significant hedge terminations and the reasons for this.
<b>Valuation of financial instruments held at fair value</b>	Received reports and updates at each reporting period detailing the key processes undertaken to produce and validate valuations of financial instruments, including any changes in methodology from prior years and significant valuation judgements. The Committee received regular updates on the level of unsold positions in the syndications portfolio and the valuation of these positions and plans for sell down. The Committee also reviewed credit valuation adjustments, debit valuation adjustments, funding valuation adjustments and own credit adjustments and considered the rationale for any significant movements.
<b>Taxation</b>	Reviewed and considered management's judgements and assumptions with respect to tax exposure risks, including uncertain tax positions, and ensured adequate disclosure in the financial statements has been made. This included coordination of the Group's effective tax rate, the quantum and basis of recognition of deferred tax assets and the UK bank levy charge for the year. The Committee also reviewed the recoverability of the Group's deferred tax assets given the impact of COVID-19 on the forecasts included in the most recent Corporate Plan.
<b>Provisions for legal and regulatory matters</b>	Considered advice presented on the current status of significant legal and regulatory matters, and considered management's judgements on the level of provisions and the adequacy of disclosure, as set out in Notes 24 and 26 on pages 376 and 378.

## Activities during the year continued

### Going concern assessment and viability statement

- Reviewed management's process, assessment and conclusions with respect to the Group's going concern assessment and viability statement, including the forward-looking Corporate Plan cashflows, principal and emerging risks, liquidity and capital positions and key assumptions. The review had a particular focus on the impacts of COVID-19. The Committee also ensured that the going concern assessment and viability statement is consistent with the Group's Strategic report and other risk disclosures

→ Further details can be found on [pages 78, 79 and 306](#)

### Fair, balanced and understandable

- The Committee considered, satisfied itself and recommended to the Board, that the processes and procedures in place ensure that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, and the business risks it faces. The statement is underpinned by the Committee's, and the Board's, belief that all important elements have been disclosed; and that the descriptions of the Group's business as set out in the Strategic report, are consistent with those used for financial reporting in the Group's financial statements

### Examples of deeper discussions into specific topics

- IFRS 9 models:** Received and discussed updates on the Group's use of the IFRS 9 Corporate Probability of Default model used to calculate the year-end ECL, issues that have been experienced with the model and actions underway by management to address these issues. At the request of the Committee, a dedicated IFRS 9 technical pre-briefing session was held in April 2020, to enable a focused discussion on IFRS 9 guidance and credit impairment relating to aircraft and shipping. The Committee discussed a further update on IFRS 9 models to understand any potential issues to be aware of ahead of year-end. As part of this discussion, attention was placed on the Monte Carlo model and observations made that macroeconomic variables used by this model can be narrow. In response to challenge from the Committee, management provided assurance that the parameters used for this model were being updated in order to generate a wider set of scenarios
- Financial regulatory reporting:** Discussed the Group's financial regulatory reporting, in light of the considerable increase in volume and complexity of reporting requirements, impacting both capital and liquidity reporting. Furthermore, towards the end of the year, the Committee received and discussed an update with regard to the remediation activities concerning financial regulatory reporting. This will continue to be an area of focus for 2021
- EY partner regional overviews:** Received overviews and topical updates from EY's local regional partners from GCNA, India and Singapore. These regional overviews provided insight into the challenges faced in the Group's markets from a statutory audit perspective; and provided the Committee with the local audit partner's assessment of the Group's control systems in these markets, the quality of the Group's management from a control perspective and a benchmark of the Group's control environment against local and international peers. The overviews also provided insight into local regulatory developments, the Group's standing and engagement with local regulators and areas of focus for 2020
- EY Aviation Finance Audit approach:** At the request of the Committee, EY's Aviation Partner presented on the interim review procedures in the first half of 2020 and EY's conclusions and observations
- EY UK Audit reform:** At the request of the Committee, EY provided a presentation on how it expects the audit reform agenda to be realised across the ecosystem by 2024. Discussion included the various consultation work underway such as Kingman, Brydon and the Audit Committee Chairs' Independent Forum
- New Integrated Data Management Framework:** Received and discussed two papers on the New Integrated Data Management Framework, intended to enable a more joined-up and robust approach to the management of the Group's data-related risks. The Committee sought and received assurance that sufficient funding and resource is in place to deliver this holistic approach to data management
- Tax update:** At the Committee's request, discussed a tax update on accounting judgements. In addition, the Committee reviewed the tax reporting processes and changes to the reporting structure of the Tax function
- MiFID II Implementation and Significant Transaction Reporting Obligations (STORs):** Discussed the Group's compliance with MiFID II requirements and the Group's STORs, their current risk profile and challenges posed by STORs. This will continue to be an area of focus for 2021
- Finance resourcing:** Reviewed and discussed a paper providing assurance that the Accounting and Financial Reporting function is adequately resourced; the qualifications, experience and training of colleagues is appropriate; and the budget allocated is sufficient to maintain external reporting obligations
- Internal financial controls:** Received and discussed a paper providing assurance on the Group's internal financial controls
- Major disputes and significant cross-border orders:** Received and discussed two updates on major disputes and significant cross-border orders facing the Group
- Annual Volcker Compliance report:** Discussed an annual review of the effectiveness of the Group's Volcker Compliance Programme. Context was sought and received on how training is conducted for relevant employees on the revised requirements for Volcker compliance
- Statutory auditor private reporting:** Discussed the contents of KPMG's private report to the PRA for the year ended 31 December 2019, and the scope of EY's private report for 2020

## Activities during the year continued

### Group Statutory Auditor, EY

Provided oversight of the work undertaken by EY as the Group's Statutory Auditor. In particular, the Committee:

- Reviewed and discussed the risks identified by EY's audit planning, seeking and receiving assurance that these risks have been addressed properly in the audit strategy
- Satisfied itself that EY has allocated sufficient and suitably experienced resources to address these risks
- Sought and received assurance that no undue pressure has been asserted on the level of audit fees, to ensure that there is no risk to audit work being conducted effectively and independently
- Although this is EY's first year as the Group's Statutory Auditor, conducted an annual performance and effectiveness review of EY. Input was received from Committee members, Chairs of subsidiary audit committees, the Management Team, regional/country chief financial officers, members of the Group Finance Leadership Team and the GIA Management Team. The results of this input was discussed by the Committee. Overall, it was felt that EY is considered to be effective, objective and independent in its role as the Group's Statutory Auditor
- Reviewed and discussed EY's audit planning report, interim reviews and EY audit strategy update for year-end

The Committee met privately with EY at the end of certain Committee meetings, without management being present.

Both Naguib Kheraj and Phil Rivett, as outgoing and incoming Audit Committee Chairs, met regularly with EY during the course of the year.

The Company complies with the Statutory Audit services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee responsibilities) Order 2014. EY has been the Group's Statutory Auditor for just under one year. In accordance with the Audit Practices Board's requirements, the lead audit engagement partner has held the role for less than one year. The lead engagement partner has a background of auditing banks and understands the markets in which the Group operates.

Following the 2017 audit tender, EY was appointed as the Group's Statutory Auditor for the financial year ending 31 December 2020.

### Non-audit services

- Responsible for setting, reviewing and monitoring the appropriateness of the provision of non-audit services, applying the Group's policy on the award of non-audit services to the external auditor, while taking into account the relevant ethical guidance
- In 2020, the Group spent \$2.6 million on non-audit services provided by EY and \$5.1 million on audit-related services such as quarterly and half year reviews and regulatory reporting

→ Further details on non-audit services provided by EY can be found in Note 38 on [page 406](#) and the Group's approach to non-audit services on [page 175](#)

### Internal controls

- Discussed reports from GIA that provide GIA's view on the system of internal controls across all risk types, business and country functions, including summary highlights of the most significant matters being monitored by GIA and areas of thematic interest that have arisen as part of the audits and warrant the Committee's attention. The Board Risk Committee, the Board Financial Crime Risk Committee and the Brand, Values and Conduct Committee discussed separate reports from the Group Head of Internal Audit on GIA's appraisal of controls across key risks, subject to each Committee's oversight. Collectively, the reports received by these Committees provided assurance that there are effective internal controls within the Group
- Received an update on KPMG's observations of the Group's controls arising from KPMG's audit for the year ended 2019 (and items remaining open from 2018) and management's responses to the findings, together with proposed timelines for addressing the findings. The observations raised by KPMG did not suggest any fundamental concerns over the control framework or procedures
- Throughout the year, the Committee continued to probe that the Group's internal controls infrastructure was not being adversely impacted by WFH arrangements, as a result of lockdowns across the Group's network

→ Further details on internal controls can be found on [page 171](#)

## Activities during the year continued

### Group Internal Audit

During 2020, GIA revised its approach to audits, in order to respond to the changed risk landscape of the Group. GIA focused on providing timely, nimble and independent assurance over the Group's approach to managing COVID-19. There were shorter, sharper focused pieces of work on emerging risks, which provided the Committee with assurance that the Group's response to and operations during COVID-19 remained appropriate for our shareholders, customers and colleagues and aligned to our Here for good brand promise. The Committee sought and received assurance from management that this revised approach was adding value to the business and continued to focus on the effectiveness of controls and processes. The Committee also monitored, on an ongoing basis, that travel restrictions and WFH arrangements were not impacting the quality or integrity of audit work or the internal controls infrastructure of the Group.

In 2019, an external assessor, Grant Thornton (selected by the Committee from a competitive request for proposal process), conducted an external quality assurance review on the GIA function, which assessed the requirements of GIA against key professional and regulatory bodies governing the practice of internal audit. While it was recognised that GIA "generally conforms" to the requirements of these standards, some recommendations were made. During the course of 2020, the Committee received updates on progress against these recommendations.

In 2020, for the most significant matters being monitored by GIA, business and/or regional management were invited to attend meetings to provide updates on the steps being taken to enhance the control environment and address internal audit findings.

The Committee:

- Reviewed the adequacy of resourcing and proposed work plans for GIA and is satisfied that these are appropriate in light of proposed areas of focus, expertise and skills that are required
- Assessed the role and effectiveness of the GIA function, and reviewed and monitored GIA's progress against its annual audit plan and the review and monitoring of post-audit actions. Changes to the audit plan, in particular COVID-related changes, and people changes were also discussed by the Committee
- Reviewed and approved GIA's 2021 audit plan and budget
- Reviewed and approved the refreshed GIA charter
- Received and discussed reports from the Global Head, Audit Quality Assurance (QA) on the QA function's view of the control environment in GIA

The Committee is satisfied with the independence of the GIA function.

Both Naguib Kheraj and Phil Rivett, as outgoing and incoming Audit Committee Chairs, met regularly with the Group Head of Internal Audit and the GIA Management Team.

### Group compliance

Regular compliance reporting to the Committee sets out the work carried out by the CFCC function, significant compliance and regulatory risks and issues facing the Group, and key actions being taken to address and mitigate these matters.

In 2020, the Committee was updated on the following:

- Key supervisory areas of focus, the status of the Group's core college regulatory relationships and enforcement matters
- The function's operating model, including an overview of the CFCC budget and organisational changes to simplify the function. In conjunction with the Board Risk Committee and Board Financial Crime Risk Committee, the Committee has received regular updates on the CFCC Transformation
- Trade and communications surveillance across the Group
- Data sovereignty
- The Group's preparedness for Brexit
- Cross-Border risks in Retail Banking
- Conduct, in particular focusing on managing the impacts of COVID-19 and WFH arrangements
- Updates from CFCC Assurance

The Committee reviewed an update on compliance resourcing and confirmation was received from management that the function is adequately resourced.

The Committee also reviewed the 2021 Compliance Plan and priorities.

Both Naguib Kheraj and Phil Rivett, as outgoing and incoming Audit Committee Chairs, met regularly throughout the year with the Group Head, CFCC.

The Board Financial Crime Risk Committee received reports on financial crime compliance-related matters.

## Activities during the year continued

### Speaking Up

Speaking Up is the Group's confidential and anonymous whistleblowing programme (the Programme). The Programme has been designed to comply with the Group's UK lead regulators, the PRA and the FCA Whistleblowing Rules. Our whistleblowing channels are available to anyone – colleagues, contractors, suppliers and members of the public – to raise concerns confidentially and anonymously.

Through the Compliance Regulatory report, the Committee was provided with regular updates on the Programme.

The Committee reviewed and discussed an annual report on the operation and effectiveness of the Programme which was subsequently tabled to the Board. The report provided the Committee with assurance of the Group's ongoing compliance with the Whistleblowing Rules. The Committee discussed the linkages between Speaking Up and data within the Group's My Voice (employee engagement survey) results.

In 2020, the Committee Chair regularly received Speak Up management information reports with details of Speak Up cases and themes.



Further details on Speaking Up can be found on [page 67](#)

### Interaction with regulators

Typically, the Committee meets with the PRA on an annual basis, without members of management being present. The purpose of such meetings is to enable a discussion between the Committee and the PRA concerning areas of focus for both the Committee and the PRA. This discussion was held on 19 February 2020 with representatives from the PRA.

Phil Rivett attended a trilateral meeting with EY and the PRA. Naguib Kheraj also attended meetings with the PRA in 2020 in his capacity as Audit Committee Chair.

### Linkages with subsidiary audit committees

There are strong linkages and interactions in place between the Committee, regional hub audit committees and banking subsidiary audit committees. In 2020, Naguib Kheraj attended a Standard Chartered Bank (Hong Kong) Limited (SCB Hong Kong) Audit Committee meeting; and the Audit Committee Chair of SCB Hong Kong attended a Standard Chartered PLC Audit Committee meeting. This practice will continue in 2021 and beyond to reinforce these important linkages.



Details of the annual call held with Naguib Kheraj, as Committee Chair in March 2020, and the chairs of banking subsidiary audit committees can be found on [page 107](#)

## Committee effectiveness review

During 2020, an internally facilitated Board and Board committee effectiveness review was facilitated by the Group Company Secretary.

### Key observations from the 2020 internal effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Committee has maintained a high standard of work, and the Committee Chair is well prepared
- The handover to EY, as the Group's Statutory Auditor, had gone well
- Suggestions were provided on potential topics for training sessions
- The scheduling of meetings is in close proximity to Board meetings

### 2021 Action Plan

The 2021 Action Plan for the Committee reflects suggestions from the evaluation and continues to build on the solid progress made last year:

- Ensure effective handover to the new Chair
- Schedule training sessions to cover new developments in reporting (including ESG/Climate), valuation of financial instruments (including the XVA framework), IFRS 9 and best practice in reporting new areas of work
- Review the quality and timing of papers and scheduling of Committee meetings to enhance efficiency

# Board Risk Committee



“Throughout the year, focus has been placed on the impact of COVID-19 and how the Group has responded to and managed the related risks”

## Committee composition

	Scheduled meetings
N Kheraj (Chair) (Appointed as Committee Chair on 1 December 2020)	6/6
D P Conner	6/6
G Huey Evans, OBE	6/6
P G Rivett (Appointed 6 May 2020)	3/3
D Tang (Appointed 1 October 2020)	1/1
C Tong	6/6

Maria Ramos joined the Committee on 1 January 2021.

**Other attendees at Committee meetings in 2020 included:** Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel; the Treasurer; Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance; the Group Head of Internal Audit; the Group's Statutory Auditor and Group Company Secretary.

Phil Rivett attended one meeting and David Tang attended two meetings before joining the Committee as members. Byron Grote, Christine Hodgson and Jasmine Whitbread attended Committee discussions on Climate Risk and Model Risk management in 2020. Sir Iain Lobban, Cyber Adviser to the Board, regularly attends discussions on Information and Cyber Security (ICS) Risk and Technology matters. EY attended three Committee meetings as an observer, ahead of their formal appointment as the Group's Statutory Auditor in May 2020. As part of, and in addition to, each scheduled Committee meeting, the Committee held private members-only meetings.

The Committee's membership comprises INEDs who have a deep and broad experience of banking and the risk factors affecting the Group.



Biographical details of the committee members can be viewed on [pages 83 to 86](#)

## Main responsibilities of the Committee

The Committee is responsible for exercising oversight, on behalf of the Board, of the key risks of the Group. It reviews the Group's Risk Appetite Statement and makes recommendations to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems, considering the implications of material regulatory change proposals, reviewing reports on principal risks to the Group's business and ensuring effective due diligence on material acquisitions and disposals. The Committee reports to the Board on its key areas of focus following each Committee meeting.



The Committee has written Terms of Reference that can be viewed at [sc.com/termsreference](https://www.sc.com/termsreference)

As the new Chair of the Board Risk Committee, I am pleased to present the Board Risk Committee's report for the year ended 31 December 2020.

Since April 2019, meetings have taken place as dual Risk Committee meetings of Standard Chartered PLC and Standard Chartered Bank, under the governance structure put in place to reflect the Group's corporate entity restructuring. I became Chair of the Board Risk Committee on 1 December 2020, having been a member for a number of years. I would like to thank David Conner for the comprehensive handover I received and am delighted that David remains on the Committee as a member. I would like to welcome the newer members to the Committee: Phil Rivett who joined on 6 May 2020, David Tang who joined on 1 October 2020 and Maria Ramos who joined on 1 January 2021.

Throughout the year, focus has been placed on the impact of COVID-19 and how the Group has responded to and managed the related risks. On a regular basis, the Committee received and discussed a paper on COVID-19 risks, which provided an assessment of the Group's response to COVID-19. The incorporation of COVID-19 into the Group's stress scenarios and portfolio reviews of the exposures most at risk in the economic downturn has enabled management to identify potential areas of vulnerability and manage these appropriately. The Committee spent time reviewing vulnerable sectors and consumer credit portfolio performance. We monitored to ensure that appropriate action was taken as credit conditions deteriorated. Furthermore, attention was placed on interest rate risk, and the impact of market volatility on the Financial Markets business and the Capital Management portfolio. Outside of Committee meetings, David Conner had regular calls with the Group Chief Risk Officer (GCRO) to ensure that he was kept informed of emerging developments as they occurred, and in turn, this enabled Committee members to be notified of any significant matters in real-time. This communication mechanism was important as COVID-19 evolved.

ICS Risk remained a key priority this year, with reporting from management in the first, second and third lines of defence, to enable the Committee to understand the progress being made and areas of improvement being worked on. This remains a priority for 2021.

Operational resilience became a significant focus for the Committee as COVID-19 unfolded and various lockdowns across the Group's network came into effect. Operational and ICS risks, resulting from colleagues working from home (WFH) were carefully monitored, to ensure that these risks were not increasing or manifesting themselves in different ways. The Committee continued to place focus on the risks associated with the Interbank Offered Rate (IBOR) transition, Model Risk management and Operational Risk, through dedicated papers and regular reporting such as the GCRO's reports and GIA reports.

We held a 'blue sky thinking/horizon scanning' discussion, which covered the potential risks that the Group might be or could become exposed to. Recognising the importance of being able to step back and consider emerging risks, a dedicated 'blue sky thinking/horizon scanning' session has been scheduled for 2021, and will be an annual agenda item going forward.

In 2020, the Committee held two informal sessions covering COVID-19 stress test and recovery capacity and SC Ventures governance. These sessions were opened up to all Board members and provided dedicated time and space to dive deeper into these topics.

Climate Risk remains a key priority for the Group and the Committee has monitored the progress being made against our Climate Risk workplan, and the speed of execution in integrating Climate Risk into mainstream risk processes. Needless to say, this will be a continued priority for 2021, not least given the Bank of England's climate-related stress test this coming year.

The Committee applied scrutiny to the risks related to US-China tensions and US elections. In anticipation of market disruption ahead of Brexit and ongoing US-China tensions, the Committee reviewed and approved liquidity limits for the Group. Given the ever-changing external environment, the Committee continues to discuss key macroeconomic and geopolitical risks and challenges faced by the Group, and probe how these are being managed and mitigated by management.

The following pages provide insight and context into the Committee's work and activities during the year.

**Naguib Kheraj**  
Chair of the Board Risk Committee

## Activities during the year

### Risk Appetite

Reviewed and challenged the formulation of the Group's Risk Appetite Statement, in order to assure that it is effective in setting appropriate boundaries in respect of each Principal Risk Type.

Considered and recommended the Group's Risk Appetite to the Board for approval.

During 2020, the following changes were made to the Risk Appetite:

- **Enterprise Risk Appetite:** given the importance of external credit ratings to the Group's business, clients, investors and regulators, three new credit rating metrics were included
- **Model Risk:** a new Model Risk Appetite Statement and a number of new metrics were approved to capture the risk profile of the overall model landscape
- **Capital and Liquidity Risk:** the methodology for setting Group Common Equity Tier 1 (CET1) Risk Appetite metric was revised to be set at the higher of the sum of regulatory requirements or 13 per cent. The Group's Liquidity Coverage Ratio was proposed to be increased to 130 per cent
- **Operational Risk:** Changes were proposed covering new and amended metrics. Existing metrics were challenged to reflect a more forward-looking view of the risks and ensure that new risks and elevated residual risks are sufficiently emphasised
- **ICS Risk:** ICS Risk Appetite metrics were developed to measure the Group's security and resilience to ICS events and incidents which could impact its most critical systems and assets. A comprehensive and in-depth review of the historic ICS metrics was undertaken, looking at whether they are fit for purpose, to ensure that proposed metrics drive change and align to the key risk elements of the Group's ICS strategy
- **Climate Risk:** Recognised as a material cross-cutting risk for the Group. A number of Climate Risk metrics are being developed for introduction in 2022
- **Credit Risk:** A number of changes were made with regard to definitions and thresholds
- **Traded Risk:** Thresholds for a number of metrics were amended to reflect a change in methodology
- **Reputational Risk and Compliance Risk:** Changes largely related to the tightening of definitions and an increase in the reporting frequency of Compliance metrics from quarterly to monthly
- **Operational Risk:** Changes were proposed covering new and amended metrics. Existing metrics were challenged to reflect a more forward-looking view of the risks and ensure that new risks and elevated residual risks are sufficiently emphasised
- **Financial Crime Risk – Fraud:** New Fraud Risk Appetite metrics were proposed for Fraud Risk losses. This is part of the ongoing development and maturation of Fraud Risk management, with forward-looking metrics and a greater focus on elevated residual risks

Monitored actual exposures relative to Risk Appetite limits using regular Board Risk Information reports.

Tracked a broad range of risk metrics that are reported to the Committee periodically.

The Board Financial Crime Committee reviews the Risk Appetite Statement and metrics for Financial Crime Risk, excluding Fraud Risk.

→ Further details of the Group's Risk Appetite are set out on [page 250](#)

### Enterprise Risk Management Framework (ERMF)

The ERMF sets out the principles and standards for risk management across the branches and subsidiaries of the Group. The Committee:

- Reviewed proposed material changes to the ERMF, arising from the 2020 annual review, and recommended these changes to the Board for approval
- Discussed the approach and key outcomes of the 2020 annual effectiveness review of the ERMF. Affirmation was received from the GCRO that the Group's risk management and internal control framework is materially effective and improvement areas were highlighted for management attention

## Activities during the year continued

### Principal Risk Types

The Group's Principal Risk Types are reported on at each scheduled Committee meeting, through a Board Risk Information report, which accompanies the GCRO's report. In addition, the Committee had deeper discussions on the topics set out below.

In 2020, some changes were made to the Principal Risk Types, in order to reflect the changing risk dynamics and ensure appropriate focus. Accordingly, the definitions of Operational and Reputational Risk were expanded to include Technology and Sustainability Risk, respectively. Additionally, recognising the importance of Conduct Risk across the wider organisation, this will be managed through the overall ERMF, so that it becomes embedded in all Principal Risk Types. Furthermore, Country Risk should also be taken into account across all Principal Risk Types, with a particular focus on Credit Risk, which also now forms part of the overall framework.

#### • Operational and Technology Risk

The Group defines Operational and Technology Risk as the potential for loss resulting from inadequate or failed internal processes, technology events, human error, or from the impact of external events (including legal risks). Recognising the importance of Technology Risk, in December 2020, the Operational Principal Risk Type was expanded to include Technology.

The Committee:

- Discussed the risk profile for non-Financial Risk Types under the Operational Risk Principal Risk Type
- Discussed updates on Operational Risk, including the Operational Risk Enhancement project
- Reviewed and discussed the overall status of technology obsolescence including timelines and funding allocated. The Committee endorsed the timeline of the technology obsolescence programme
- Reviewed and discussed the Group's approach to IT governance, including management's plans to strengthen this

#### • Model Risk

Model Risk is the potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

The Committee:

- Reviewed and discussed the key risks and issues relating to Model Risk management frequently in 2020
- Reviewed management's action plans to improve current capabilities in Model Risk management
- Discussed Model Risk management benchmarking undertaken by an external consultant
- Discussed COVID-related impacts on models and resourcing in place, which all Board members were invited to attend

#### • ICS Risk

ICS Risk is the risk to the Group's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification or destruction of information assets and/or information systems.

The Committee:

- Discussed regular reports from management on the work underway to improve the Group's defences and create stronger control frameworks, focusing on what had gone well and could have gone better throughout the year
- Discussed regular reports on the Group's Transformation and Remediation Portfolio and ICS Risk profile
- Discussed and monitored the progress of key risk reduction initiatives across key controls domains
- Reviewed the Group's ICS three-year strategy and made a recommendation to the Board for endorsement
- Reviewed and discussed 2021 ICS Risk metrics, including Risk Appetite metrics
- Reviewed and discussed an external report on the Group's ICS programme and management's response
- Regularly sought assurance that the first, second and third lines of defence are aligned in progressing the Group's ICS priorities
- Received and discussed a paper setting out a deep dive review of the impacts of COVID-19 on ICS Risk

Sir Iain Lobban, who is one of the external adviser members of the Board Financial Crime Risk Committee and Cyber Adviser to the Board, joined Committee meetings for these discussions, together with the Group Chief Operating Officer, Group Chief Information Officer, the Group Chief Information Security Officer and Chief Operating Officer, Trust, Data and Resilience and the Group Chief Information Security Risk Officer.

## Activities during the year continued

### Principal Risk Types continued

#### • Capital Risk and Liquidity Risk

Capital Risk is the potential for insufficient level, composition or distribution of capital to support the Group's normal activities. Liquidity Risk is the risk that the Group may not have sufficient stable or diverse sources of funding to meet its obligations as they fall due.

The Committee receives a Treasurer's report at each meeting which covers market developments, liquidity, capital, recovery and resolution planning, together with rating agency updates.

During the year, the Committee considered and discussed the Group's capital and liquidity position and the regulatory environment, including the approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) submission to the PRA; in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and the likely anticipated outlook.

The Committee also considered and discussed the Group's Internal Liquidity Adequacy Assessment Process (ILAAP) for submission to the PRA, which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due (see section on stress testing for further details).

In December 2020, the Committee reviewed and provided feedback on the stress test scenarios for the 2021 Group and Solo ICAAP Stress Tests and the Reverse Stress Test.

The Committee held an informal session covering COVID-19 stress test and recovery capacity, which provided the Committee with an opportunity to discuss the results and insights from the COVID-19 stress test and the assessment of recovery capacity for capital and liquidity (see section on stress testing for further details).

→ Further details on Capital and Liquidity Risk are set out on [pages 259 and 260](#)

#### • Credit Risk

Credit Risk is the potential for loss due to failure of a counterparty to meet its agreed obligations to pay the Group.

The Committee received and discussed updates on Credit Risk. These discussions were further enhanced through deep dives into various country and business/client segments. For example, a paper on Retail Banking Unsecured Lending was discussed, which provided an overview of the Group's unsecured retail lending business, including the impact from COVID-19 and progress being made on the Retail strategy.

#### • Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the Group in Financial Markets.

The Committee received and discussed an update on major Traded Risk developments and changes.

A paper covering XVA hedge effectiveness was received and discussed.

→ Further detail on the Group's Principal Risk Types can be found on [page 251](#)

### Stress testing

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

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

The Committee provided oversight, challenge and approval for:

- The scenario and stress test results for the 2020 Group ILAAP Stress Test
- The scenarios and results for the 2020 Group ICAAP Stress Test and Reverse Stress Test

In December 2020, the Committee reviewed and provided feedback on the stress test scenarios for the 2021 Group and Solo ICAAP Stress Tests and the Reverse Stress Test.

The Committee held an informal session covering COVID-19 stress test and recovery. All Board members were invited to attend this session.

→ Further details of stress testing are set out on [page 251](#)

### Internal controls

Discussed reports from the Group Head of Internal Audit which provided summaries of GIA's appraisals of controls across key risks, subject to the Committee's oversight, together with the key risk issues identified by GIA's work and management actions put in place to address the findings.

The Audit Committee, Board Financial Crime Risk Committee and the Brand, Values and Conduct Committee discuss separate reports from the Group Head of Internal Audit on GIA's appraisal of controls across key risk types, subject to each respective Committee's oversight. Collectively, the reports received by these Committees provide assurance that there are effective internal controls within the Group.

## Activities during the year continued

### Remuneration as a risk management tool

Considered advice provided by the GCRO to the Remuneration Committee concerning the risk factors to be taken into account by the Remuneration Committee in determining incentives for the Group Chief Executive and other colleagues. Such advice assists the Remuneration Committee in its assessment as to whether the Group's remuneration policy, practices and procedures are consistent with and promote sound and effective risk management, and do not encourage risk-taking that exceeds the level of tolerated risk of the Group.

Further details concerning the Group's approach to using remuneration as a risk management tool are set out in the Directors' remuneration report.

### Regulatory

#### BCBS 239 Principles

In May 2020, the Committee received and discussed an update on the outcome of the BCBS 239 self-assessment as of end 2019, the roadmap for compliance and challenges faced by the Group to comply with BCBS 239.

At the end of the year, the Committee discussed the trajectory of the BCBS 239 Programme including the progress made and challenges faced.

The Committee will receive an update on the level of compliance (as at 31 December 2020), once the outcome of the self-assessment is available on 26 February 2021.

### Group regulator communications

The Committee discussed key communications from the PRA and FCA, where risk was the main theme.

### Examples of deeper discussions into specific topics

- **Blue sky thinking/horizon scanning:** Discussed the potential risks that the Group may be, or could become exposed to, in addition to the risks identified in the Emerging Risk disclosure in the 2019 Annual Report
- **Aviation Finance deep dive:** Received and discussed a paper covering the aviation finance operating lease and debt portfolios and the Group's strategy; the key risks in the business and steps being taken to address previous challenges and market developments; and benchmarking conducted against the Group's peers
- **Enterprise Risk Review (ERR) function:** Discussed the review and re-deployment activities undertaken by the ERR Credit Risk Review and Liquidity Risk Review teams in 2020. The Committee discussed the interaction between the ERR and GIA functions on credit review-related matters
- **Safety and Security Risk:** Received an update on Safety and Security Risk and discussion focused on how management is dealing with the impact from COVID-19, including WFH arrangements and business travel restrictions
- **Climate Risk management:** Discussed an annual progress update on Climate Risk, which all Board members were invited to attend. The Committee has monitored the progress being made against our Climate Risk workplan and the speed of execution in integrating Climate Risk into mainstream risk processes



Further detail on Climate Risk can be found on [page 269](#)

- **Operational resilience – Client Service resilience:** Discussed an update on progress being made to support the implementation of emerging regulatory requirements pertaining to the management of operational resilience
- **Wholesale Credit deep dive:** Discussed the annual Credit Risk review of the Group's Corporate, Commercial and Institutional Banking (CCIB) portfolio
- **IBOR transition:** The Committee received updates during the course of the year from an industry and Group perspective on the IBOR transition. The programme of work was discussed, including the work undertaken to manage the risks associated with this transition, in particular, the financial implications, legal risks and consequences for clients. The Committee continues to seek assurance that this Transition Programme is on track and adequately resourced. This will remain a key focus for 2021
- **CCIB Fraud Risk:** At the request of the Committee, a paper was received and discussed on the findings from a review of all first-party fraud instances related to credit exposures in CCIB. Focus was placed on the training programme being rolled out and during discussion the importance of first-line ownership was reinforced
- **SC Ventures – venture building:** SC Ventures is a business unit that provides a platform and catalyst for the Group to promote innovation, invest in disruptive financial technology and explore alternative business models. Following on from a discussion on SC Ventures governance in 2019, the Committee received and discussed papers setting out the venture-building activity of SC Ventures and Crypto-Asset Risk management. One of the outcomes of this discussion was a Committee teach-in on SC Ventures governance and a Board teach-in on Crypto-Assets, which both took place in 2020

## Committee effectiveness review

During 2020, an internally facilitated Board and Board committee effectiveness review was facilitated by the Group Company Secretary.

### Key observations from the 2020 internal effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- Overall performance has remained consistent, and the Committee Chair is well prepared and diligent
- Committee members would like papers to become more succinct, with key issues highlighted more clearly up front to help focus the Committee's discussions
- Committee members provided feedback on key areas of focus and topics for future training sessions

### 2021 Action Plan

The 2021 Action Plan for the Committee reflects suggestions from the evaluation and continues to build on the solid progress made last year:

- Ensure effective handover to the new Chair
- Consider ways to enhance discussions on ICS-related matters, operational resilience and technology obsolescence
- As with all Committees, keep under review the quality and length of papers and ensure they draw out the key issues to help focus the Committee's discussion effectively
- Schedule training sessions to include Treasury risks, technology and models

## Risk information provided to the Committee

The Committee is authorised to investigate or seek any information relating to an activity within its Terms of Reference, receives regular reports on risk management, and tracks a wide range of risk metrics through a Board Risk Information report. This report provides an overview of the Group's risk profile against the Group's Risk Appetite Statement. The GCRO's report covers the macroeconomic environment, geopolitical outlook, material disclosures and ongoing risks. Coverage of Principal Risk Types and regulatory matters are also included in this report. By way of example, regular updates on the US elections, Brexit and US-China tensions have been reported on and discussed throughout the year.

The Committee has the authority to request and receive relevant information consistent with the requirements of BCBS 239 that will allow the Committee to fulfil its governance mandate relating to risks to which the Group is exposed, and alert senior management when risk reports do not meet its requirements.

## Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and the Half Year Report, and has also reviewed the disclosures regarding the work of the Committee.

## Interaction with the Group Chief Risk Officer

The Committee Chair meets individually with the GCRO regularly between formal Committee meetings. These meetings allow open discussion of any matters relating to issues arising from the Committee's formal discussions and inform the forward-looking agenda.

## Interaction with management

The Committee is mindful of the need to hold management directly accountable when issues have arisen and have been reported by the GCRO. Senior management has attended Committee meetings for deeper discussions in such instances. The Committee Chair also meets individually with senior leaders of the Risk function.

## Interaction with regulators

The Committee Chair meets periodically with the Group's UK lead regulators, the PRA, as well as the FCA.

Typically, the Committee meets with the PRA on an annual basis, without members of management being present. In 2020, this meeting was postponed due to COVID-19. The purpose of these meetings is to enable a discussion between the Committee and the PRA concerning prudential-focused topics.

## Interaction between Board committees on risk-related issues

In the few instances where it does not have primary oversight for a given type of risk, the Committee interacts closely with other Board Committees where the remit of these other Committees clearly covers risk-related matters. For example, the Audit Committee has oversight of the Group's internal financial controls and regulatory compliance; the Board Financial Crime Risk Committee has oversight of the responsibilities in relation to financial crime compliance-related matters; and the Brand, Values and Conduct Committee has oversight of the mechanisms by which Reputational Risk is managed. The interaction assists the Committee in ensuring that it is well informed on discussions held, and the close collaboration of the Committee Chairs helps to ensure that there are no gaps and any potential for unnecessary duplication is avoided.

## Risk function resourcing

The Committee has sought and received assurance that the Risk function is adequately resourced to perform its function effectively. The Committee's discussions included an overview of the changes to the Risk function in 2020; and management's forward-looking view of the Risk function.

## Linkages with subsidiary board risk committees

In conjunction with the Chair of the Board Financial Crime Risk Committee, David Conner (the outgoing Committee Chair) co-hosted an annual call with the chairs of subsidiary board risk committees in July 2020. David Conner also attended a board risk committee of Standard Chartered Bank Nigeria Limited as an observer.



Details of this call can be found on [page 107](#)

# Brand, Values and Conduct Committee



“The Committee provided guidance and challenge to ensure new policies and practices remained consistent with the Group’s values and supported long-term sustainable success”

## Committee composition

	Scheduled meetings
J M Whitbread (Chair)	4/4
C M Hodgson, CBE	4/4
N Okonjo-Iweala*	4/4
D Tang	4/4
D Conner (Appointed 1 December 2020)	1/1

\* Ngozi Okonjo-Iweala will step down from the Committee on 28 February 2021.

## Other attendees at Committee meetings in 2020 included:

Group Chairman; Group Chief Executive; Group Head, Human Resources, the Group Head Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance and the Group Company Secretary.



Biographical details of committee members can be found on [pages 83 to 86](#).

## Main responsibilities of the Committee

The Committee has responsibility for reviewing the Group’s brand, culture, valued behaviours and conduct, as well as the processes by which the Group identifies and manages workforce engagement framework, reputational risk, sustainability priorities and the approach to main government and regulatory relationships.

The Committee reports to the Board on its key areas of focus following each Committee meeting.



The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](#)

In an extraordinary year, the Committee focused its attention on employee engagement and wellbeing; support for our communities and clients; and driving forward our sustainability agenda.

During the first quarter, in response to COVID-19 social distancing restrictions, a fundamental change to our working practices took place with the vast majority of our colleagues around the world adapting to the demands of remote working. The Committee provided guidance and challenge to ensure new policies and practices remained consistent with the Group’s values and supported long-term sustainable success. Plans for investment in employee wellbeing initiatives were accelerated and the Committee endorsed the launch of the Group’s Standard for Tackling Domestic Violence and Abuse to support the wellbeing of colleagues following global reports of an increase of domestic violence as a result of the pandemic.

In the early stages of the pandemic the Committee monitored progress on delivery of the \$50m COVID-19 Charitable Fund and the launch of the \$1bn financing at cost for COVID-19 mitigation across qualifying Global and Commercial Banking clients.

Given the particularly challenging circumstances faced by all in 2020, maintaining two-way dialogue with the workforce remained a high priority for the Board and enhancements to the workforce engagement framework continued at pace. The 2020 workforce engagement plans were updated in response to travel restrictions and four regional calls were hosted by Board members. The agenda for each call comprised relevant themes for each region in order to support meaningful dialogue. The Committee noted the positive feedback received from employees on the engagement sessions and continues to discuss how to make these sessions more interactive and to increase employee participation further. During the year, the Committee also held an informal session with the Americas Management Team to discuss culture, brand, diversity and inclusion.

With diversity core to our purpose, this year’s heightened focus on the Black Lives Matter movement acted as a spur to increase listening and engagement with colleagues, develop appropriate toolkits for use with clients and communities, and set ethnicity targets for senior leadership in the US and UK.

Since the diversity and inclusion strategy was launched two years ago, the Committee has seen improvements across the key performance indicators, and we continue to discuss the work undertaken on inclusion and the progress being made.

In last year’s report, I provided an update on the development and embedding of the Culture and Conduct Dashboards. During the year, the Committee discussed the functionality of the Conduct Dashboard and monitored progress on embedding it across the organisation. Committee members received a practical demonstration on how the business was using and responding to the Conduct Dashboard noting that the insights would provide Management with enhanced trend analysis across the conduct risk sphere.

The Group’s sustainability strategy rests on three pillars. Following discussion by the Board on the first pillar, sustainable finance, the Committee undertook deep dives into the remaining two pillars – specifically relating to the Group’s ambition to build its reputation and its external sustainability leadership position, as well as the Group’s work on inclusive communities and promoting economic inclusion and tackling inequality. This included consideration of the rapidly evolving external landscape in relation to ESG reporting and indices as well as the development of our Futuremakers programme which focuses on education, employability and entrepreneurship within our communities.

Sustainability within our supply chain continues to be a key focus area and the Committee reviewed progress being made on supply chain data, labour standards and aspirational targets to achieve the living wage across the Group’s supply chain.

The following report provides further insight into the Committee’s work during the year.

**Jasmine Whitbread**

Chair of the Brand, Values and Conduct Committee

## Activities during the year

### Board-workforce engagement and workforce policies and practices

The Committee has responsibility for overseeing the Board's engagement framework with the workforce and ensuring workforce policies and practices remain consistent with the Group's valued behaviours, in order to satisfy certain provisions in the UK Corporate Governance Code.

This year the Group has adapted working practices to meet the needs of the workforce during the COVID-19 pandemic while enhancing our Board-workforce engagement. Technology has played a central role in ensuring interactive and two-way engagement between colleagues and Board members across our global footprint at a time when travel has been unprecedentedly restricted.

The Committee has overseen the following activity:

- The making of significant changes to working practices during the pandemic, including accelerating the planned investment in wellbeing support, and commencing a new project (Future Workplace, Now) to capitalise on the strategic opportunities created by the pandemic and address employee questions about future flexibility and ways of working
- The launch of a People Leader Standard and a Standard for Tackling Domestic Violence and Abuse
- The annual engagement survey (My Voice) and COVID-19 pulse survey across the Group
- The Board hosted four regional engagement calls covering the Africa & Middle East, ASEAN & South Asia, Europe & Americas and GCNA regions, facilitated by an online Q&A session and polling tool, to enable Board members to engage with colleagues in an interactive manner with as much two-way dialogue as possible. The themes covered during the sessions varied from region to region, covering people-related topics such as redundancies, remuneration, diversity and future skills, as well as strategic topics such as the Group's investment in digital and technology, geopolitical tension, the role of the Board and the long-term impact of COVID-19 on the Group's business
- The feedback loop that would support the Board and workforce dialogue and the enhancements that would strengthen the Board's accountability to the workforce

 [Further details regarding the Board's regional engagement calls with colleagues can be found on \*\*pages 105 and 106\*\*](#)

### Workforce engagement framework: how we engaged during 2020



### Culture and valued behaviours

The Committee:

- Reviewed the culture transformation progress across the Group towards building an inclusive, innovative culture underpinned by sustainability and conduct
- Reviewed the key insights from the Brand and Culture Dashboard, including developments to the Dashboard to increase its adoption across the Group, aiming to drive discussion and action on culture change
- Discussed the steps being taken to create a clear link between the Group's purpose and strategy
- My Voice employee survey results and interpretation, assessing and monitoring the Group's culture and valued behaviours with a focus on Employee Value Proposition metrics and future ways of working
- Reviewed the Group's approach to Diversity and Inclusion and discussed the focus to create a more inclusive workplace through initiatives across the Group's unique footprint
- Held a session with the Americas management team on culture, brand, diversity and inclusion. The session provided an opportunity to gain insight into key areas of focus including community engagement and racial equality, an area brought into greater focus following the Black Lives Matter movement

## Activities during the year continued

<b>Culture Dashboard insight: monitoring an inclusive culture</b>	<p><b>Why does the Committee monitor the culture of inclusion:</b> Inclusion is the key to harnessing the Group's unique diversity, unlocking innovation and creating shareholder value.</p> <p><b>How does the Committee monitor inclusion:</b> The Brand and Culture Dashboard reports on an inclusion index, an aggregation of data from eight questions in the annual employee survey. The index covers areas such as access to growth and development opportunities, supportive leadership and having the tools needed to do one's job. This data is then used by the Committee, along with additional insights from My Voice and the broader Brand and Culture Dashboard, as a source of information to track progress on the effectiveness of Group initiatives and provide challenge and observations that are fed back into the Group's programmes.</p>
<b>Brand</b>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>• Discussed the Group's Brand Refresh Campaign brand</li> <li>• Discussed the brand evolution to update the visual identity of the Group to reflect increased digital usage</li> <li>• Held a session with the Americas management team which included a discussion on the brand building campaigns across the Americas</li> </ul>
<b>Conduct</b>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>• Discussed the steps being taken by Management to embed Conduct into the three lines of defence</li> <li>• Discussed and received assurance on COVID-19 conduct risks considerations and response</li> <li>• Provided oversight of the Conduct Dashboard implementation, discussing the functionality and embedding the Dashboard</li> <li>• Received a demonstration from the Wealth Management team on how it used the Dashboard and gained insight into the conduct framework's contribution to the business</li> </ul>
<b>Reputational Risk management</b>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>• Received updates on monitoring Reputational and Conduct Risk during COVID-19</li> <li>• Discussed the expanded reputational and sustainability risk definition and the approach on embedding key ESG risk</li> <li>• Discussed the work being undertaken by the Group to understand positive and negative reputational risk drivers across its markets, drawing together insights from the Reputational Risk and Corporate Affairs teams. Reflected on the external environment and changing expectations on corporates in the light of events in 2020, in particular the increased focus on stakeholder capitalism and 'building back better'</li> <li>• Provided oversight of the key reputational risk themes being tracked across the Group</li> <li>• Provided oversight on how the Group's Position Statements were aligned to the Group's Risk Appetite</li> </ul>
<b>Sustainability</b>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>• Discussed the Group's Sustainability Leadership Strategy and further actions that it will take on addressing climate change and promoting financing that supports sustainable development</li> <li>• Discussed and endorsed the Group's creation of the \$50 million COVID-19 Global Charitable Fund</li> <li>• Monitored the Group's compliance with its public commitments in relation to ESG and integration of ESG Risk management</li> <li>• Discussed stakeholder capitalism and stakeholder views and concerns around the changing external environment and how the corporate sector responds</li> <li>• Provided oversight on diversity within the Group's supply chain</li> <li>• Received an update on the roll-out of the Group's community strategy, Futuremakers by Standard Chartered</li> <li>• Monitored the Group's compliance with its public commitments in relation to ESG matters including the Sustainability Aspirations, and resultant scores from ESG analysts and indices</li> </ul>
<b>Government and regulatory relationships</b>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>• Reviewed the Group's approach to its main government and regulatory relationships across its key markets, focusing on the quality of these relationships and emerging themes for the next twelve months</li> <li>• Provided input on the areas of priority for the Group including issues of geopolitical importance, implications of COVID-19 for banks and financial system stability, regulatory reform, Brexit, climate change, fintech and innovation and country/regional-specific issues</li> </ul>

## Committee effectiveness review

As part of the 2020 internal Board evaluation, a review of the Committee's effectiveness was conducted. Broadly, members felt that the Committee was continuing to function highly, and that the agenda had matured over the past year. A summary of key observations and the subsequent recommendations can be found below.

Progress against the actions set out in the Committee's 2020 Action Plan has been positive; a summary of the progress against each of the actions is set out below.

### Progress against the 2020 Action Plan:

- Enhancements to the workforce engagement framework continued during the year. The 2020 workforce engagement plans were updated in response to travel restrictions and face-to-face sessions were replaced by four regional calls hosted by Board members
- During the year, the Committee discussed the functionality of the Conduct Dashboard and monitored progress on embedding it across the organisation. Committee members received a practical demonstration on how the business was using and responding to the Conduct Dashboard noting that the insights would provide Management with enhanced trend analysis across the conduct risk sphere
- The Group's sustainability strategy rests on three pillars. Following review by the Board on the first pillar, sustainable finance, the Committee undertook deep dives into the remaining two pillars – specifically relating to the Group's ambition to build its reputation and its external sustainability leadership position, as well as the Group's work on inclusive communities and promoting economic inclusion and tackling inequality. This included consideration of the rapidly evolving external landscape in relation to ESG reporting and indices as well as the development of the Futuremakers programme
- The Committee held a joint strategy session with the Remuneration Committee to discuss common topics around culture, values and brand

### Key observations from the 2020 internal effectiveness review

- Committee members felt that they had made steady progress during the year on all topics in their remit
- Feedback for the Chair was positive. The Chair allowed Committee members the time to have robust discussion while keeping meetings on track. The Chair's style was noted as being open and inclusive
- The Committee may consider inviting external advisers or presenters to offer different perspectives on key issues and to extend the Committee's horizons
- In terms of composition, the Committee was felt to be well stocked with relevant expertise
- Committee members rated the quality of the information the Committee gets highly, and the Conduct Dashboard was felt to be a positive addition to the Committee's work
- Members noted that any existing overlaps between the Brand, Values and Conduct Committee and, for instance, the Remuneration Committee had been well handled during the year by holding joint meetings

### 2021 Action Plan

The 2021 Action Plan for the Committee reflects suggestions from the evaluation drawn together with the Committee's forward-looking agenda for next year:

- Consider reinforcing the Committee's expertise on sustainability and environmental issues, particularly climate change
- Consider inviting further guest speakers and contributors to meetings on specific, key topics to add new perspectives

# Governance and Nomination Committee



“The Committee remained focused on ensuring that the combined skillset, experience and capabilities of the Board further enhanced the effective oversight of the Group’s refreshed strategy”

## Committee composition

	Scheduled meetings	Ad Hoc
J Viñals (Chair)	4/4	2/2
N Kheraj	4/4	2/2
C M Hodgson	4/4	2/2
J Whitbread	4/4	2/2
D Conner (Stepped down 1 December 2020)	4/4	2/2
P G Rivett (Appointed 1 December 2020)	0/0	0/0

## Other attendees at Committee meetings in 2020 included:

Group Chief Executive; Group Head, HR; and the Group Company Secretary.



Biographical details of the committee members can be viewed on [pages 83 to 86](#)

## Main responsibilities of the Committee

The Committee has responsibility for keeping the size, structure and composition of the Board and its committees under review. As part of the Committee’s succession planning for the Board, it takes into account the Group’s strategy and challenges, and makes recommendations to the Board in respect of any adjustments to the Board’s composition. The Committee also: keeps under review the leadership needs of, and succession plans for, the Group in relation to both executive directors and other senior executives; has oversight of the process by which the Board, its committees and individual directors assess their effectiveness; keeps the diversity of the Board under review and monitors progress towards achieving its objectives in this area; considers any potential situational conflicts of interest declared by Board members; considers the impact of material changes to corporate governance regulation and legislation affecting the Group, and has oversight of the Group’s approach to subsidiary corporate governance.

The Committee reports to the Board on its key areas of focus following each Committee meeting.



The Committee has written Terms of Reference that can be viewed at [sc.com/termsofreference](https://sc.com/termsofreference)

During the year the Committee remained focused on ensuring that the combined skillset, experience and capabilities of the Board further enhanced the effective oversight of the Group’s refreshed strategy, while maintaining a balanced composition over the medium to longer term.

Louis Cheung, a long standing INED retired from the Board in March 2020. We discussed the balance of characteristics, criteria and attributes required of future Board members, taking into account feedback from last year’s externally facilitated effectiveness review and during the year, identified and recommended to the Board the appointment of two new INEDs. Phil Rivett joined the Board at our AGM in May. Phil brings significant professional accountancy and audit experience, specifically from within the financial services sector and was joined more recently by Maria Ramos in January 2021. Maria has extensive CEO, banking, commercial, financial, policy and international experience. Following the recent announcement of Ngozi Okonjo-Iweala’s appointment as Director-General of the WTO from 1 March 2021, Ngozi will step down from the Board on 28 February 2021. On behalf of the Board I would like to thank Ngozi for her valuable insight and contributions over the past 3 years.

We also refreshed the membership of a number of Board committees, most notably towards the end of the year, when Phil Rivett succeeded Naguib Kheraj as Chair of the Audit Committee and Naguib took over from David Conner as Chair of the Board Risk Committee.

Our focus on succession plans remained broader than the Board and its committees. We continued to focus in detail on succession readiness and plans for the executive directors, the Management Team and other senior executives, as well as initiatives underway to develop talent internally. We were able to assure ourselves that succession readiness had improved through the year and that all key roles have credible plans with suitable flexibility for the immediate to longer term.

As part of our annual review of the Board Diversity Policy we discussed the importance of the Policy remaining relevant and aligned with the diversity of our footprint and governance recommendations, specifically in the area of gender, social and ethnic backgrounds, knowledge, personal attributes, skills and experience. We recommended adopting a new diversity aspiration, that the Board is composed of a minimum of 30 per cent of directors from ethnic minority backgrounds. More detail on these changes along with the ethnicity of our Board can be found on pages 126 to 128.

The Committee also spent time reviewing plans for the Board’s engagement with the workforce, taking into account the UK Corporate Governance Code provisions. We enhanced the already significant dialogue the Board has with the workforce with the introduction of quarterly engagement calls targeted at each of the regions. With COVID-19 impacting the ability for the Board to travel across our markets through 2020, these virtual sessions proved key in being able to continue our direct dialogue with the workforce across the Group. Given the ongoing travel restrictions we are planning to further expand this engagement in 2021. Insight into the sessions held this year and the key outputs are set out on pages 105 and 106.

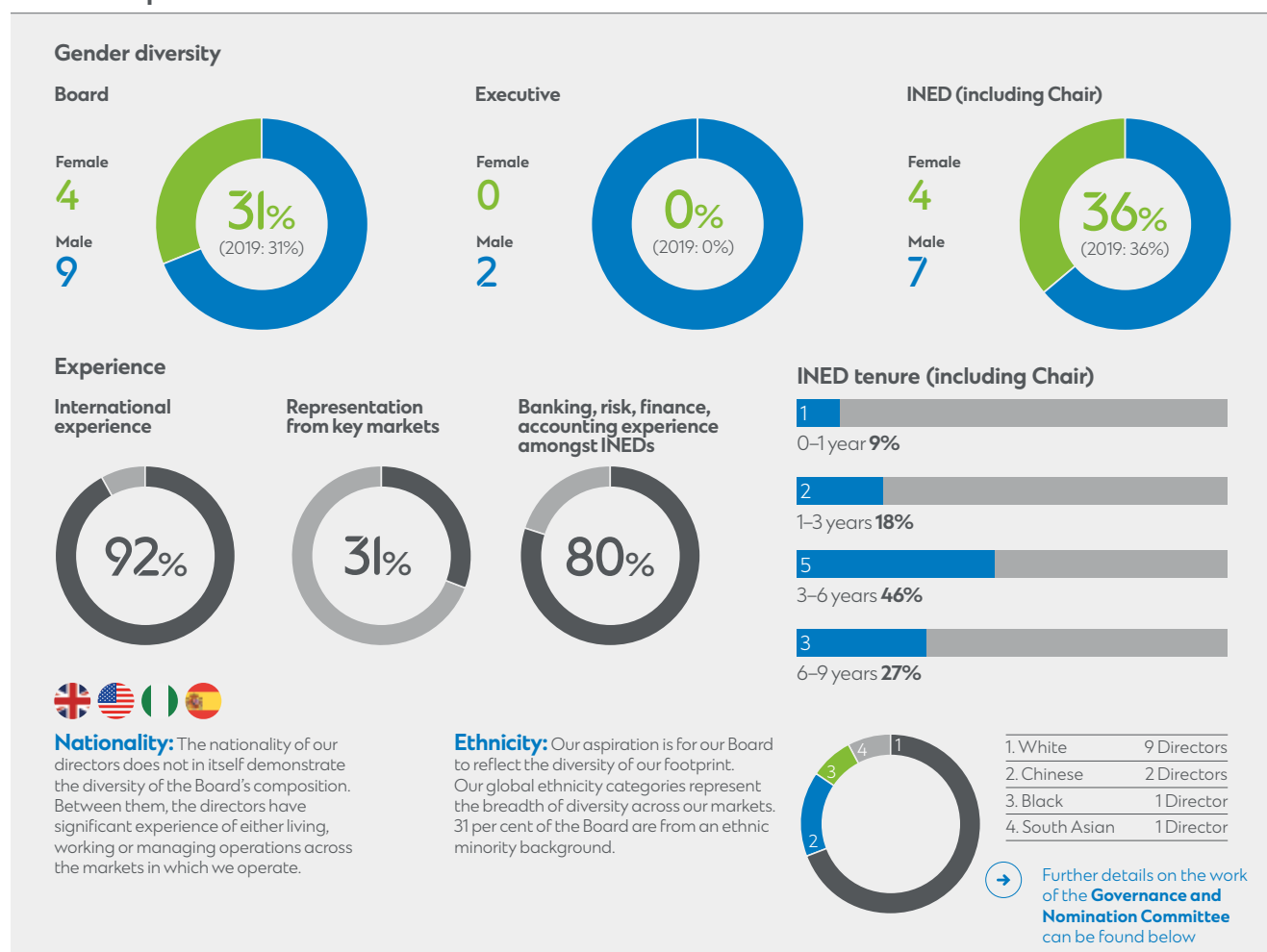
As part of its governance oversight role, the Committee continued to receive updates from the regional CEOs who each have responsibility for the subsidiary governance processes across their regions, and provide a holistic view of the governance framework and challenges faced across the Group’s footprint. The Committee also oversaw the embedding of a workable and sustainable governance structure to support the UK and GCNA hub model.

The Committee oversaw progress made in meeting the actions recommended in last year’s externally conducted Board effectiveness review and agreed the approach taken to this year’s internally run evaluation. Details of both are set out on page 100. We also reflected on the progress the Committee has made against those actions highlighted in its own effectiveness review. This year’s Committee effectiveness review was also conducted internally, the results of which showed some significant improvements around focus and clarity of purpose. A summary of the key findings and actions for 2021 can be found on page 129.

**José Viñals**

Chair of the Governance and Nomination Committee

## Board composition as at 31 December 2020





## Activities during the year

### Board and senior talent succession planning

- Discussed the composition of the Board and considered the orderly succession of current INEDs and the skills, knowledge, experience, diversity (in the widest sense) and attributes required of future INEDs, both immediately and in the medium to longer-term. In considering the Board's succession, the Committee takes into account the length of tenure of the INEDs, and the importance of regularly refreshing the Board membership
- Systematically reviewed a number of INED long and short lists throughout the year to identify potential candidates with a diverse range of skills, experience, knowledge and perspectives
- Engaged the executive search firms Heidrick & Struggles\* and Egon Zehnder\*, to review the market, resulting in the emergence of Phil Rivett and Maria Ramos as highly regarded candidates. Between them they bring a strong technical understanding, professional accountancy and broad financial and business experience along with a wealth of CEO, banking, commercial, financial, policy and international experience
- Discussed Phil Rivett and Maria Ramos' candidacy and recommended them to the Board for appointment as INEDs
- Introduced a more tailored induction programme for new INEDs. Reviewed the induction plans of new INEDs ahead of their appointment
- Provided oversight of the detailed executive and senior management (level below Management Team) succession plans, including diversity
- Reviewed succession plans for the committee chair roles, identifying appropriate individuals with the necessary skills and attributes to provide emergency cover as required, as well as on a longer-term basis, including acknowledging and addressing where gaps exist. Out of this process the Committee recommended the appointment of Phil Rivett to succeed as Chair of the Audit Committee and Naguib Kheraj as Board Risk Committee Chair
- Conducted a review of the search firm providers for the next stage of the Board's succession planning

\* Heidrick & Struggles and Egon Zehnder are a signatory to the voluntary code of conduct for executive search firms. Heidrick & Struggles and Egon Zehnder also supply senior resourcing to the Group

## Activities during the year continued

<b>Board and committees' effectiveness review</b>	<ul style="list-style-type: none"> <li>• Provided oversight of the Board and committees' internal evaluation, facilitated by the Group Company Secretary, and monitored progress against the 2020 Action Plan which incorporated the findings from Independent Board Evaluation and the PRA's review of the Board</li> <li>• Discussed the observations and recommendations which flowed from the 2020 internally facilitated Board and committees' review and discussed the shape of the Board's 2021 Action Plan</li> </ul> <p> Details of this year's Board and committees' evaluation, including the process which we followed, observations from the review and the resulting 2021 Action Plan can be found on <a href="#">page 100</a></p>
<b>Board Diversity Policy</b>	<ul style="list-style-type: none"> <li>• Reviewed progress made in 2020 against the agreed objectives set out in the Board Diversity Policy, including how the Board has performed in achieving its stated aim to have 33 per cent female representation on the Board</li> <li>• Discussed the role of the Board Diversity Policy in advancing the composition and effectiveness of the Board and recommended two changes to the Policy. The first change reflects the Board's aspiration for the Board to reflect the diversity of the Group's footprint by introducing an aspiration that 30 per cent of directors are from an ethnic minority background. The second change reflects the Group's aspiration in relation to other strands of diversity, such as disability, sexual orientation, gender identity and gender expression</li> </ul> <p> Further details of progress the Board has made against the key objectives set out in the <a href="#">Board Diversity Policy</a> are set out below</p>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Enhanced the mechanism for dialogue between the Board and the workforce. Introduced quarterly engagement calls, one for each region. The Committee agreed that the oversight for the Board's approach to workforce engagement transitioned to the Brand, Values and Conduct Committee</li> </ul>
<b>Conflicts of interest</b>	<ul style="list-style-type: none"> <li>• Conducted an annual review of the directors' existing and previously authorised potential and actual situational conflicts of interest and considered whether any circumstances would necessitate the authorisation being revoked or amended. Also noted directors' other directorships and business interests, taken during the year in the context of time commitment, overboarding and the PRA limits on directorships as well as other regulatory requirements in this area</li> </ul>
<b>Assessment of the non-executive directors' independence</b>	<ul style="list-style-type: none"> <li>• Considered the independence of each of the non-executive directors, taking into account any circumstances likely to impair, or which could impair, their independence</li> <li>• Noted the thorough process undertaken to assess individual director performance and effectiveness, taking these reviews into account along with tenure and succession plans in making its recommendation to appoint the INEDs for a further year</li> </ul>
<b>Subsidiary governance</b>	<ul style="list-style-type: none"> <li>• Received updates from the four Regional CEOs on the Group's approach to subsidiary governance. Received assurance of effective oversight and compliance with the Group's Subsidiary Governance Policy</li> <li>• Discussed linkages between banking subsidiaries and the Group, and the process for escalation of key risks</li> <li>• Considered the most effective, robust and practical governance structure to support the UK and Hong Kong regional hub model. Discussed the composition of Standard Chartered Bank's Court to ensure a substantially mirrored board while ensuring clarity in respect to operational governance and linkages</li> </ul>
<b>Terms of Reference</b>	<ul style="list-style-type: none"> <li>• Conducted a review of the Committee's Terms of Reference during the year, taking into account the responsibilities, obligations and best practice principles it has in the UK and Hong Kong</li> </ul>

### Implementation of the Board Diversity Policy

The Committee conducted its annual review of the Board Diversity Policy (the Policy) during 2020, to ensure that it continues to promote and drive diversity in its broadest sense, while continuing to take account of best practice initiatives, including the Parker Report into ethnic diversity, the Hampton-Alexander Review on women in leadership positions and the UK Corporate Governance Code 2018. This year we recommended two important changes to the Policy, in part to keep pace with current market diversity and governance recommendations and to align more closely to the aspirations of the Group. The first amendment was the adoption of an ethnicity aspiration of a minimum 30 per cent from an ethnic minority background, demonstrating the Board's commitment to reflecting the business and network we operate. The second was to ensure that the composition of the Board considers the Group's aspirations in relation to other strands of diversity including: disability, sexual orientation, gender identity and gender expression.

We strive to maintain a diverse Board recognising the benefits of having a Board made up of individuals with a diverse mix of gender, social and ethnic backgrounds, knowledge, personal attributes, skills and experience. We also aim to reflect the Group's aspirations in relation to its employees and its values and to position the Group as a global leader in these areas. This diversity provides a range of perspectives which we believe contribute to the effective Board dynamics.

Aligned to the Policy's broad ambition, following this year's additions it has seven specific objectives which the Board remains committed to in order to further enhance progress in this area:

- Increasing the representation of women on the Board with an aim to have a minimum of 33 per cent female representation
- Adopting an ethnicity aspiration of a minimum of 30 per cent from an ethnic minority background
- Ensuring that our Board reflects the diverse markets in which we operate

- Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds
- Ensuring that we consider the Group's aspirations in relation to disability, sexual orientation, gender identity and gender expression
- Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search firms
- Reporting annually on the diversity of the executive pipeline as well as the diversity of the Board, including progress being made on reaching the Board's gender and ethnicity aspirations

- Details of the Board's diverse composition are set out on **pages 83 to 86** of this report, and that of the Management Team can be found on **pages 87 to 89**
- Details of the Group's wider Diversity and Inclusion strategy, including gender balance across the Group and targets for ethnic representation can be found on **page 61** of this report
- + A copy of the full Board Diversity Policy can be viewed at [sc.com/boarddiversitypolicy](https://sc.com/boarddiversitypolicy) and further details on the Group's approach to Diversity and Inclusion can be viewed at [sc.com/diversity-and-inclusion](https://sc.com/diversity-and-inclusion)

Progress against the key objectives set out in the Board Diversity Policy are set out below. The more recent changes to the Policy were made at the end of 2020. Progress against the new aspirations will be reported in next year's report.

Board Diversity Policy objectives	Progress update
<b>Increasing the representation of women on the Board with an aim to have a minimum of 33 per cent female representation</b>	Increasing gender representation on the Board continues to be an important focus of the Board's succession planning process, ensuring that female candidates are fairly represented on long and short lists. The Board changes in 2020 (retirement of Louis Cheung and the appointment of Phil Rivett) did not impact the proportion of female directors, which has remained unchanged at 31 per cent. In addition, the Board announced the appointment of Maria Ramos who joined the Board on 1 January 2021. Female representation has increased significantly from 10 per cent in 2014 to 31 per cent today.
<b>Ensuring that our Board reflects the diverse markets in which we operate</b>	What sets Standard Chartered apart is our diversity of people, cultures and networks. The Board has representation from across the regions in which we operate, including the UK, North America, Asia and Africa. Many of the INEDs have additional experience of having worked and lived in many of the Group's markets. A significant number of INED candidates considered as part of the succession planning process this year were representative of some of our key regions and markets. Maria Ramos was recommended by the Committee to the Board as part of this process and joined the Board as an INED on 1 January 2021. Maria is based in South Africa and has significant emerging markets experience, particularly within Africa.
<b>Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds</b>	Throughout the year the Committee has focused on identifying the skills and expertise required both immediately and in the medium to longer term. It has systematically reviewed candidate longlists to identify potentially suitable INED candidates. Areas of particular focus in 2020 included wide-ranging emerging markets, commercial, CEO, finance, banking and accounting experience, and geographical representation from across our key markets.
<b>Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search firms</b>	We continue to engage only search firms signed up to the Voluntary Code of Conduct. During 2020 the Committee engaged Egon Zehnder and Heidrick & Struggles to assist in identifying and building a pipeline of high-quality potential INED candidates. Egon Zehnder and Heidrick & Struggles are both signed up to the Voluntary Code and remain committed in supporting our ambitions to widen all aspects of diversity on the Board.
<b>Reporting annually on the executive pipeline as well as the diversity of the Board, including progress being made on reaching the Board's gender target</b>	The Committee takes an active role in reviewing the succession planning for the executive directors, Management Team and senior management one level below the Management Team. In recent years we have further improved our reporting of Board and senior talent succession planning as well as reporting on the importance of a diverse Board as a means of capturing differing perspectives and enhancing discussion.

## Committee effectiveness review

As part of the 2020 internal Board evaluation, a review of the Committee was conducted. Broadly, members felt that the Committee's performance had improved this year, with a greater focus on timeliness of decisions, results, and clarity of agenda and purpose. A summary of the key observations and the subsequent recommendations can be found below.

Progress against the actions set out in the Committee's 2020 Action Plan has been positive; a summary of the progress against each of the actions is set out below.

### Progress against the 2020 Action Plan

- The development of a Board manual in relation to succession plans is ongoing, with progress expected in the year ahead

- Introduced a formal template of Board skills and a matrix that tracks existing skills, knowledge, diversity and experience to support the Committee's succession planning processes
- Introduced a more robust and tailored Board induction programme, for new Board and committee members
- COVID-19 prevented the Board travelling through 2020, impacting the Committee's ability to ensure members of the Committee had sufficient time and contact with high-potential employees across the business. However, many of these individuals continued to have exposure to the Board through presentations to the Board and committees. In person contact will resume once visits to markets allow for interaction and more informal sessions

### Key observations from the 2020 internal effectiveness review

The feedback from the 2020 internally conducted Governance and Nomination Committee effectiveness review was broadly positive. There was an overall feeling that the Committee's performance had improved during the year, with a greater focus on timeliness of decisions, results, and clarity of agenda and purpose. Some of the key findings highlighted that:

- The Committee was well chaired, with more purposeful discussion this year
- Despite the Committee having exercised diligent oversight of succession for key executive roles in recent years, there were not as many firm options in place as members would like
- The Committee could improve its management of search consultants to raise the quality of candidate lists coming through and to improve the reach into markets in Asia, Africa and the Middle East
- The Committee is broadly happy with its own composition, although there is some sensitivity around discussing succession for Committee Chairs as a result

### 2021 Action Plan

The 2021 Action Plan for the Committee reflects suggestions from the evaluation and continues to build on the solid progress made last year:

- Continue to enhance the induction programme and ongoing training for directors
- Continue to ensure sufficient time is allocated in the annual calendar for the Committee to be exposed to internal high-potential individuals
- Commission external market mapping of candidates for key management roles
- Refresh the Board skills matrix and review succession plans for Committee chairs

# Board Financial Crime Risk Committee



“The Group continues to strive to remain at the forefront of the ongoing fight against financial crime”

## Committee composition

	Scheduled meetings
G Huey Evans, OBE (Chair)	4/4
D P Conner	4/4
C M Hodgson, CBE	4/4
N Kheraj	4/4
C Tong	4/4
<b>External adviser members</b>	
B H Khoo	4/4
Sir Iain Lobban	4/4

## Other attendees at Committee meetings in 2020 included:

Group Chairman; Group Chief Executive; Group Head, Conduct, Financial Crime and Compliance; Group General Counsel; Group Chief Risk Officer; Global Co-Heads, Financial Crime Compliance; Group Head of Internal Audit; the Global Head, Government Investigations and the Group Company Secretary.

Byron Grote, Jasmine Whitbread and Ngozi Okonjo-Iweala attended one Committee meeting in 2020 as part of their ongoing engagement programmes. David Tang and Phil Rivett attended two Committee meetings in 2020 as part of their induction programmes. As part of, and in addition to, each scheduled Committee meeting, the Committee held private members-only meetings.

The Committee's membership is currently comprised of five INEDs and two independent external adviser members who are neither directors nor employees of the Group, but who provide a valuable external perspective and have extensive experience in counter-terrorism, cyber security and international security.



Biographical details of the committee members can be viewed on [pages 83 to 86](#)

## Main responsibilities of the Committee

The Committee provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor and prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties. The Committee reports to the Board on its key areas of focus following each Committee meeting.



The Committee has written Terms of Reference that can be viewed at [sc.com/termsreference](https://www.sc.com/termsreference)

As Chair of the Board Financial Crime Risk Committee, I am pleased to present the Board Financial Crime Risk Committee's report for the year ended 31 December 2020.

The Committee has placed particular focus on the impacts of COVID-19 on Financial Crime Risk (FCR) and colleagues working from home (WFH). The Committee was pleased to note the establishment of a Financial Crime Working Group to identify COVID-related emerging risks and take action to address these. Furthermore, regular reporting from GIA has provided assurance on the effectiveness of controls during these unprecedented times. The Committee has continued to monitor the Group's control capability to ensure the Group is well protected against FCR.

The Committee has monitored the US Supervisory Remediation Programme and was pleased to note its closure at the end of 2020. Furthermore, in November 2020, Navigant and the New York Department of Financial Services completed their review activities related to US Demand Deposit Accounts, marking the end of the Bank's engagement with Navigant. Key lessons were learnt and the Committee has been focused to ensure that these are well embedded within the Group.

Attention has been placed on the US-China relationship and risks and challenges relating to Hong Kong/China sanctions and the Hong Kong National Security Law (NSL). The Committee discussed the Group's Sanctions Policy and sought and received assurance that the Group's approach is in line with industry peers and continues to drive compliance with all laws and regulations. The CEO of Standard Chartered Bank (Hong Kong) Limited attended one of the discussions, and the Committee found it useful to hear 'on the ground' perspective on the challenges faced locally.

At the request of the Committee, papers on SC Ventures and New Payment Method Oversight were received and discussed. With regard to SC Ventures, the Committee discussed the framework adopted to identify, manage and mitigate FCR within SC Ventures. The balance to be struck between enabling ventures to thrive and leveraging the Group's culture, governance framework, policies and processes was recognised by the Committee. A discussion was held on New Payment Method Oversight, with specific client examples of effective risk management. Both of these discussions provided useful assurance of how FCR is being managed in these areas.

The Committee has monitored the CFCC Transformation over the course of the year, which is intended to improve the efficiency of how the Group manages non-financial risk and to build on existing initiatives to reduce cost and improve effectiveness. Given the linkages of this to the Board Risk Committee and Audit Committee, Committee Chairs sessions were held to discuss this Transformation and ensure that associated risks are well managed, and change is implemented effectively.

One of the impacts of COVID-19 was restrictions on physical meetings. However, the Committee was pleased to note that Correspondent Banking Academies were held virtually and that management participated in a number of United for Wildlife hosted webinars on COVID-19 predictions, the risk of poaching and combatting illegal wildlife trade (IWT), which Committee members were invited to attend. The Committee fully supported these virtual forums to enable the Group to continue to play a leading role in Financial Crime Compliance (FCC) sharing initiatives. The Group continues to strive to remain at the forefront of the ongoing fight against financial crime.

The following pages provide insight and context into the Committee's work and activities during the year.

**Gay Huey Evans**

Chair of the Board Financial Crime Risk Committee

## Activities during the year

<b>US supervisory remediation programme</b>	<ul style="list-style-type: none"> <li>Exercised oversight of the activity required to comply with the requirements of the various FCC-related Consent Agreements, Cease and Desist Orders and Deferred Prosecution Agreements with the US and UK authorities and discussed material risks and business strategy plans pertaining to the Group's businesses in the US</li> </ul>
<b>Assessment of financial crime risks</b>	<ul style="list-style-type: none"> <li>Discussed reports on FCR faced by the Group across a number of the Group's client segments and geographies, with members of country and regional management attending meetings to provide perspective</li> <li>Assurance was sought and received on the actions underway to strengthen controls in relation to these risks</li> </ul>
<b>Financial crime risk control environment</b>	<ul style="list-style-type: none"> <li>Reviewed GIA's view on the Group's control environment relating to FCR. Discussions included the grading of audit reports across FCC Risk themes, gaps and deficiencies that have been identified. Assurance was sought and received concerning management's response and resulting management actions. Given WFH arrangements due to COVID-19 lockdowns, the Committee probed into how GIA was managing its audits and sought assurance that robust controls were being maintained</li> <li>Discussed an annual report from the Money Laundering Reporting Officer covering: responsibilities across the Group for anti-money laundering systems and controls and the structure within which they operate; an overall assessment of the Financial Crime (FC) programme; an assessment on the operation of systems and controls; a summary of business strategy; a summary of key FCC Risk issues, conclusions and 2021 priorities; and a report from the Nominated Officer</li> <li>Received regular reports from the Global Co-Heads, FCC setting out status updates on the FC programme, FC objectives and key risks involved. In particular, progress being made on the CFCC Transformation. The Co-Heads reports also provided updates on compliance with regulation including matters in relation to Politically Exposed Persons and EU Money Laundering Directives</li> <li>At the request of the Committee, discussed an overview of the framework adopted by SC Ventures (SC Ventures is a business unit that provides a platform and catalyst for the Group to promote innovation, invest in disruptive financial technology and explore alternative business models) to identify, manage and mitigate financial crime risks within SC Ventures</li> <li>At the request of the Committee, a paper setting out fintech/ New Payment Method segment oversight was received and discussed, which included specific client examples of effective risk management</li> <li>Discussed an update on the progress being made on Group-level Anti-Money Laundering and Counter Terrorist Financing regulatory obligations</li> <li>Following on from a discussion in 2019, received and discussed updates on data quality management relating to FCR in Retail Banking and Transaction Banking</li> <li>Received and discussed updates on the US-China relationship on the risks and impacts of US sanctions</li> <li>Discussed the leak of US Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) files</li> </ul>
<b>Financial crime future threats</b>	<ul style="list-style-type: none"> <li>At the request of the Committee, received and discussed a paper setting out lessons learned from key FCC investigations and emerging FCC threats and management's response</li> <li>The Committee was pleased to note the establishment of a FC Working Group set up to identify COVID-related emerging risks and take action to address these. Areas of heightened exposure were noted as: health care-related procurement fraud; cyber-enabled crime and fraudulent scams; changes in behaviour in cash-intensive businesses; money-mule vulnerabilities and account use; charities and charitable giving scams; government corruption primarily in healthcare procurement and economic stimulus programmes; fraudulent investment schemes; and public assistance/unemployment fraud. The Committee reviewed and discussed these risks and probed into the sufficiency of the Group's response in managing these evolving financial crime risks</li> </ul>
<b>Group Risk Appetite Statement in relation to financial crime</b>	<ul style="list-style-type: none"> <li>Reviewed and recommended to the Board the Group's Risk Appetite Statement, metrics and thresholds in relation to FCR, excluding Fraud Risk, which is overseen by the Board Risk Committee</li> <li>Regularly reviewed metrics measuring against FC Risk Appetite</li> </ul>
<b>CFCC function</b>	<ul style="list-style-type: none"> <li>Regularly discussed the engagement of people and the impacts of the CFCC Transformation Programme and actions to manage the risks and implement change</li> </ul>
<b>Financial crime compliance-related matters</b>	<ul style="list-style-type: none"> <li>Received and discussed updates on significant FCC-related matters</li> </ul>

## Activities during the year continued

### Financial crime compliance information sharing initiatives

- Discussed reports on FCC information sharing initiatives to which the Group contributes, in order to protect the integrity of the global financial system and improve the effectiveness of the contributions of financial institutions in fighting financial crime
- Discussed how the Group contributes to industry thinking on reform and information sharing partnerships in a number of markets, as well as working with international fora such as the Wolfsberg Group
- Discussed the Group's role in partnering with industry peers, non-governmental organisations and government officials, to engage in coordinated efforts to combat some of the world's most pernicious crimes, including human trafficking, terrorism, IWT and transnational organised money laundering networks

### Ongoing engagement

- The Group participated in a number of United for Wildlife hosted webinars, on topics such as COVID-19 predictions, the risk of poaching and combatting IWT. These webinars brought together experts and stakeholders to share knowledge and perspective on these challenges and what the financial sector can do to combat these issues and discuss emerging IWT trends and threats. Committee members were invited to attend these webinars, as part of their ongoing engagement programmes
- Technology training, which was provided to the entire Board, included artificial intelligence in FCC, at the request of the Committee

## Committee effectiveness review

During 2020, an internally facilitated Board and Board committee effectiveness review was facilitated by the Group Company Secretary.

### Key observations from the 2020 internal effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Committee's effectiveness has remained constant over the year, and the Committee Chair is well prepared and effective
- Commentary was provided on the future role and focus of the Committee
- Extra training was suggested for Committee members

### 2021 Action Plan

The 2021 Action Plan for the Committee reflects suggestions from the evaluation and continues to build on the solid progress made last year:

- Consideration to be given to inviting external speakers to Committee meetings/informal sessions to help inform and stimulate debate
- Review the forward-looking agenda to ensure efficiency of meetings and to focus on the key areas agreed for 2021
- Share existing online training modules with Committee members

# Directors' remuneration report



“Supporting colleagues through challenging times, prioritising their wellbeing and providing fair remuneration”

## Committee composition

	Scheduled meetings	Ad hoc
C M Hodgson, CBE (Chair)	6/6	1/1
L Cheung (Stepped down 25 March 2020)	3/3	0/0
B E Grote	6/6	1/1
N Kheraj	6/6	1/1
J M Whitbread	6/6	1/1

**Other attendees for relevant parts of Committee meetings in 2020 included:** Group Chairman; Group Chief Executive (CEO); Group Head, HR; Global Head, Performance, Reward and Employee Relations; Group Chief Financial Officer (CFO); Group Chief Risk Officer; Group General Counsel; Group Head, Conduct, Financial Crime and Compliance; Group Company Secretary.

→ Biographical details of the Committee members can be viewed on [pages 84 to 85](#)

## Main responsibilities of the Committee

The Committee is responsible for setting the governance framework for remuneration for all employees, ensuring alignment with our culture and the requirements of the UK Corporate Governance Code. In particular, the Committee:

- Reviews and approves the Group's Fair Pay Charter which includes oversight of the development and implementation of workforce remuneration policies and practices, ensuring they are consistent with sound and effective risk management, the Group's culture and valued behaviours and long-term sustainable success
- Approves Group discretionary incentives, including adjustment for current and future risks
- Determines and agrees with the Board the remuneration framework and policies for the Group Chairman, executive directors and other senior executives, using the Fair Pay Charter principles and taking into account workforce remuneration and the alignment of incentives and reward with culture
- Oversees the identification of material risk takers and ensures their incentives are structured in accordance with the requirements of the prevailing remuneration rules

+ The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](#)

## Summary of 2020 remuneration decisions

- Total discretionary incentives down 23 per cent year-on-year
- Annual incentives for executive directors down almost 70 per cent year-on-year given voluntary waiver of cash portion
- No salary increases for executive directors
- Distribution of 2020 annual discretionary incentives and 2021 salary increases targeted at junior colleagues
- No UK Government support taken and no colleagues made redundant or furloughed due to the impact of COVID-19
- Prioritisation of health and wellbeing for all colleagues

## Introduction

On behalf of the Remuneration Committee, I am pleased to present our directors' remuneration report for the year ended 31 December 2020. The report provides an overview of the Committee's work in the year on remuneration for executive directors and the wider workforce.

## Supporting colleagues during the COVID-19 pandemic

The COVID-19 pandemic has had an extraordinary impact across the globe, not only in an economic sense but on the lives of everyone. Throughout the year we have supported our colleagues, prioritising their wellbeing, safety and security, and have accelerated the implementation of wellbeing initiatives. 91 per cent of colleagues who responded to our COVID-19 pulse survey in April believed that their health and wellbeing was a top priority for the Group and 80 per cent felt that our response to the pandemic had minimised stress for employees. We have supported colleagues to work both from home and safely from Group locations for essential roles, offering flexibility to provide the most positive outcome for them and for the Group.

We maintained pay for employees who were unable to work full hours as a result of family care requirements and provided flexibility for those whose return to their usual working location was impacted because of travel restrictions. We did not access UK Government support schemes and no colleagues were made redundant or furloughed due to the impact of COVID-19. Where business transformation that was underway before the pandemic impacted some roles, increased investment was made in redeployment and reskilling programmes and any employees leaving the Group received their full salary for 2020, in addition to severance pay.

Our Fair Pay Charter continues to guide our performance and reward decision-making globally and has been the compass in our approach to support colleagues fairly and consistently through the challenges of the pandemic. We have continued to implement changes to improve colleagues' experience, including launching our flexible benefit plan in Poland, as part of the phased roll-out, and expanding the use of salary ranges to cover 74 per cent of colleagues globally. In 2019 we introduced fair pay reporting and our 2020 Fair Pay Report provides an update of the progress made and summarises how we meet the principles of our Fair Pay Charter.

+ The 2020 Fair Pay Report can be viewed at [sc.com/fairpaycharter](#)

## Impact of COVID-19 on remuneration during 2020

As the pandemic developed the Committee considered remuneration decisions very carefully, exercising judgement, taking account of the developing crisis situation and the impact of COVID-19 on our external stakeholders and our colleagues. This included the payment of annual discretionary incentives in respect of performance in 2019 which were communicated to colleagues in February and paid in March 2020. These decisions were made in good faith, and pre-dated the Prudential Regulation Authority's (PRA) statement at the end of March requesting that we suspend shareholder distributions due to the impact of COVID-19. There are no plans for these 2019 awards to be repaid or clawed back. The Committee considered the withdrawal of the recommendation to pay a final ordinary dividend for 2019 when making 2020 decisions.

## Our performance in 2020

Throughout the year the Group has remained resilient and competitive, despite the economic and geopolitical challenges, even though our progress has inevitably slowed in some areas. The pandemic has been one of the most significant events in recent history and it materially impacted the financial performance of most banks, including us, in 2020.

The impact of COVID-19 has meant that some of the measures and targets set within the Group scorecard at the start of 2020 were unachievable. No changes were made to business performance criteria and targets for 2020 incentive outcomes.

Underlying profit before tax is down 40 per cent on 2019 and return on tangible equity (RoTE) is down 340 basis points to 3.0 per cent. The Group's capital is strong, with the Common Equity Tier 1 (CET1) ratio at a historically high level, demonstrating our resilience in the face of such an extraordinary economic shock.

The total scorecard outcome was 37 per cent with 13 per cent being based on financial achievements including effective cost management and growth in high performing liabilities and 24 per cent based on non-financial achievements including improved digital client onboarding, on-track development of new ventures and an improved employee net promoter score of 6 points to 17.5.

## 2020 annual discretionary incentives

Whilst the annual scorecard has been used as a starting point for determining the Group's discretionary incentives, the Committee has needed to exercise its judgement carefully.

The Committee considered several factors including the Group's underlying performance, the experience of our stakeholders, the withdrawal of the 2019 final ordinary dividend, the resilience of our business, inherent future risks, the significant contribution of our colleagues who have continued to serve clients whilst managing the crisis and the need to compete for talent globally across 59 markets.

The Committee also considered carefully, throughout the year and when incentives were determined, risk, control and conduct matters, reviewing material issues from across the Group.

Considering all factors, the Committee applied a downward adjustment of \$160 million to total discretionary incentives of \$1,150 million, resulting in overall discretionary incentives of \$990 million, which is 23 per cent lower than 2019.

In allocating the discretionary incentives, focus was primarily placed on Group performance given the challenges created by COVID-19 in fairly and objectively assessing the relative performance of each business, function, region and country.

The one notable exception was within the Corporate & Institutional Banking (CIB) business, where discretionary incentives were differentiated for Financial Markets in order to reward colleagues for the strong performance in 2020.

Across the rest of the Group, at an individual level, focus was placed on protecting compensation levels for more junior colleagues as shown in the table below.

	Average year-on-year change (%)		
	Number of colleagues <sup>1</sup>	Annual discretionary incentives	Total compensation
Management Team	11	(43)	(23)
Managing Directors	1,055	(34)	(13)
Other senior leaders	2,621	(30)	(6)
All other colleagues	62,304	(27)	0

<sup>1</sup> Number of colleagues eligible for annual discretionary incentives, excluding Financial Markets

## Executive director remuneration in 2020

### Annual incentives for executive directors

The annual incentives for Bill and Andy are directly linked to the Group scorecard outcome with potential to adjust upwards or downwards based on personal performance. In April 2020, Bill and Andy announced they will waive any cash portion of an annual incentive award in respect of 2020 performance, reducing any potential award for 2020 by 50 per cent. In addition, along with other members of the Management Team they made significant personal donations to the COVID-19 assistance fund.

Based on the scorecard assessment of 37 per cent, and the voluntary waiver of the cash element (50 per cent of the award), the Committee concluded that the annual incentives for 2020 set out below were appropriate:

Annual incentives for executive directors	Year-on-year change (%)	2020 <sup>1</sup>	2019
		% of maximum	
% of maximum		18.5%	55%
Bill Winters (CEO)	(69)	£385,836	£1,251,360
Andy Halford (CFO)	(68)	£246,642	£776,600

<sup>1</sup> All to be delivered in shares subject to a 12-month retention period

The approach impacts the annual incentive outcomes for Bill and Andy significantly more than for the wider workforce. The Committee considered the personal performance of both executive directors against their objectives and recognised their exceptional performance in leading the Group through the crisis. Taking account of the total discretionary incentive outcomes for the wider workforce, and the broader impact of the pandemic, no adjustment has been made for personal performance to the outcome.

### 2018-20 LTIP awards vesting in March 2021

The 2018-20 long-term incentive plan (LTIP) awards are due to vest in March 2021 based on performance over three years from 2018 to 2020. Following an assessment of the performance conditions, the expected levels of vesting are:

- Return on equity (RoE) – 0% vesting
- Total shareholder return (TSR) – 0% vesting
- Strategic priorities – 26% vesting underpinning our progress towards our target to deliver higher returns in the medium term, despite the challenging economic environment

We have not adjusted the performance targets to reflect the increased stretch in both the financial and strategic measures caused by the impact of the pandemic for existing LTIP awards.

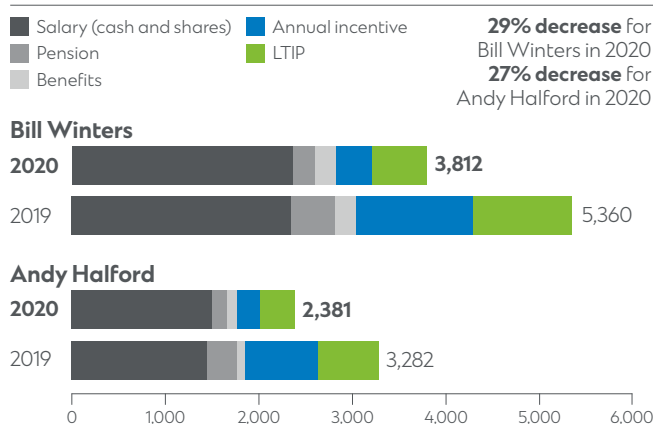
The value delivered by the 26 per cent vesting outcome and included in the single total figure of remuneration is based on a share price of £4.22 (the three-month average to 31 December 2020) compared with the share price at grant in 2018 of £7.78. This reduces the award outcome value by 46 per cent.

### Single total figure of remuneration for 2020

The 2020 annual incentive and expected 2018-20 LTIP vesting results in a 2020 single figure for Bill of £3,812,000 and for Andy of £2,381,000. This represents a year-on-year decrease of 29 and 27 per cent respectively.

On 1 January 2020, the pension allowance for Bill and Andy was reduced from 20 per cent of salary to 10 per cent of salary, aligned with the UK workforce.

### 2020 single total figure of remuneration £000

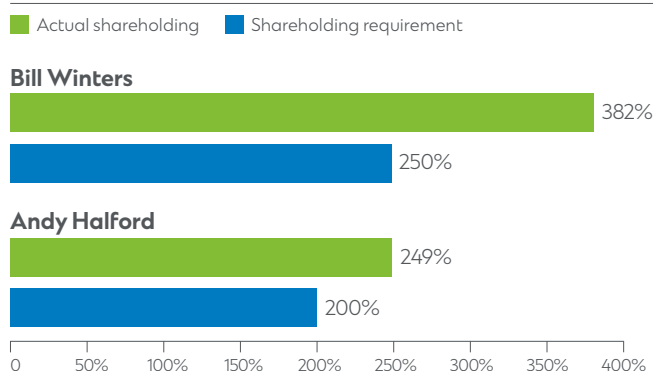


### Executive directors' shareholdings

A significant portion of Bill and Andy's total remuneration is delivered in shares which will be released over the next eight years. The deferral, retention and recovery provisions of their pay reinforce continued alignment with shareholder interests and the Group's long-term performance. Alignment has been demonstrated in 2020 in particular through the reduction in the value of Bill and Andy's shareholdings, their unvested deferred remuneration and their extant LTIP awards.

As at 31 December 2020, both Bill and Andy had exceeded their shareholding requirement outlined below. Shares purchased voluntarily from their own funds are equivalent to 61 and 44 per cent of salary for Bill and Andy, respectively.

### Executive director shareholdings (% of salary)



### Executive directors' remuneration in 2021

The Group has adopted a highly targeted approach to salary increases for 2021 given affordability constraints and the challenging macroeconomic environment, prioritising junior

colleagues who are behind market and in locations with high wage inflation. In line with this approach, fixed pay for Bill, Andy and the Management Team will not be increased in 2021.

### 2021-23 LTIP awards to be granted in March 2021

After considering 2020 performance, 2021-23 LTIP awards will be granted to both Bill and Andy of 120 per cent of fixed pay in line with our policy. Subject to performance over the next three years, awards will vest pro rata over years three to seven with an additional retention period of 12 months after vesting. Performance will be assessed based on RoTE with a CET1 underpin, TSR relative to a peer group, and the achievement of measures that are aligned to the Group's refreshed strategic priorities.

To reflect the Group's ambition to become the world's most sustainable and responsible bank and increased focus on sustainability, we are adjusting the weightings of the performance measures and including a standalone sustainability priority. The sustainability measures have been selected carefully from our broader range of sustainability aspirations based on their level of impact for the Group and wider society and ability to drive financial returns in the medium term. The other strategic measures have been adjusted to align with the refreshed strategic priorities. The Committee will assess progress against the specific targets and proof points for the strategic measures at the end of the three-year performance period and will disclose full details of their assessment of achievement against targets at vesting.

### 2021-23 LTIP performance measures and weightings summary

	Previous weighting	2021-23 weighting	Key measures/targets
RoTE	33%	30%	• 6 to 10 per cent
TSR	33%	30%	• Median to upper quartile
Sustainability	–	15%	• Grow our sustainable finance business and be a responsible company with targets to reduce our carbon footprint
Other strategic measures	33%	25%	• Grow across our client footprint and improve client satisfaction • Drive culture of innovation, adopt new ways of working and continue to increase diversity and culture of inclusion • Underpinned by risk and control management

RoTE is one of the financial KPIs used to measure progress against our strategy (see page 1). We consider target setting carefully before each grant and set targets that are challenging and act as an effective incentive for executive directors to execute our strategy.

The RoTE target range for 2021-23 LTIP awards is 6 to 10 per cent. This is a wider range than in previous years given the unusually uncertain macroeconomic environment, including the impact of severe economic dislocations and low interest rates on the Group's returns. It takes into account our expectation that our refreshed strategic priorities should allow us to improve our RoTE from the 3 per cent we delivered in 2020 to over 7 per cent by 2023 as we progressively advance to our target of over 10 per cent. The current market consensus estimate for RoTE in 2023 is 6.9 per cent.

We will assess the value of the 2021-23 LTIP on vesting and consider the share price when the awards were made to determine whether vesting is a result of genuine underlying performance and not just a market rebound from a recession.

Meetings with shareholders were held in December 2020 and January 2021 on the development of these performance measures and targets, and the helpful feedback was taken into account and contributed to the final decisions made by the Committee.

In the rest of this report we present the disclosures required by regulations, as well as additional information to explain how our executive remuneration aligns with our strategy, with shareholder interests and with wider workforce pay.

We hope shareholders recognise the way the Committee has endeavoured to achieve appropriate outcomes in extraordinary circumstances, and we strongly valued the continued engagement of shareholders as we sought to strike the appropriate balance in making remuneration decisions. We look forward to further engagement in 2021.



**Christine Hodgson**

Chair of the Remuneration Committee

### Priorities for the Committee in 2021

Specific priorities for the Committee in 2021, in addition to its usual scheduled activities, will be to:

- Review and develop the directors' remuneration policy for approval and implementation in 2022
- Continue to review the implementation of our Fair Pay Charter and alignment of workforce policies and practices with its principles
- Monitor market trends to ensure the Group's remuneration remains competitive, in the context of improving performance and productivity
- Continue to assess the alignment between Group incentives and the delivery of the strategy and our desired performance-orientated, innovative culture, underpinned by conduct and sustainability
- Oversee compliance with the applicable remuneration rules following implementation of the European Capital Requirements Directive V

### Committee effectiveness review

This year the Board effectiveness review comprised an internally facilitated, questionnaire-based evaluation for the Board and its Committees completed by every Board member.

#### Key observations from the 2020 internal effectiveness review

The review outcomes for the Remuneration Committee were very positive and highlighted that:

- The Committee continues to improve its efficiency, with clearer papers and presentations and that it is well supported by the Group Reward team
- In terms of composition, the Committee regards itself as well populated with members who have up-to-date and relevant experience, gained in their executive careers or on other boards
- The quality of the material for the Committee is regarded as excellent and members felt well briefed ahead of meetings
- Of note, members valued the strategy meeting, held jointly with the Brand, Values and Conduct Committee (BVCC) this year, to explore the interface between remuneration and environmental, social and governance (ESG) issues

#### 2021 Action Plan

The 2021 Action Plan for the Committee reflects the feedback from the review and will focus on continuing to:

- Review the annual calendar and forward-planner to ensure efficiency of Committee time
- Develop the framework and measures including the use of ESG measures for future LTIP awards
- Strategically collaborate with BVCC on common topics around culture, values and ESG
- Consider specific areas of remuneration, including SC Ventures

All disclosures in the Directors' remuneration report are unaudited unless otherwise stated. Disclosures marked as audited should be considered audited in the context of the financial statements as a whole.

# Remuneration alignment

## How does our executive remuneration align to our strategy?

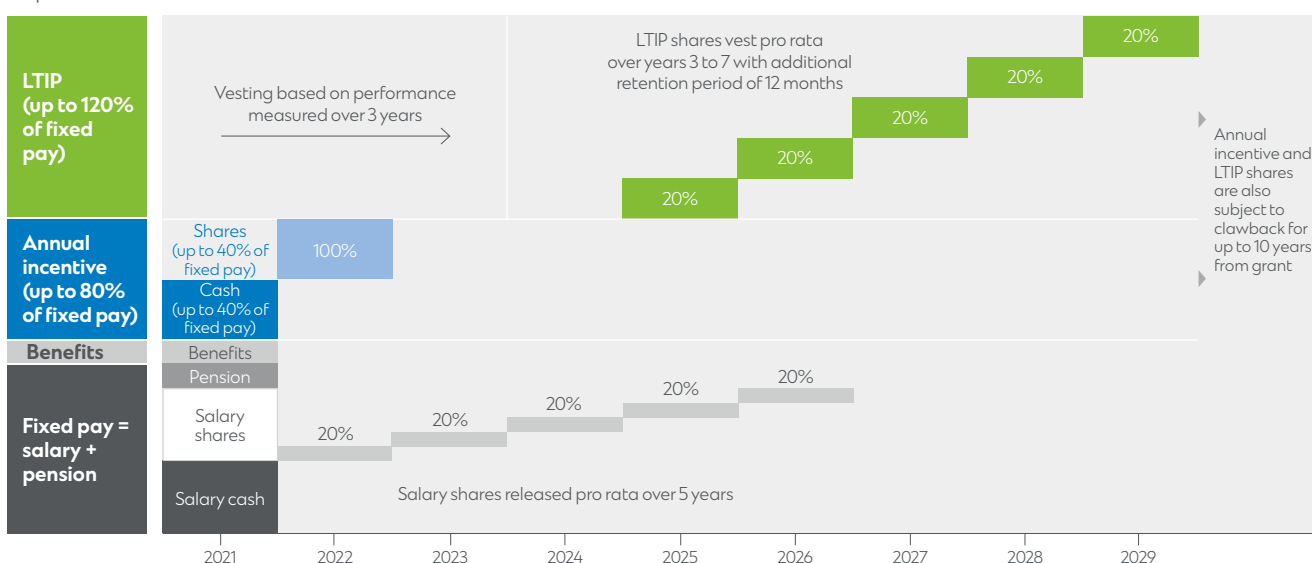
Remuneration decisions made across the Group and by the Committee align with our strategy, our shareholders' interests to deliver long-term sustainable value and with the wider workforce in line with the principles set out in our Fair Pay Charter.

We have refined our focus onto four strategic priorities and three enablers. The diagram below sets out how we have aligned our strategy with the measures that determine incentives for executive directors and the wider workforce.

How we align our strategy and remuneration measures	Strategic priorities	
	Clients	Sustainability
<b>Annual and long-term incentive performance measures and targets sit under these priorities</b>	Within our wholesale network, affluent client and mass retail businesses we will: <ul style="list-style-type: none"> <li>• Improve client satisfaction</li> <li>• Deliver growth in clients and network income</li> <li>• Grow revenue from new ventures – key digital partnerships, platforms and technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver sustainable finance business growth: track progress against the Bank's Paris Alignment of Financing</li> <li>• Bank's carbon footprint: reduce and offset emission waste from flights, properties and suppliers</li> </ul>
	<b>The combination of these measures help us to deliver shareholder returns</b>	
<b>Driving shareholder returns</b>	• Operating profit	• Total shareholder return
<b>These priorities are driven by three critical enablers</b>	<b>Through people and culture, new ways of working and innovation</b>	
<b>Performance against the enablers is measured in the annual and long-term incentives</b>	<ul style="list-style-type: none"> <li>• Drive culture of innovation across the Group</li> <li>• Adopt new ways of working that results in quicker decision-making and delivery</li> <li>• Increase our culture of diversity and inclusion across the Group</li> </ul>	
	<b>Additional risk and control measures support the sustainability of our business through good management of risk</b>	
<b>Within our risk and control framework with targets included in the annual and long-term incentive plans</b>	<ul style="list-style-type: none"> <li>• Maintain risk profile within the Group's Risk Appetite</li> <li>• Successfully deliver milestones within the cyber risk management plan</li> </ul>	

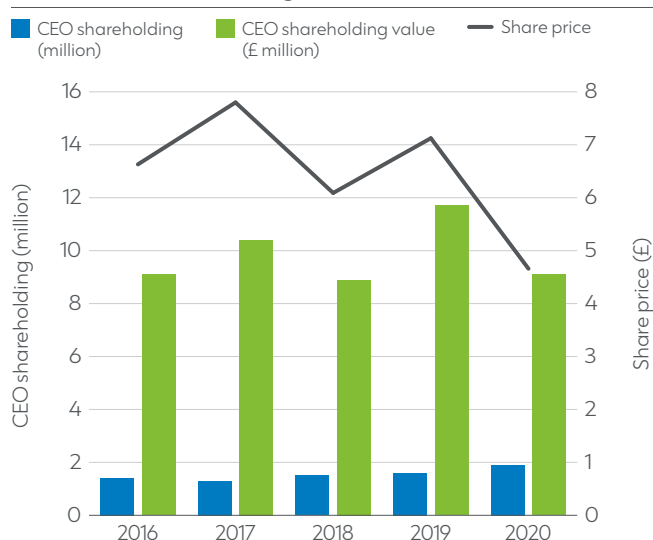
## How does our executive remuneration align with shareholder interests?

The diagram below shows how a portion of fixed pay, annual incentive and long-term incentive is paid in shares which are released up to eight years following grant, so that the final component of pay granted in 2021 is released in 2029. This creates strong alignment between the interests of executives and shareholders to create long-term value. On a maximum opportunity basis, Bill's total remuneration is delivered 68 per cent in shares (including those subject to performance conditions) and 32 per cent in cash.



Alignment has been demonstrated in 2020 in particular through the reduction in the value of Bill and Andy's shareholdings, their unvested deferred remuneration and their extant LTIP awards. The chart on the next page shows Bill's increased shareholding since 2019 (increased by 19 per cent) and the decrease in value (decreased by 22 per cent).

## Value of CEO shareholding



## How does our executive remuneration align with the wider workforce?

Our approach to remuneration is consistent for all employees and is designed to help ensure pay is fair and competitive in line with our Fair Pay Charter principles which apply globally. As we say in Principle 6 of the Charter, pay structure varies according to location. The diagram below shows how our executive director remuneration aligns with our UK workforce, being the most relevant market, as this is where they are based.

In addition to our existing reward offering, during 2020 we have accelerated and implemented a variety of wellbeing initiatives to support colleagues with the range of challenges they faced due to the pandemic. Further information is on page 141 in our Group-wide remuneration in 2020 section.

All UK employees			Executive directors and the Management Team	Executive directors only
Salary	Pension	Annual incentive	LTIP	Shareholding requirement
<ul style="list-style-type: none"> <li>Salary is the contractually fixed amount paid and set based on role, skills and experience</li> <li>It is set and reviewed annually against relevant market benchmarks for all employees</li> <li>Executive director salary is paid in a combination of cash and shares to align with shareholder interests</li> <li>For other employees, salary is paid 100% in cash in line with market norms</li> </ul>	<ul style="list-style-type: none"> <li>10% of salary for all UK employees, aligned to the provisions of the UK Corporate Governance Code</li> <li>Pension is set as a percentage of salary for all employees</li> <li>For the executive directors both the cash and share elements of salary are pensionable</li> <li>In line with the UK Corporate Governance Code, only salary is pensionable</li> <li>Benefits and incentives are not pensionable</li> </ul>	<ul style="list-style-type: none"> <li>All UK employees are eligible for an annual incentive</li> <li>Annual incentives are based on Group performance against the annual Group scorecard and individual performance</li> <li>The same Group scorecard is used to determine incentives for executive directors and other UK employees</li> <li>Annual incentives are subject to risk adjustment provisions</li> </ul>	<ul style="list-style-type: none"> <li>LTIP awards are granted to senior executives who have clear line of sight to influence the targets linked to the long-term performance of the Group</li> <li>The grant of awards is dependent on performance in the year and the vesting of awards is dependent on performance over a three-year post-grant period</li> <li>Vested shares are subject to further retention periods</li> <li>LTIP awards are subject to risk adjustment provisions</li> </ul>	<ul style="list-style-type: none"> <li>Executive directors have a shareholding requirement of 250% of salary for the CEO and 200% for the CFO</li> <li>A post employment shareholding requirement equal to the full shareholding requirement for one year and 50% for an additional year applies to the executive directors</li> </ul>
Benefits		Sharesave		
<ul style="list-style-type: none"> <li>The core benefits offered to executive directors and other employees are the same: private medical insurance, life assurance, income protection, accidental death and disability insurance and a cash benefits allowance</li> <li>Executive directors receive a lower cash benefits allowance than other UK employees as a percentage of their salary</li> <li>Executive directors have a role based provision of the use of a Company vehicle and driver on account of the security and privacy requirements of the role</li> <li>The CEO is entitled to a contribution to the preparation of his annual tax returns owing to the complexity of his tax affairs, in part due to his extensive travel on Group business</li> <li>Employees are eligible for tax return preparation in the year of an international relocation owing to the complexity of their returns in those years</li> </ul>		<p>All UK employees are eligible to participate in the Sharesave plan, which enables employees to share in the success of the Group at a discounted share price</p>		

# The Remuneration Committee

The Committee is responsible for overseeing the remuneration of all employees, which includes determining the framework and policies for the remuneration of the Group Chairman, the executive directors and other senior management, and overseeing workforce remuneration, for alignment of reward, incentives and culture.



The Committee has written terms of reference that can be viewed at [sc.com/termsreference](https://www.sc.com/termsreference)

## Shareholder voting and shareholder engagement

The table below shows the votes cast<sup>1</sup> at our AGM in May 2020 on remuneration-related matters.

	For	Against	Withheld
Advisory vote on the 2019 remuneration report	583,380,384 (96.96%)	18,288,372 (3.04%)	6,824,454

<sup>1</sup> Number of votes is equal to number of shares held

Our 2019 remuneration report was well supported, following comprehensive engagement with shareholders where we sought feedback on changes to our remuneration policy and our enhanced disclosures. We were grateful for the level of engagement and positive feedback received on the changes made to the executive directors' pension contributions and on the explanatory disclosures included in the report. We also engaged with shareholders on our recent remuneration decisions in relation to 2020 and received helpful feedback. Further information is on page 103 in our engaging with investors section.

## Advice to the Committee

The Committee was assisted in its considerations by PwC who were formally re-appointed by the Committee as its remuneration adviser in 2020 for an additional year. The Committee will undertake a detailed review of potential advisers in 2021.

PwC is a signatory to the voluntary Code of Conduct in relation to remuneration consulting in the UK. PwC also provides professional services to the Group in the ordinary course of business including assurance, advisory, tax advice and certain services relating to Human Resources. The Committee considered PwC's role as an adviser to the Group and determined that there was no conflict or potential conflict arising. The Committee is satisfied that the advice the Committee receives is objective and independent. The total fee paid to PwC (on an agreed per diem fee basis) was £100,000 which includes advice to the Committee relating to executive directors' remuneration and regulatory matters.

The CFO and Group Chief Risk Officer provided the Committee with regular updates on finance and risk matters, respectively. The Committee recognises and manages any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals and no individual is involved in deciding their own remuneration.

## Committee activities in the year

### Executive directors' remuneration

	14 January	29 January	25 February	16 July	30 September	26 November
Review of the directors' remuneration policy and implementation	✓	✓		✓		✓
Review of fixed and variable remuneration	✓	✓				✓

### Senior management remuneration

Review of recruitment and termination	✓			✓	✓	✓
Review of fixed and variable remuneration	✓			✓		✓
Identification of material risk takers	✓			✓		✓

### All employee remuneration

Group-wide discretionary incentives	✓			✓	✓	✓
Outcomes from the annual performance and reward review	✓	✓				
Incentive performance measures, targets and outcomes	✓	✓	✓			✓
Group-wide reward, the Fair Pay Charter and gender pay gap		✓		✓	✓	✓

### Reward governance

Consideration of risk, control and conduct matters	✓		✓	✓	✓	✓
Engagement with stakeholders and regulatory, investor and political matters	✓	✓		✓	✓	✓

The Committee held an additional strategy meeting, jointly with the BVCC, to discuss the Group's approach to sustainable reward. The Committee also held one additional meeting in April to discuss the PRA announcement relating to 2019 dividends and remuneration for material risk takers and COVID-19. Virtual Board meetings were held from April onwards due to COVID-19 restrictions.

The Committee dealt with certain less material matters on an ad hoc basis through email circulation. Details on how the Committee understands the views of the workforce can be found on pages 58 to 60.

# Group-wide remuneration in 2020

## Our Fair Pay Charter

Our Fair Pay Charter sets out 10 principles we use to guide performance and reward decision-making globally, and has been fundamental to our approach to supporting colleagues through the challenges of the pandemic, acting as a compass for consistent and fair decision-making as we rapidly adapted to support new ways of working.

In February 2020 we published our second internal Fair Pay Report to all colleagues to explain how our performance and reward approach meets the principles of the Charter and to provide an update on areas where we are working to enhance our approach. In addition we published our first external Fair Pay Report to share our progress with wider stakeholders. Both reports were well received.

## How do we understand the views of our workforce?

There is a wide range of mechanisms the Group uses to seek feedback from colleagues on remuneration as well as other workforce policies and practices. Our 2020 engagement survey was completed by over 74,500 employees and 3,600 non-employed workers, answering questions on how they feel about different areas of reward. We also conducted an annual survey that asked employees about their experience of the performance and pay review process, including whether they understand variable pay, whether they believe performance and pay decisions are fair, and whether they understand the principles which form our Fair Pay Charter. The results from both of these engagement surveys are analysed by various demographics, and summary trends and key findings on year-on-year movements in sentiment are presented to the Committee for discussion. Results are also shared with the workforce along with relevant commentary on action being taken based on findings in our Fair Pay Reports.

The Board engages and listens to the views of employees, through several sources including the increased use of virtual, interactive regional engagement sessions, with four being held in 2020, and from information provided by senior management. More than 3,500 employees joined these sessions and asked about a range of people-related topics including business restructuring, remuneration, diversity and inclusion and the long-term impact of COVID-19.

Further information on our workforce engagement framework is included in our BVCC report on pages 121 to 124.

### Fair Pay Charter principles

1	We commit to pay a living wage in all our markets and seek to go beyond compliance with minimum wage requirements
2	We provide an appropriate mix of fixed and variable pay and a core level of benefits to ensure a minimum level of earnings and security to colleagues and to reflect the Group's commitment to wellbeing
3	We support colleagues in working flexibly, in ways that balance both business needs and their personal circumstances, and provide colleagues with the opportunity to select the combination and level of benefits that is right for them
4	Pay is well administered with colleagues paid accurately, on time and in a way that is convenient for them
5	We provide a competitive total fixed and variable pay opportunity that enables us to attract, motivate and retain colleagues based on market rates for their role, location, performance, skills and experience
6	The structure of pay and benefits is consistent for colleagues based on their location and role, with a clear rationale for exceptions
7	We are committed to rewarding colleagues in a way that is free from discrimination on the basis of diversity, as set out in our Group Code of Conduct
8	We ensure pay decisions reflect the performance of the individual, the business they work in and the Group, and recognise the potential, conduct, behaviours and values demonstrated by each individual
9	We set clear expectations for how colleagues are rewarded and the principles guiding decisions, including clear personal objectives and feedback
10	We provide clear communication of pay and performance decisions, and seek feedback and input from colleagues on our pay structures and outcomes

## Responding to the views of the workforce

- In our annual survey employees told us that recognition is just as important to them as the financial reward they receive
- We have used this, along with dedicated research and focus group insights, to support the development of a refreshed approach to performance, reward, recognition and talent management. Through driving behaviour and mindset change we aim to deliver a performance orientated, inclusive and innovative culture focusing on both extrinsic and intrinsic motivation to drive individual performance

## Wellbeing

Our wellbeing strategy was refreshed in 2019 and the challenges of the pandemic highlighted the importance of this work. We know we are moving in the right direction, with 87 per cent of respondents to our annual survey telling us they feel the Group supports their wellbeing (+4 percentage points since 2019), but we have more to do, particularly for the 40 per cent who told us they are experiencing a high level and frequency of work-related stress.

In 2020 we provided colleagues with a range of support and tools, detailed below. In addition, we provided support for transport and meals for colleagues who continued to work

at Group locations during periods of restrictions, financial support towards purchasing necessary equipment for working from home and maintained pay for those who were unable to work full hours as a result of family care requirements. We also provided flexibility for those whose return to their usual working location was impacted because of travel restrictions. In April we conducted a pulse survey to understand how employees were coping with the impact of COVID-19 and what support they needed. 91 per cent of respondents believed that their health and wellbeing was a top priority for the Group and 80 per cent felt that our response to the pandemic had minimised stress for employees.

<b>Support for colleagues suffering wellbeing challenges</b>	<ul style="list-style-type: none"> <li>Launched a new global employee assistance programme, enabling all colleagues and their household members to access confidential counselling and guidance, available 24/7</li> <li>Mental health first aider (MHFA) programme expanded, increasing the number of trained MHFAs globally by 133%, whilst centralising support and introducing a Group Standard for Mental Health First Aid</li> <li>Group Standard for Tackling Domestic Violence and Abuse launched, offering a broad range of help and support to colleagues who are experiencing domestic violence and abuse</li> </ul>
<b>Preventative wellbeing support to help colleagues in building skills for the future</b>	<ul style="list-style-type: none"> <li>Introduced a new three-year wellbeing strategy, supporting colleagues in developing the skills needed for the future, building resilience, agility and inclusive leadership into the organisation to support us in realising our strategic ambitions</li> <li>Launched Unmind, a digital application and platform that enables colleagues to assess their wellbeing needs and receive personalised recommendations and coaching on simple steps to develop healthier habits</li> <li>Launched the Switch+ platform, providing access to hundreds of live and on-demand classes dedicated to improving wellbeing. Over 6,000 colleagues from 57 countries have signed up</li> <li>Launched a mental health and resilience learning programme, equipping colleagues and people leaders with the core skills they need to support others including recognising signs of poor wellbeing, to increase psychological flexibility and create sustainable high performance</li> </ul>
<b>Regular practical support and communications for colleagues through the pandemic</b>	<ul style="list-style-type: none"> <li>Provided guidance on how to manage wellbeing, productivity and social connection whilst working from home</li> <li>Ran webinars on expected challenge areas while working at home including parenting, mindfulness and finding purpose</li> <li>Shared helpful guidance and practical tips across our wellbeing framework through a colleague toolkit, with over 10,000 views to date</li> <li>Ran global and local multi-media campaigns for World Mental Health Day focused on building resilience</li> </ul>

## Transforming our business

We have continued to transform our Group which has affected some colleagues. This was no change from our pre-pandemic plans. Where business transformation was already underway before the pandemic, we entirely paused all restructuring activity for the first half of the year. Once activity resumed, increased investment was made in redeployment and reskilling programmes. Given the unique circumstances, we adjusted our redundancy approach and all colleagues impacted in 2020 received enhanced support, ensuring they received their full salary for the year, in addition to severance pay and improved outplacement support.

## Future ready workforce

Consistent with Principle 8 of the Fair Pay Charter, we are focused on how we adapt and remain future-ready in response to the evolving nature of work and changing expectations from clients and colleagues.

Continuous learning is central to this, ensuring colleagues are able to adapt, upskill, reskill and retool not only to be better at their current jobs but to ensure they can develop and grow for new roles to best serve our clients in the future. In March 2020 we launched a new digital learning platform, actively encouraging colleagues to adopt a learning mindset through setting and pursuing 'aspirational' goals and developing their careers. Since the launch more than 55,000 colleagues have accessed learning content and engagement in our second global learning week (over 400 events) spurred this on.

The pandemic has brought into focus the way in which our business and the ways of working are rapidly changing. Throughout the year we have listened to colleagues' preferences for greater flexibility in working arrangements as we come out of the pandemic. Responses to our 2020 annual survey highlighted that 74 per cent of colleagues would choose to work from home or another non-primary workplace for at least 50 per cent of the time and 77 per cent told us they feel able to choose a reasonable balance between personal and work life. Rather than simply offering flexible working (which we had in all markets before COVID-19) we intend to implement a hybrid approach combining virtual and office-based working with greater flexibility in working patterns and locations, balancing colleague preference and business demands. A review of all roles (where and how they can be done) showed that more than 80 per cent of roles are suitable for some form of flexible working. Beginning in 2021, employees in eight markets will be able to apply for formal flexi-working arrangements, with subsequent markets expected through 2021 to mid-2022.

## Other fair pay developments in 2020

We have made good progress in implementing the principles of our Charter since its launch in 2018 and implementation continues as our new ways of working evolve. During 2020 we have made further progress to improve colleagues' experience, including:

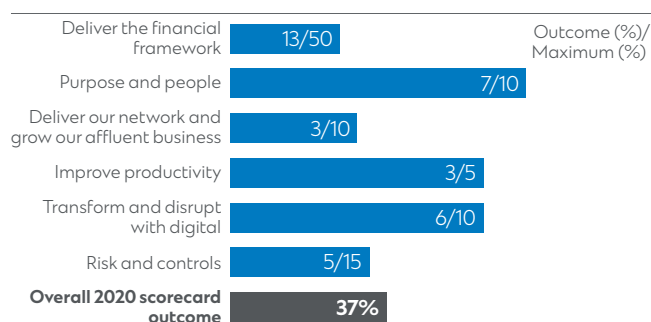
- Assurance that all colleagues are paid a living wage, as measured by the benchmarks in place through our work with Fair Wage Network. In addition, we have taken the first steps in assessing the feasibility of incorporating living wages into our supply chain, which is a multi-year undertaking. During 2021, we will focus on specific actions for non-employed workers
- We have Group-wide principles, guided by market data, for making salary decisions to help us balance what is right for colleagues with the Group's financial position. During 2020, we expanded the use of salary ranges to cover 74 per cent of colleagues globally (increased from 25 per cent in 2019). We expect salary ranges to improve further the transparency and fairness of fixed pay decision-making
- Our multi-year review of benefits is progressing, increasing the consistency of the structure of pay and benefits by country, including the removal of differentiation of allowances and benefits solely by band, age, tenure and dependent status. The phased roll-out of our flexible benefits plan which enables colleagues to choose benefits which best suit their individual needs continues, with the introduction in Poland in September 2020 and preparation work completed for launch in Malaysia in March 2021
- Work in additional markets continues to align benefits more closely to the Charter and to increase inclusivity. For example, in India, medical benefits and domestic relocation benefits were extended from 2020 to LGBT+ partners of colleagues

→ Our Strategic report contains further information on colleagues, including a summary of our gender pay gap on page 61

## Determining Group-wide 2020 discretionary incentives

The Group delivered a resilient performance in 2020 in conditions that became extremely challenging. Strong and broad-based growth in the initial months was followed by lower income year-on-year in the second half and for the year overall driven by the effects of COVID-19, which led to severe global economic contraction and substantially reduced interest rates. As a result, pre-provision operating profit declined despite lower expenses. Underlying profit fell because of substantially higher credit impairments due mainly to provisions against credit losses booked in the first half driven by the deterioration in the macroeconomic outlook. The Group remains strongly capitalised despite the external challenges, with a CET1 ratio of 14.4 per cent above the top of the medium-term target range enabling recommencement of shareholder distributions.

The total scorecard outcome was 37 per cent with 13 per cent being based on financial achievements including effective cost management and growth in high-performing liabilities, and 24 per cent based on non-financial achievements including improved digital client onboarding, on-track development of new ventures and an improved employee net promoter score of 6 points to 17.5.

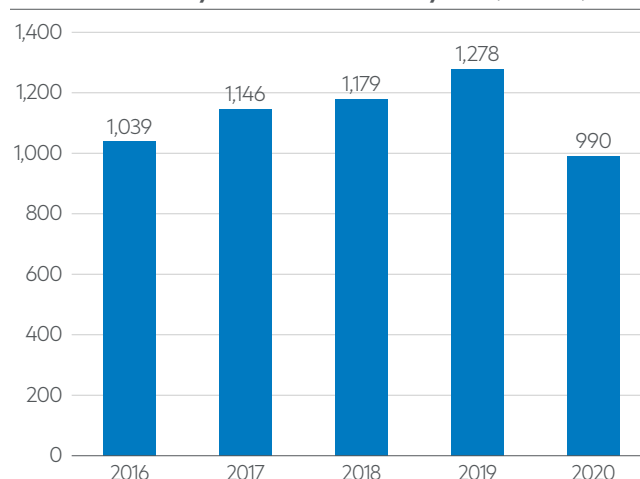


The annual scorecard is the starting point for determining the Group's annual discretionary incentives. Based on the 37 per cent outcome, and without any discretionary adjustment, total 2020 discretionary incentives would have been \$1,150 million.

However the Committee has exercised its judgement carefully for 2020 and considered several factors including the Group's underlying performance, the experience of our stakeholders, the withdrawal of the 2019 final ordinary dividend, the resilience of our business, inherent future risks, the significant contribution of our colleagues whilst managing the crisis and the need to compete for talent globally across 59 markets.

Considering all factors, the Committee applied a downward adjustment of \$160 million, resulting in total discretionary incentives of \$990 million, which is 23 per cent lower than 2019 and the lowest in the last five years. \$129 million of the total discretionary incentives is deferred and charged in future years, including \$21 million in LTIP awards for senior management, the value of which will be determined by Group performance over the period 2021 to 2023.

### Total discretionary incentives – last five years (\$ million)



In allocating discretionary incentives for 2020, we thought carefully about how to reflect the challenges of the pandemic and the need to recognise the collective contribution of colleagues to the Group's performance. Focus was primarily placed on Group performance given the challenges created by COVID-19 in fairly and objectively assessing the relative performance of each business, function, region and country. The one notable exception was within the CIB business, where incentives were differentiated for Financial Markets in order to reward colleagues for the strong performance in 2020.

Across the rest of the Group, at an individual level, focus was placed on protecting compensation levels for junior colleagues, as shown in the table below.

	Average year-on-year change (%)		
	Number of colleagues <sup>1</sup>	Annual discretionary incentives	Total compensation
Management Team	11	(43)	(23)
Managing Directors	1,055	(34)	(13)
Other senior leaders	2,621	(30)	(6)
All other colleagues	62,304	(27)	0

1 Number of colleagues eligible for annual discretionary incentives, excluding Financial Markets

# Directors' remuneration in 2020

This section sets out how remuneration was delivered to the executive directors in 2020 under the remuneration policy approved by shareholders in 2019. It also sets out the 2020 fees paid to the Group Chairman and the independent non-executive directors (INEDs). This section is subject to an advisory shareholder vote at the 2021 AGM.

The Group's executive directors' remuneration policy was approved at the AGM held on 8 May 2019 and applies to the executive directors, the Group Chairman and INEDs for three years from that date. A summary is set out on pages 155 to 156. The full policy can be found on pages 108 to 115 of the 2018 Annual Report and on the Group's website.

## Annual incentive awards for the executive directors (audited)

Annual incentive awards for executive directors are based on the assessment of the Group scorecard and an assessment of individual performance. We use the same Group scorecard for all eligible employees, including the executive directors.

For Bill and Andy, the Committee considered Group performance, their individual performance, and risk, control and conduct-related matters (with input from Risk and other control functions). The Committee followed a three-step process for determining annual incentive awards.

- 1. Consider eligibility:** The Committee considered that each director had exhibited an appropriate level of conduct against targets set and was deemed to have met the gateway requirement to be eligible for an incentive.
- 2. Evaluate performance against the Group's scorecard:** Throughout the year the Group has remained resilient and competitive, despite the economic and geopolitical challenges, even though our progress has inevitably slowed in some areas. The impact of COVID-19 has meant that some of the measures and targets set within the Group scorecard at the start of 2020 were unachievable. No changes were made to performance criteria and targets for 2020 incentive outcomes. Underlying profit before tax is down 40 per cent on 2019 and RoTE is down 340 basis points to 3.0 per cent. The Group's capital is strong, with the CET1 ratio at a historically high level, demonstrating our resilience in the face of such an extraordinary economic shock. Full details of the scorecard outcome can be seen on page 144.
- 3. Assess personal performance and finalise awards:** As outlined in the policy, the Committee can make an upwards or downwards adjustment to the scorecard outcome for personal performance, consistent with the approach for other employees who are eligible to be considered for discretionary incentives. When considering whether such an adjustment is appropriate, the Committee considers the particular areas of responsibility of the executive director together with the objectives that they were asked to prioritise for the year and their personal contribution to the scorecard outcome. The adjustment will usually be in the range of +/- 10 percentage points to the scorecard outcome.

## Assessment of personal performance and finalised awards

### Bill Winters

A summary of some of Bill's 2020 achievements against his key personal objectives is set out as follows:

- Bill has led the Group exceptionally well through difficult circumstances in 2020
- Bill has delivered resilient performance in light of the pandemic, building on the foundations he has laid since his appointment which put the Group in a position to absorb large shocks such as COVID-19
- Bill has been the ultimate driver of change for digital partnerships, data and artificial intelligence, and SC Ventures
- Bill recently assumed the role as a Chair of the Taskforce on Scaling Voluntary Carbon Markets, helping increase the Group's standing around sustainability

The Committee considered Bill's performance in the context of the significant challenges of 2020 and noted his performance against his key objectives in the year. Taking into account his request to waive the cash portion of any incentive in respect of 2020 (representing 50 per cent of any annual incentive), the Committee determined that despite the exceptional personal performance leading the Group through the crisis, no upward adjustment should be made. This results in an award of £385,836 (£1,251,360 in 2019) which equates to 18.5 per cent of the maximum opportunity and 15 per cent of fixed pay (44 per cent in 2019).

### Andy Halford

A summary of some of Andy's 2020 achievements against his key personal objectives and in response to the pandemic crisis is set out below:

- Andy led the completion of the restructuring of the Group's legal entities during the year, which has resulted in realised benefits being contributed to the delivery of our strategy
- Andy delivered the completion of the sale of the Group's interest in PT Bank Permata Tbk, demonstrating significant progress on our strategic priorities and placing the Group in a strong position to give us confidence through the crisis period
- Andy responded effectively to the liquidity challenges resulting from COVID-19, demonstrating the resilience of the Group
- Andy chaired the Crisis Management Team and oversaw the Property function in response to the pandemic
- Andy continued to deliver improvements in efficiency, with an ongoing focus that has continued to flow through to financial results
- Andy has been key in the new ways of working initiative, enabling the Group's drive for productivity with effective ways to measure and track our progress, critical for our success

The Committee considered Andy's performance in the context of the significant challenges of 2020 and noted his performance against his key objectives in the year. Taking into account his request to waive the cash portion of any incentive in respect of 2020 (representing 50 per cent of any annual incentive), the Committee determined that despite the exceptional personal performance leading the Group through the crisis, no upward adjustment should be made. This results in an award of £246,642 (£776,600 in 2019) which equates to 18.5 per cent of the maximum opportunity and 15 per cent of fixed pay (44 per cent in 2019).

## Assessment of the 2020 Group scorecard

Financial measures	Weighting	Threshold (0%)	Mid-point of target range	Maximum (100%)	Achievement	Outcome
Income <sup>1</sup>	7%	\$15.4bn	\$16.0bn	\$16.7bn	\$14.8bn	0%
Costs	7%	\$10.6bn	\$10.3bn	\$10.0bn	\$9.8bn	7%
Operating profit	10%	\$4.0bn	\$4.4bn	\$4.9bn	\$2.5bn	0%
RoTE <sup>2</sup> plus CET1 underpin	20%	6.1%	6.8%	7.5%	3.0%	0%
Growth of high-quality liabilities <sup>3</sup>	6%	\$5.0bn	\$9.9bn	\$14.9bn	\$46.2bn	6%
Other strategic measures <sup>4</sup>	Weighting	Target	Assessment of achievement			Outcome
Purpose and people	10%	<ul style="list-style-type: none"><li>Develop human capital by improving employee engagement, diversity and inclusion</li><li>Successfully embed sustainable and responsible practices in relation to climate, infrastructure, environment and community engagement</li></ul>	<ul style="list-style-type: none"><li>Employee net promoter and inclusion metrics materially exceeded set performance targets</li><li>Progress made in senior female diversity to 29.5%, which is slightly below the 2020 target of 30%</li><li>Exceeded our 2020 target in financing services for renewable energy projects and on track to the sustainability aspiration target of \$35 billion. All other sustainability measures also at or above target</li></ul>			7%
Deliver our network and grow our affluent business	10%	<ul style="list-style-type: none"><li>Improve client satisfaction rating</li><li>Deliver network growth in target segments</li><li>Deliver affluent growth in target markets</li></ul>	<ul style="list-style-type: none"><li>Improved client satisfaction across all segments, targets exceeded in CIB and Private Banking</li><li>Network growth in CIB and affluent growth in Retail and Private Banking were adversely impacted by the difficult macroeconomic conditions (including the impact of COVID-19)</li></ul>			3%
Improve productivity	5%	<ul style="list-style-type: none"><li>Improve efficiency and quality of client transformation experience</li><li>Improve working profit per full-time equivalent (FTE)</li></ul>	<ul style="list-style-type: none"><li>Programmes to improve efficiency and quality of client transformation experience exceeded target</li><li>Working profit per FTE ratio of \$56,000 was affected by the adverse impact of the difficult macroeconomic conditions on our financial performance and was behind threshold level</li></ul>			3%
Transform and disrupt with digital	10%	<ul style="list-style-type: none"><li>Grow cash transactions initiated by clients through digital channels</li><li>Manage key digital platforms and partnerships to improve client experience</li><li>Improve data analytics to develop new products and attract new clients</li></ul>	<ul style="list-style-type: none"><li>Materially exceeded target for cash transactions digitally initiated</li><li>Development of new ventures on track, target met for new products and services commercialised internally and externally</li><li>Targeted improvement in use of data analytics achieved</li></ul>			6%
Risk and control	15%	<ul style="list-style-type: none"><li>Manage elevated residual risks with effective controls in place</li><li>Successfully deliver milestones within the risk management plan</li><li>Maintain effective risk and control governance</li><li>Maintain the risk profile within the Group Risk Appetite boundaries</li><li>Maintain an effective Conduct Risk Management Framework to ensure there is a continuous process to identify and manage conduct risks</li></ul>	<ul style="list-style-type: none"><li>Slightly behind target on the management of elevated residual risk and delivery of milestones within the risk management plan</li><li>Met targets on risk and control governance effectiveness measured via audit management control approach</li><li>The Group continues to operate within Risk Appetite</li><li>Exceeded conduct risk management targets</li></ul>			5%
Total	100%	Total scorecard assessment				37%

1 Total income and operating profit are on an underlying basis. Certain items are presented as restructuring and other items that are excluded from the underlying results of the Group. These are income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the relevant dates that they have been approved for restructuring, disposal, wind down or redundancy. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios. See Note 2 page 306

2 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. The CET1 underpin was set at the higher of 13 per cent or the minimum regulatory level as at 31 December 2020 (taking into account any transition rules or material changes in regulatory rules)

3 Initiative that targets growth of efficient and regulatory friendly deposits to improve our quality funding mix (liabilities) to support the Group's growth aspirations

4 A maximum/minimum performance threshold was set for each performance measure. For strategic measures, the Committee used its judgement to determine scorecard outcomes within this range (with a higher than 50 per cent outcome for performance above target and a lower than 50 per cent outcome for below target performance)

## Performance outcome for 2018-20 LTIP awards (audited)

The single total figure of remuneration table shows that LTIP awards will vest in March 2021 with an estimated value of £594,000 and £368,000 for Bill and Andy, respectively. These LTIP awards were granted to Bill and Andy in 2018 with a face value of 120 per cent of fixed pay, to incentivise the continued execution of the strategy over the three-year period 2018 to 2020.

The awards were share-based and subject to the satisfaction of stretching performance measures over three years. The conduct gateway requirement must be met before any awards would vest. The awards were then subject to RoE and relative TSR targets and a qualitative and quantitative assessment of the strategic measures.

The Committee concluded that Bill and Andy exhibited appropriate conduct during the performance period and therefore the conduct gateway was met. The threshold RoE

target has not been achieved and the relative TSR threshold target will be measured in March 2021 but is estimated not to have been achieved and, therefore, there will be no vesting for the 66.6 per cent of the awards subject to these measures.

The Committee considered performance against the proof points as set out in the table below and determined that the overall vesting of the LTIP would be 26 per cent. The table below sets out the performance required, the 2018-20 performance achieved and the LTIP vesting outcome. The share price used to estimate the value of vesting of the 2018-20 LTIP awards is lower than the share price on the award date of £7.78 and therefore the value attributable to share price growth is nil. The value of the awards vesting is reduced by 46 per cent when compared to the value at grant.

No discretion has been applied to the vesting outcome of the LTIP in respect of performance targets or share price movement. The awards will vest pro rata over 2021 to 2025 and shares will be subject to a 12-month retention period post-vesting. Malus and clawback provisions apply.

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	Assessment of achievement	Vesting outcome
RoE <sup>1</sup> in 2020 with CET1 underpin	One-third	6.0%	9.0%	RoE 2.6% and CET1 14.4% therefore 0% vesting	0%
Relative TSR performance against the peer group	One-third	Median	Upper quartile	Performance currently estimated below median. TSR performance will be measured in March 2021	0%
Strategic measures	One-third			Improved performance against our strategic priorities	26%
<b>Total 2018-20 LTIP awards vesting outcome</b>					<b>26%</b>

Strategic measure	Proof point	Assessment
Strengthen foundations in risk and control	Maintain effective and sustainable anti-money laundering and sanctions controls	The Group successfully delivered on its commitments to remediate deficiencies and regulatory gaps. Following seven years of additional oversight, the New York Department of Financial Services (DFS) Independent Consultant was not extended by the DFS at end of 2019. Over the plan period, the Group's Financial Crime Risk and Control environment has strengthened, and the Group continue to deliver sustainable, effective financial crime regulatory compliance programs in all markets.
	Successfully deliver cyber risk management plan	Over the plan period, with significant investment and focus, core information and cyber security controls have been established and significant improvement has been made in managing information and Cyber Security Risk. For 2020, projects enabling risk reduction in high risk domains were prioritised for protection and mitigation.
Focus on clients and growth, and drive cross-bank collaboration	Improve client satisfaction rating	CIB and Private Banking client satisfaction metrics have exceeded the targets set in each year. Material improvement in retail client satisfaction measures over the plan period, meeting target in 2020.
	Deliver client growth in target segments	The segmental targets are driven by year-on-year client growth and acquisition in CIB, Private and Retail Banking. Despite being adversely impacted by the difficult macroeconomic conditions (including the impact of COVID-19), improvement has been made in Retail and Private Banking, and some progress in CIB over the plan period.
Improve efficiency, productivity, and service quality	Improve productivity	Productivity gains were made in 2018 and 2019 as FTE reduced and profitability rose. Despite further reduction in FTE in 2020, productivity measures were impacted due to the impact of COVID-19 on financial performance.
	Deliver growth in digital volumes	Continued online adoption growth and digital sourcing initiatives achieved against the target set in each year. In 2020 the target for cash transactions digitally initiated was materially exceeded.
Embed innovation, digitisation, and analytics	Drive innovation through new products, solutions and services for clients	Significant progress made in driving innovation to improve the client experience. Measured via an innovation index, performance exceeded the targets set in 2018 and 2019. The 2020 delivery of key digital platforms (including Mox) was in line with plan.
Invest in people, strengthen culture and conduct	Improve scores against employee engagement and culture of inclusion metrics	Material improvement in employee net promoter score (up from +11.3 in 2018 to +17.5 in 2020) and culture of inclusion score (up from 72.9% in 2018 to 81.7% in 2020) exceeding set targets.
	Improve management diversity	Material progress has been made in senior female diversity, improving from 25.7% at the start of the period to 29.5% at the end of 2020. However, despite this progress we are slightly below the target of 30% by 2020 year end.

<sup>1</sup> RoE was based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. The CET1 underpin was set at the higher of 12 per cent or the minimum regulatory level as at 31 December 2020 (taking into account any transition rules or material changes in regulatory rules)

The Committee considered the performance against the ESG metrics within the people and purpose element of the annual incentive scorecard and 2018-20 LTIP strategic measures, as well as the Group's wider progress on ESG metrics (further details on pages 54 to 71), and determined that the outcomes were appropriate and that the incentive structures do not raise ESG risks by motivating irresponsible behaviour.

### Single total figure of remuneration for 2020 (audited)

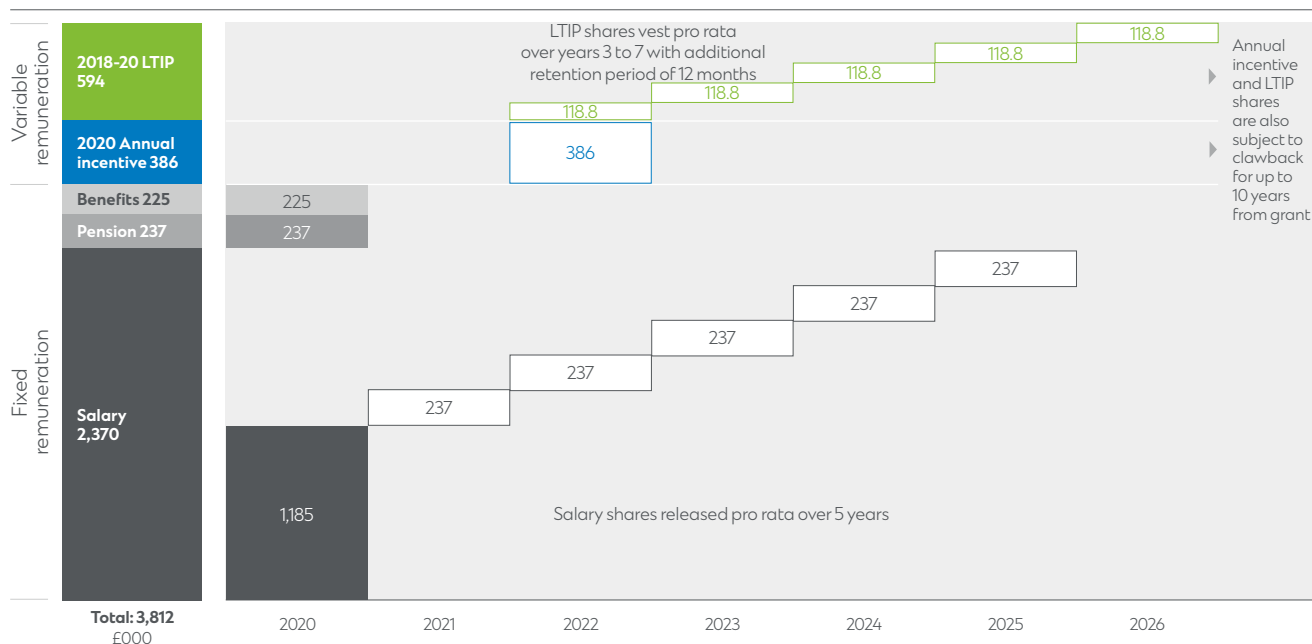
The following table sets out the single total figure of remuneration for 2020 for the CEO and the CFO. The single figure consists of salary, pension, benefits and annual incentives receivable in respect of 2020 and the estimated values of 2018-20 LTIP awards vesting. All figures are in £000s. The LTIP value is based on the outcome of awards made in 2018 and does not include the forward looking awards to be made in March 2021, in respect of 2020 performance and based on further three-year performance measures, due to vest in early 2024.

	Bill Winters		Andy Halford	
	2020	2019	2020	2019
Salary	2,370	2,353	1,504	1,450
Pension	237	470	150	315
Benefits	225	231	113	87
<b>Total fixed remuneration</b>	<b>2,832</b>	<b>3,054</b>	<b>1,767</b>	<b>1,852</b>
Annual incentive award	386	1,251	246	777
Vesting of LTIP award				
Value of vesting awards based on performance	594	1,055	368	653
Value of vesting awards based on share price growth	-	-	-	-
<b>Total variable remuneration</b>	<b>980</b>	<b>2,306</b>	<b>614</b>	<b>1,430</b>
<b>Single total figure of remuneration</b>	<b>3,812</b>	<b>5,360</b>	<b>2,381</b>	<b>3,282</b>

#### Notes to the single total figure of remuneration table

<b>Salary</b>	<ul style="list-style-type: none"> <li>For executive directors part of salary is paid in cash and part is paid in shares, to align with shareholder interests</li> <li>The salary shares are subject to a retention period of five years with 20 per cent released annually</li> <li>The number of shares allocated is determined by the monetary value and the prevailing market price of the Company's shares on the date of allocation</li> <li>Bill's salary is paid 50 per cent in cash and 50 per cent in shares and Andy's salary is paid 67 per cent in cash and 33 per cent in shares</li> <li>As disclosed last year, Andy's salary was increased 3 per cent effective 1 April 2020</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>Pension is set as a percentage of salary and can be delivered as a contribution to the UK pension fund or paid as a cash allowance</li> <li>Pension for Bill is delivered as a cash allowance and a £4,000 contribution to the UK pension fund and for Andy, the pension is delivered as a cash allowance</li> <li>In line with the UK Corporate Governance Code, only salary is pensionable</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>The core benefits provided to executive directors and other UK employees are the same: private medical insurance, life assurance, income protection, accidental death and disability insurance and a cash benefits allowance</li> <li>Executive directors receive a lower cash benefits allowance than other UK employees as a percentage of their salary. In addition, the executive directors have the use of a Company vehicle and driver. In line with Principle 6 of our Fair Pay Charter, this is a role-based provision given their executive role and the associated security and privacy requirements</li> <li>Executive directors occasionally use a Group car service for travelling and their partners may travel to accompany attendance at Board or other similar events. The Group covers any tax liability that arises on these benefits</li> <li>Bill is entitled to a contribution to the preparation of his annual tax returns owing to the complexity of his tax affairs, in part due to his extensive travel on Group business</li> <li>The benefits figures refer to UK tax years 2019/20 and 2018/19 respectively</li> </ul>
<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>Fixed remuneration is the total of salary, pension and benefits</li> </ul>
<b>Annual incentive</b>	<ul style="list-style-type: none"> <li>Executive directors' annual incentive awards are delivered 50 per cent in cash and 50 per cent in shares, subject to a minimum 12-month retention period</li> <li>For 2020, both executive directors waived the cash element of their annual incentive awards</li> <li>The detail of how directors' annual incentive awards are determined is set out on pages 143 to 144. Awards are subject to clawback for up to 10 years</li> </ul>
<b>Vesting of LTIP awards</b>	<ul style="list-style-type: none"> <li>The LTIP awards granted in March 2018 are due to vest in March 2021, based on performance over the years 2018 to 2020. Following an estimated assessment of the performance measures (RoE with CET1 underpin, relative TSR and strategic measures), 26 per cent of these awards are expected to vest. The final assessment of relative TSR performance will be conducted in March 2021, the end of the three-year performance period. Based on a share price of £4.22, the three-month average to 31 December 2020, the estimated value to be delivered is £594,000 to Bill and £368,000 to Andy. The final value will be restated in the 2021 directors' remuneration report based on final TSR performance and the share price at vesting. Awards are subject to malus and clawback for up to 10 years from grant. Further details are provided on page 145</li> <li>The value of the awards vesting is reduced by £267,000 and £165,000 for Bill and Andy, respectively, when compared to the value at grant. The values of vesting awards for 2019 have been restated based on the actual share price of £4.49 when the awards vested in March 2020</li> </ul>

## Bill Winters' 2020 single total figure of remuneration



## Executive directors' shareholdings and share interests including share awards (audited)

Executive directors are required to hold a specified level of shares, to be built up over a reasonable time frame from the date of appointment as an executive director (or, if later, from the date of any change to the terms of the shareholding requirement). Shares that count towards the requirements are beneficially owned shares, including vested share awards subject to a retention period, and unvested share awards for

which performance conditions have been satisfied (on a net-of-tax basis). The shareholding requirement for 2020 was expressed as a percentage of salary, set as 250 per cent of salary for the CEO and 200 per cent of salary for the CFO. As at 31 December 2020, both Bill and Andy exceeded their shareholding requirement. Shares purchased voluntarily from their own funds are equivalent to 61 and 44 per cent of salary for Bill and Andy, respectively. The following table summarises the executive directors' shareholdings and share interests:

	Vested	Unvested	Total
	Shares held beneficially (including shares awarded to deliver executive directors' salaries)	Not subject to performance measures (net of tax)	Total towards shareholding requirements
Bill Winters	1,795,610	148,778	1,944,388
Andy Halford	718,535	92,743	811,278

- All figures are as at 31 December 2020 unless stated otherwise. There were no changes to any executive directors' interests in shares between 31 December 2020 and 25 February 2021. No director has either (i) an interest in Company preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in Company ordinary shares. The closing share price on 31 December 2020 was £4.66
- The beneficial interests of directors and connected persons in the shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used shares as collateral for any loans
- As Bill and Andy are both UK taxpayers: 0 per cent tax is assumed to apply to Sharesave (as Sharesave is a UK tax qualified share plan) and 47 per cent tax is assumed to apply to other unvested share awards (marginal combined PAYE rate of income tax at 45 per cent and employee National Insurance contributions at 2 per cent) – rates may change

## LTIP awards for the executive directors to be granted in 2021

The size of the LTIP award has been determined based on Group and individual performance during the year. Awards for the 2020 performance year will be granted to Bill and Andy in March 2021 with a value of 120 per cent of fixed pay (£3.1 million and £2.0 million, respectively). This is the maximum amount receivable, unless the share price appreciates. The amount that the executive directors will receive at the end of the three-year performance period will be based on the level of performance achieved against the performance measures and the future share price.

We consider target setting carefully before each grant and set targets that are challenging and act as an effective incentive for executive directors to execute our strategy. To reflect the Group's ambition to become the world's most sustainable and responsible bank and increased focus on sustainability, we are adjusting the weightings of the performance measures and including a standalone sustainability measure.

The sustainability measures have been selected carefully from our broader range of sustainability aspirations based on their level of impact for the Group and wider society and ability to drive financial returns in the medium term. The other strategic measures have been adjusted to align with the refreshed strategic priorities. Details of the sustainability and other strategic measures and targets are shown in the table on the next page and are disclosed prospectively, except where the internal targets are considered commercially sensitive. Detailed disclosure of achievement against all internal targets will be disclosed retrospectively at the end of the performance period.

The RoTE target range for 2021-23 LTIP awards is 6 to 10 per cent. This is a wider range than in previous years given the unusually uncertain macroeconomic environment, including the impact of severe economic dislocations and low interest rates on the Group's returns. It takes into account our expectation that our refreshed strategic priorities should allow us to improve our RoTE from the 3 per cent we delivered in 2020 to over 7 per cent by 2023 as we progressively advance to our target of over 10 per cent. The current market consensus estimate for RoTE in 2023 is 6.9 per cent.

The peer group of companies selected for the calculation of the relative TSR performance are companies with generally comparable business activities, size or geographic spread to Standard Chartered or companies with which the Group competes for investor funds and talent. The peer group is intended to be representative of the Group's geographic presence and business operations. The companies that make up the peer group are reviewed annually, prior to each new LTIP grant.

The TSR peer group for 2021-23 LTIP awards will be the same as for the 2020-22 LTIP and is detailed on the next page. TSR is measured in sterling for each company and the TSR data is averaged over a month at the start and end of the three-year measurement period which starts from the date of grant.

Remuneration regulations for European banks mean that dividend equivalent shares are not permitted to be awarded on vesting. The number of shares awarded in respect of the LTIP will take into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall market value of the award is maintained.

These awards will vest in five annual tranches beginning after the third anniversary of the grant (i.e. March 2024 to March 2028) subject to meeting the performance measures set out below at the end of 2023. All vested shares are subject to a 12-month retention period.

The performance measures for the 2021-23 LTIP awards are set out in the table on the next page.

## Performance measures for 2021-23 LTIP awards

Measure	Weighting	Amount vesting (as a % of total award)	Threshold performance target	Maximum performance target
1. RoTE <sup>1</sup> in 2023 plus CET1 <sup>2</sup> underpin of the higher of 13% or the minimum regulatory requirement	30%	Maximum – 30% Threshold – 7.5% Below threshold – 0%	6%	10%
If RoTE reaches 6 per cent then 7.5 per cent of the award vests. If RoTE reaches 10 per cent then 30 per cent of the award vests. If RoTE is between the threshold and maximum, vesting is calculated on a straight-line basis between these two points				
2. Relative TSR against the peer group	30%	Maximum – 30% Threshold – 7.5% Below threshold – 0%	Median	Upper quartile
Relative TSR is measured against a peer group of companies. If the Group's TSR performance is at least equivalent to the median ranked company then 7.5 per cent of the award vests. If the Group's TSR performance is at least equal to the upper quartile ranked company then 30 per cent of the award vests. Between these points, the Group's TSR is compared with that of the peer companies positioned immediately above and below it and straight-line vesting applies				
3. Sustainability	15%	Maximum – 15% Minimum – 0%	<b>Sustainable finance</b> <ul style="list-style-type: none"> <li>Develop and implement a framework to align our financial services with net zero emissions by 2050, and deliver 2023 targets consistent with that plan</li> <li>Provide \$35 billion (cumulative) worth of project financing services, M&amp;A advisory, debt structuring, transaction banking and lending services for renewable energy that align to our verified Green and Sustainable Product Framework</li> <li>Only provide financial services to clients who are less than 80% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> </ul> <b>Responsible company</b> <ul style="list-style-type: none"> <li>Reduction in property emissions of 10% annually</li> <li>Reduction of flight emissions of 25%</li> <li>Offset 95% of all residual emissions from our operations</li> </ul>	
4. Other strategic measures	25%	Maximum – 25% Minimum – 0%	<ul style="list-style-type: none"> <li>Improve client satisfaction rating evidenced in surveys and internal benchmarks</li> <li>Deliver growth in qualified clients across Private, Priority &amp; Premium Banking, and Wealth Management</li> <li>Deliver network income growth in Corporate, Commercial and Institutional Banking (CCIB)</li> <li>Add more than 2 million new customers via digital partnerships, platforms and technologies</li> </ul>	
Enablers (innovation, new ways of working and people)			<ul style="list-style-type: none"> <li>Drive culture of innovation to generate new revenues</li> <li>Adopt new ways of working that result in quicker decision-making and delivery</li> <li>Increase senior female representation to 33%</li> <li>Increase our culture of inclusion score from 81% to 84% (internal index)</li> </ul>	
Risk and control			<ul style="list-style-type: none"> <li>Maintain effective risk and control governance</li> <li>Successfully deliver milestones within the cyber risk management plan</li> </ul>	

1 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. Normalised RoTE normally excludes regulatory fines but, for remuneration purposes, this would be subject to review by the Committee

2 The CET1 underpin will be dynamically set at the higher of 13 per cent or the minimum regulatory level as at 31 December 2023 (taking into account any transition rules or material changes in regulatory rules). In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period, for example, in relation to Basel IV

The peer group for the TSR measure in the 2021-23 LTIP is unchanged from the 2020-22 award and is set out below:

Banco Santander	Credit Suisse	KB Financial Group
Bank of America	DBS Group	Oversea Chinese Banking Corporation
Bank of China	Deutsche Bank	Société Générale
Bank of East Asia	HSBC	Standard Bank
Barclays	ICBC	State Bank of India
BNP Paribas	ICICI	UBS
Citigroup	JPMorgan Chase	United Overseas Bank

**Total variable remuneration awarded to directors in respect of 2020 (audited)**

	Bill Winters		Andy Halford	
	2020	2019	2020	2019
Annual incentive (£000)	386	1,251	246	777
Annual incentive as a percentage of fixed pay	15%	44%	15%	44%
LTIP award (value of shares subject to performance conditions) (£000)	3,128	3,413	2,000	2,118
LTIP award as a percentage of fixed pay	120%	120%	120%	120%
<b>Total variable remuneration as a percentage of fixed pay</b>	<b>135%</b>	<b>164%</b>	<b>135%</b>	<b>164%</b>
<b>Total variable remuneration (£000)</b>	<b>3,514</b>	<b>4,664</b>	<b>2,246</b>	<b>2,895</b>

LTIP awards for the 2020 performance year will be granted to executive directors in March 2021 and are based on their 2020 fixed pay (as at December 2020).

**Service contracts for executive directors**

Copies of the executive directors' service contracts are available for inspection at the Group's registered office. These contracts have rolling 12-month notice periods and the dates of the executive directors' current service contracts are shown below. The contracts were updated effective 1 January 2020 to reflect the changes made following the implementation of the 2019 remuneration policy and the change to pension contribution. Executive directors are permitted to hold non-executive directorship positions in other organisations (but no more than one position with a FTSE 100 company). Where such appointments are agreed with the Board, the executive directors may retain any fees payable for their services. Both executive directors served as non-executive directors elsewhere and received fees for the period covered by this report.

	Date of Standard Chartered employment contract	Details of any non-executive directorship	Fees retained for any non-executive directorship (local currency)
Bill Winters	1 January 2020	Novartis International AG	CHF353,333
Andy Halford	1 January 2020	Marks and Spencer Group plc	£102,500

**Single figure of remuneration for the Chairman and INEDs (audited)**

The Chairman and INEDs were paid in monthly instalments during the year. The INEDs are required to hold shares with a nominal value of \$1,000.

The table below shows the fees and benefits received by the Chairman and INEDs in 2020 and 2019. The INEDs' 2020 benefit figures are in respect of the 2019/20 tax year and the 2019 benefit figures are in respect of the 2018/19 tax year to provide consistency with the reporting of similar benefits in previous years and with those received by executive directors.

	Fees £000		Benefits £000 <sup>4</sup>		Total £000		Shares beneficially held as at 31 December <sup>5</sup> 2020
	2020	2019	2020	2019	2020	2019	
<b>Group Chairman</b>							
J Viñals	1,250	1,250	43	49	1,293	1,299	18,500
<b>Current INEDs</b>							
L Cheung <sup>1</sup>	31	135	6	9	37	144	2,571
D P Conner <sup>2</sup>	273	275	1	2	274	277	10,000
B E Grote	170	170	–	–	170	170	80,041
C M Hodgson, CBE	325	325	3	2	328	327	2,571
G Huey Evans, OBE	200	200	7	2	207	202	2,615
N Kheraj	360	360	4	4	364	364	40,571
N Okonjo-Iweala	135	135	7	4	142	139	2,034
P Rivett <sup>3</sup>	119	–	–	–	119	–	2,128
D Tang	144	75	5	–	149	75	2,000
C Tong	205	176	6	1	211	177	2,000
J M Whitbread	210	210	1	2	211	212	3,615

1 Louis Cheung stepped down from the Board on 25 March 2020. His reported fee for 2020 of £31,000 is in respect of the period of 1 January 2020 to 25 March 2020. His benefits for 2020 of £6,000 are in respect of the period from 6 April 2019 to 25 March 2020, in line with the approach to disclose INED benefits in respect of the relevant tax year

2 David Conner's fee includes his role on the Combined US Operations Risk Committee

3 Phil Rivett was appointed to the Board on 6 May 2020

4 The costs of benefits (and any associated tax costs) are paid by the Group

5 The beneficial interests of Chairman and INEDs, and connected persons in the shares of the Company are set out above. These directors do not have any non-beneficial interests in the Company's shares. None of these directors used shares as collateral for any loans. No director had either (i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in the Company's ordinary shares. All figures are as at 31 December 2020 or on the retirement of a director unless otherwise stated

**Independent non-executive directors' letters of appointment**

The INEDs have letters of appointment, which are available for inspection at the Group's registered office. Details of the INEDs' appointments are set out on pages 84 to 86. INEDs are appointed for a period of one year, unless terminated by either party with three months' notice.

# 2021 policy implementation for directors

Remuneration for the executive directors in 2021 will be in line with our directors' remuneration policy as summarised on pages 155 to 156 of this report and set out in full on pages 108 to 115 of the 2018 Annual Report with the exception of the implementation of the pension provision.

[+ The policy is also set out on our website: \[sc.com\]\(https://www.sc.com\)](#)

The key elements of remuneration for 2021 include salary (delivered in cash and shares), pension, benefits, an annual incentive and an LTIP award. Bill's pension is delivered as a contribution to a defined contribution plan and as a cash

allowance. Andy's pension is delivered as a cash allowance. A portion of executive directors' salaries is paid in shares to strengthen shareholder alignment. The pension allowance is set as a percentage of salary (both the cash and shares components).

The Committee reviews the salaries of the executive directors on an annual basis, after considering any changes to the scope or responsibility of the role, the individual's development in the role, and alignment to market-competitive levels.

Details of fixed pay for Bill and Andy with effect from 1 April 2021 are set out below. All figures are in £000s.

	Bill Winters			Andy Halford		
	2021	2020	% change	2021	2020	% change
<b>Salary</b>	<b>2,370</b>	2,370	0	<b>1,515</b>	1,515	0
of which cash	<b>1,185</b>	1,185	0	<b>1,015</b>	1,015	0
of which shares	<b>1,185</b>	1,185	0	<b>500</b>	500	0
<b>Pension</b>	<b>237</b>	237	0	<b>151</b>	151	0
<b>Total fixed pay</b>	<b>2,607</b>	2,607	0	<b>1,666</b>	1,666	0
Proportion of total fixed pay paid in cash	<b>55%</b>	55%	0	<b>70%</b>	70%	0
Proportion of total fixed pay paid in shares	<b>45%</b>	45%	0	<b>30%</b>	30%	0

## Illustration of application of remuneration policy in 2021

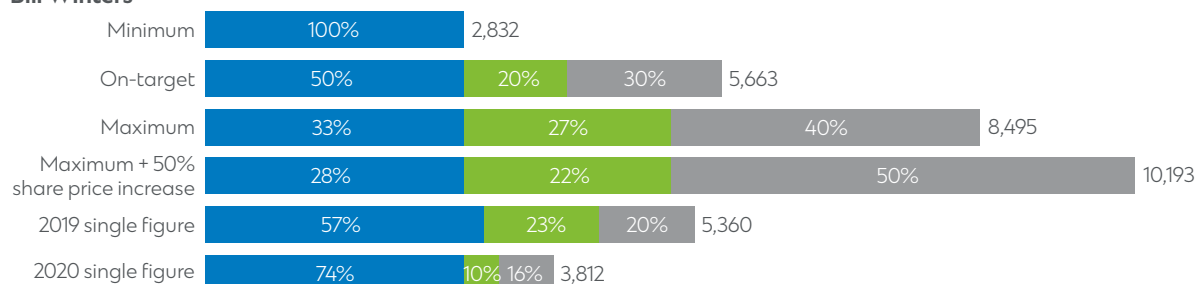
The charts below illustrate the potential outcomes under our directors' remuneration policy approved by shareholders at the AGM in May 2019 based on the implementation of the policy in 2021 (i.e. for awards that would be made in March 2022, based on 2021 fixed pay) and fixed remuneration with effect from 1 April 2021.

The charts show potential remuneration outcomes for each executive director in four performance scenarios: minimum, on-target, maximum performance and maximum performance with 50 per cent share price appreciation in line with reporting requirements. The percentages shown in each bar represent the amount of remuneration provided by each element of pay. Also shown are the 2019 and 2020 single total figures of remuneration for Bill and Andy.

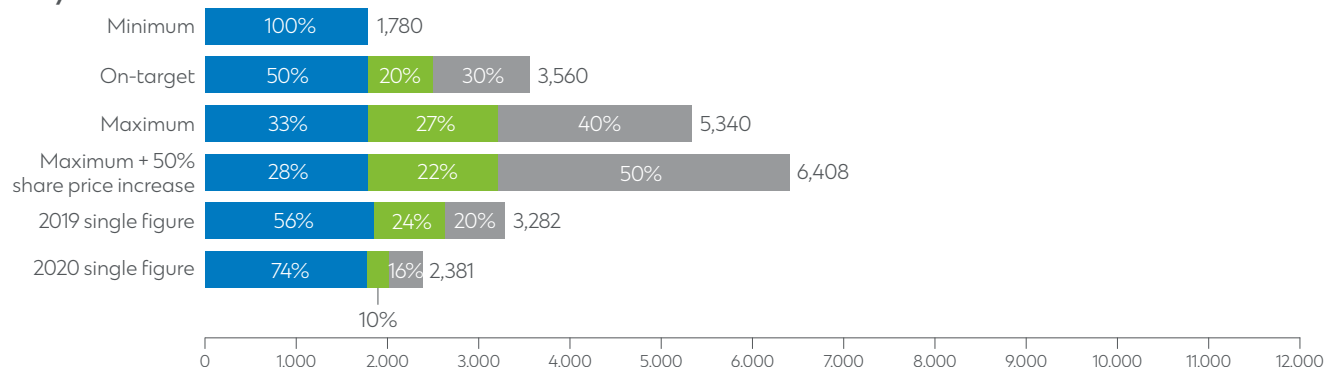
## Executive director remuneration

■ Fixed remuneration ■ Annual incentive ■ LTIP

### Bill Winters



### Andy Halford



<b>Fixed remuneration</b>	<b>All scenarios</b>	<ul style="list-style-type: none"> <li>Consists of total fixed remuneration – salary, benefits and pension</li> <li>Salary – salary as at 1 April 2021</li> <li>Benefits – based on 2020 single figure, actual fixed remuneration in 2021 will be dependent on the cost of benefits</li> <li>Pension – 10 per cent of salary as at 1 April 2021</li> </ul>
<b>Incentives</b>	<b>Minimum</b>	<ul style="list-style-type: none"> <li>No annual incentive is awarded</li> <li>No LTIP award vests</li> </ul>
	<b>On-target</b>	<ul style="list-style-type: none"> <li>Annual incentive of 50 per cent of target (40 per cent of fixed pay)</li> <li>LTIP award vests at 50 per cent total award (60 per cent of fixed pay)</li> </ul>
	<b>Maximum</b>	<ul style="list-style-type: none"> <li>Annual incentive of 100 per cent of target (80 per cent of fixed pay)</li> <li>LTIP award vests at 100 per cent total award (120 per cent of fixed pay)</li> </ul>
	<b>Maximum + 50% share price increase</b>	<ul style="list-style-type: none"> <li>Annual incentive of 100 per cent of target (80 per cent of fixed pay)</li> <li>LTIP award vests at 100 per cent total award (120 per cent of fixed pay) with 50 per cent share price appreciation in the value of the vested LTIP award since time of grant</li> </ul>
<b>2019 single figure</b>	<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>Salary – received in 2019</li> <li>Benefits – received in 2018/19 tax year</li> <li>Pension – contribution/cash allowance received in 2019</li> </ul>
	<b>Incentives</b>	<ul style="list-style-type: none"> <li>Annual incentive – received in respect of 2019 performance year</li> <li>LTIP – vesting of 2017-19 LTIP award</li> </ul>
<b>2020 single figure</b>	<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>Salary – received in 2020</li> <li>Benefits – received in 2019/20 tax year</li> <li>Pension – contribution/cash allowance received in 2020</li> </ul>
	<b>Incentives</b>	<ul style="list-style-type: none"> <li>Annual incentive – received in respect of 2020 performance year (50% cash portion waived)</li> <li>LTIP – vesting of 2018-20 LTIP award</li> </ul>

## 2021 annual incentive scorecard

Our annual incentive scorecard reflects the refreshed strategic priorities set out in February 2021. The targets are set annually by the Committee and take into account the Group's annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers such targets to be commercially sensitive and that it would be detrimental to the interests of the Group to disclose them before the end of the financial year. Targets will be disclosed in the 2021 Annual Report alongside the level of performance achieved.

Financial measures make up 50 per cent of the annual incentive scorecard. Strategic measures are assessed by the Committee using a quantitative and qualitative framework.

### Step 1: Conduct gateway requirement to be met in order to be eligible for any annual incentive

Appropriate level of individual valued behaviours and conduct exhibited during the course of the year

### Step 2: Measurement of performance against financial and other strategic measures

Financial measures	Weighting	Target
Income <sup>1</sup>	10%	
Costs	10%	
Operating profit	5%	
RoTE <sup>2</sup> plus CET <sup>1</sup> underpin of the higher of 13% or the minimum regulatory requirement	20%	<ul style="list-style-type: none"> <li>Targets to be disclosed to shareholders retrospectively</li> </ul>
Growth of high-quality liabilities <sup>4</sup>	5%	
Other strategic measures	Weighting	Target
Clients (network, affluent, mass)	10%	<ul style="list-style-type: none"> <li>Improve client satisfaction rating</li> <li>Deliver growth in qualified clients across Private, Priority &amp; Premium Banking, and Wealth Management activity across top 11 affluent countries</li> <li>Deliver network income growth in CCIB</li> <li>Deliver client growth in key digital partnerships, platforms and technologies</li> </ul>
Sustainability	10%	<ul style="list-style-type: none"> <li>Progress against the Group's Paris Agreement client commitment</li> <li>Reduce and offset emission waste from flights, properties and supplier</li> </ul>
Enablers (innovation, new ways of working and people)	15%	<ul style="list-style-type: none"> <li>Drive culture of innovation to generate new revenues</li> <li>Adopt new ways of working that result in quicker decision-making and delivery</li> <li>Develop human capital by improving employee engagement, diversity and inclusion</li> </ul>
Risk and controls	15%	<ul style="list-style-type: none"> <li>Maintain effective risk and control governance</li> <li>Successfully deliver milestones within the cyber risk management plan</li> </ul>

<sup>1</sup> Income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios

- 2 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. Normalised RoTE normally excludes regulatory fines but, for remuneration purposes, this would be subject to review by the Committee
- 3 The CET1 underpin will be dynamically set at the higher of 13 per cent or the minimum regulatory level as at 31 December 2021 (taking into account any transition rules or material changes in regulatory rules). In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period
- 4 Initiative that targets growth of efficient and regulatory friendly deposits to improve our quality funding mix (liabilities) to support the Group's growth aspirations

### Step 3: Assessment of personal performance

The Committee reviews the individual performance of each executive director in their areas of personal responsibility. Consistent with the Group's treatment of all employees, the Committee can make an adjustment to the annual incentive if the executive director's performance is considered improved and is not fully reflected in the scorecard outcome (and vice versa), if appropriate. The Committee will generally consider personal performance adjustments in the range of up to +/- 10 percentage points on the scorecard outcome.

### Independent non-executive director fees

The fee levels are based on market data and the duties, time commitments and contribution expected for the PLC Board and, where appropriate, subsidiary boards. The Chairman and the INEDs are eligible for benefits in line with the directors' remuneration policy. Neither the Chairman or the INEDs receive any performance related remuneration.

	Effective 1 January 2020 £000
Board member	105
<b>Additional responsibilities</b>	
Deputy Chairman	75
Senior Independent Director	40
Chair	
– Audit Committee	70
– Board Risk Committee	70
– Remuneration Committee	70
– Board Financial Crime Risk Committee	60
– Brand, Values and Conduct Committee	60
Membership	
– Audit Committee	35
– Board Risk Committee	35
– Remuneration Committee	30
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– Brand, Values and Conduct Committee	30
– Governance and Nomination Committee	15

## How does our directors' remuneration policy address the key features set out in the UK Corporate Governance Code?

### Risk

- The Committee considers risk adjustment in respect of the Group scorecard and has a track record of applying discretion appropriately
- The rules of the LTIP give the Committee the necessary discretion to adjust vesting outcomes if it considers that they are inconsistent with underlying business performance
- We operate malus and clawback in respect of our annual incentive and LTIP
- We set the incentives of employees in Audit, Risk and Compliance functions independently of the business they oversee

### Alignment to culture

- As set out on page 137, the performance metrics used to determine incentive outcomes directly align with our business strategy
- In line with our Fair Pay Charter, our incentive plans support us in embedding a performance-orientated culture and our principle that colleagues should share in the success of the Group. Our scorecard includes financial and strategic measures and all employees' performance is assessed by what is achieved and how it is achieved in line with our valued behaviours
- In combination with our risk procedures, our remuneration structure ensures that our valued behaviours are appropriately recognised and rewarded

### Proportionality

- In line with our commitment to pay for performance, a significant proportion of executive director pay is delivered through incentives based on performance metrics aligned to our strategy
- Executive directors are further aligned to long-term shareholder interests through the deferred release of salary, annual incentive and LTIP share awards over a period of one to eight years with incentive awards also being subject to clawback for up to 10 years from grant
- Additional shareholding requirements are in place for executive directors to build and maintain a significant shareholding in Company shares whilst in employment and post-employment for two years. Both executive directors currently exceed the shareholding requirements

### Predictability

- The range of possible rewards to individual executive directors is set out in the scenario charts on page 151 where we also demonstrate the impact of a 50 per cent share price appreciation over the three-year performance period of the LTIP
- Maximum awards levels under all incentives are capped at twice fixed pay. Other than vesting levels which are driven by performance outcomes, the only source of variation in final payouts is the fact that a significant part of incentive awards is delivered in shares and so linked to the share price

### Simplicity and clarity

- Simplicity is a key driver for the structure of our executive pay as far as possible, notwithstanding the complexity of operating as a UK regulated bank
- Additional information is included on the alignment of executive and wider workforce pay on page 138 in support of our commitment to clarity.

# Summary of the directors' remuneration policy

The forward-looking remuneration policy for executive directors and INEDs was approved at the AGM held on 8 May 2019 and applies for three years from that date. A summary of the policy, including the key remuneration elements, is set out below and is provided for information only. The full policy, including recruitment and leaver provisions, can be found on pages 108 to 115 of the 2018 Annual Report and on our website.

 The full policy is available on our website at [sc.com](https://www.sc.com)

## Summary of the remuneration policy for executive directors

### Fixed remuneration

Remuneration element	Operation	Opportunity	Performance required	Alignment with UK employees
<b>Salary</b> Set to reflect the role, and the skills and experience of the individual, following the Group-wide principles which apply to all employees	Delivered part in cash and part in shares To maintain alignment with shareholders, the share element is subject to a holding period of five years, with 20 per cent being released annually The same approach would be followed on the recruitment of an executive director	Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness	Any increase to salary is set in the context of the annual performance assessment of the individual	The process of setting and annually reviewing salaries against market information is the same for all employees The only difference for executive directors is that part of executive director salaries is delivered in shares For other employees salary is delivered only as cash
<b>Pension</b> The pension arrangements comprise part of a competitive remuneration package and facilitate long-term retirement savings for directors	Normally paid as a cash allowance or contribution to a defined contribution scheme For the current directors, from 2020, an annual pension allowance or contribution of 10 per cent of salary will be payable	For new executive directors the maximum is an annual pension allowance or contribution of 10 per cent of salary	N/A	The contribution rate of 10 per cent of salary applied in 2020 for the current executive directors is aligned with UK employees
<b>Fixed pay for determining variable remuneration</b>	The combined value of salary and pension form fixed pay on which variable remuneration is calculated			
<b>Benefits</b> A competitive benefits package to support executives to carry out their duties effectively	A range of benefits are provided (e.g. standard benefits such as holiday and sick pay, a benefits cash allowance, a car and driver or other car-related service, private medical insurance, permanent health insurance, life insurance, financial advice and tax preparation and tax return assistance)	The opportunity for benefits depends on the type of benefit and the cost of providing it, which may vary according to the market, individual circumstances and other factors	N/A	Core benefits are aligned with all employees Some additional, role-specific benefits are received by the current executive directors (see page 146 for details)

## Variable remuneration

Remuneration element	Operation	Opportunity	Performance required	Alignment with UK employees
<b>Annual incentive</b> Performance dependent remuneration based on measurable performance criteria linked to the Group's strategy and assessed over a period of one year	Annual incentive awards are delivered as a combination of cash and shares subject to holding requirements and deferred shares	The maximum value of an annual incentive award cannot exceed 80 per cent of fixed pay (defined as salary and pension) and can be any amount from zero to the maximum	Awards are determined by the Committee, based on the assessment of the Group scorecard which contains a mix of financial (at least 50 per cent of the scorecard) and strategic measures, as well as the personal performance of the individual	The annual incentive plan is operated for all employees, paid in cash to certain limits with the balance deferred over at least three years in shares and/or cash
<b>LTIP</b> Performance dependent remuneration based on measurable, long-term performance criteria	LTIP awards are granted annually, based on the assessment of performance of the Group and the individual in the relevant year to determine the award size LTIP awards are delivered in shares and may be subject to holding requirements Following the grant of awards, Group performance is measured over three years with no award vesting before the third anniversary of the grant	The maximum value of an LTIP award cannot exceed 120 per cent of fixed pay and can be any amount from zero to the maximum	The long-term performance measures may be a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the performance measures	Members of the Management Team are also eligible for LTIP awards, assessed on the same performance measures and targets, with awards typically at a lower level
<b>Total variable remuneration</b> (annual incentive and LTIP)	The combined maximum variable opportunity of the annual incentive and the LTIP cannot exceed 200 per cent of fixed pay. The LTIP forms at least 60 per cent of the maximum variable remuneration opportunity so that the majority of variable remuneration is based on long-term performance The same approach for variable remuneration would be followed on the recruitment of an executive director			

## Other remuneration

Remuneration element	Operation	Opportunity	Performance required	Alignment with UK employees
<b>Sharesave</b> Provides an opportunity for all employees to invest voluntarily in the Group	An all-employee plan where participants are able to open a savings contract to fund the exercise of an option over shares The option price is set at a discount of up to 20 per cent of the share price at the date of the invitation to participate	Savings per month of between £5 and the maximum set by the Group which is currently £250	N/A	All employees are eligible to participate on the same basis
<b>Shareholding requirements</b> A requirement for executive directors to hold a specified value of shares for alignment with the interests of shareholders during employment	Executive directors are required to hold a specified level of shares, to be built up over a reasonable time frame from the date of appointment. Under the policy, in 2019 and 2020, the CEO and the CFO are required to hold 250 per cent and 200 per cent of salary in shares, respectively	N/A	N/A	Formal shareholding requirements are operated for the executive directors only. However, other employees hold shares as part of the deferral and retention requirements
<b>Post-employment shareholding requirement</b>	Shares to be held of 100 per cent of the shareholding requirement in place for one year and 50 per cent of the requirement in place for the second year following cessation of employment	N/A	N/A	Policy applies to executive directors only

# Additional remuneration disclosures

The following disclosures provide further information and context in relation to executive director remuneration and remuneration for the wider workforce as required by company reporting regulations, corporate governance guidance and institutional investor guidelines. These include the Directors' Remuneration Report Regulations, the UK Corporate Governance Code, Pillar 3 disclosure requirements and the requirements of the Stock Exchange of Hong Kong Limited.

## Appropriateness of executive directors' remuneration

Our approach to remuneration is consistent for all employees and is designed to help ensure pay is fair and competitive in line with our Fair Pay Charter. Remuneration for the executive directors, in line with other employees, is reviewed annually against internal and external measures to ensure that levels are appropriate. Further details on the alignment of executive director and wider workforce remuneration is set out on page 138.

Measure	Approach
<b>External market data</b>	<ul style="list-style-type: none"> <li>We compete for talent in a global marketplace, with many of our key competitors based outside the UK. We review executive director fixed and variable remuneration levels against a peer group of UK and international banks to ensure that it remains appropriately competitive. Market data used in benchmarking is based on the latest published report and accounts</li> <li>In addition, we consider their remuneration against FTSE30 companies, with data sourced from an external provider</li> </ul>
<b>Internal measures</b>	<ul style="list-style-type: none"> <li>As with all employees, executive directors' fixed pay levels are reviewed annually in line with the Group-wide salary increase principles. In addition, we review annually the year-on-year percentage change in remuneration for the executive directors and the wider employee population</li> <li>Our incentive plans have a clear link to Group and business performance, through published scorecards. The same Group scorecard is set to determine incentives for colleagues including the executive directors</li> <li>Incentive decisions for colleagues, including the executive directors, are driven by the assessment of individual performance including achievements against personal objectives and conduct</li> <li>The remuneration structure for executive directors is considered as part of the broader directors' remuneration policy review, which will next be reviewed in 2021</li> </ul>
<b>CEO pay ratio</b>	<ul style="list-style-type: none"> <li>In line with UK regulations, we annually report pay ratios comparing CEO remuneration to all UK employees</li> <li>We review year-on-year ratio changes to understand the reasons and appropriateness for such movements</li> <li>In addition, we review the median ratio against UK FTSE and industry peer averages</li> </ul>

## The relationship between the remuneration of the Group Chief Executive (CEO) and all UK employees

### Ratio of the total remuneration of the CEO to that of the UK lower quartile, median and upper quartile employees

Year	Method	CEO £000	UK employee remuneration – £000			Pay ratio		
			P25	P50	P75	P25	P50	P75
2020	A	3,812	84	128	199	45:1	30:1	19:1
2019	A	5,360	83	128	212	65:1	42:1	25:1
2018	A	6,287	78	124	208	80:1	51:1	30:1
2017	A	4,683	76	121	203	61:1	39:1	23:1

It is expected that the ratio will depend materially on long-term incentive outcomes each year, and accordingly may fluctuate. Therefore, the Committee also discloses the pay ratios covering salary and salary plus annual incentive, as UK employees are eligible to be considered for an annual incentive based on Group, business and individual performance. These show a more consistent ratio over time.

### Additional ratios of pay based on salary and salary plus annual incentive

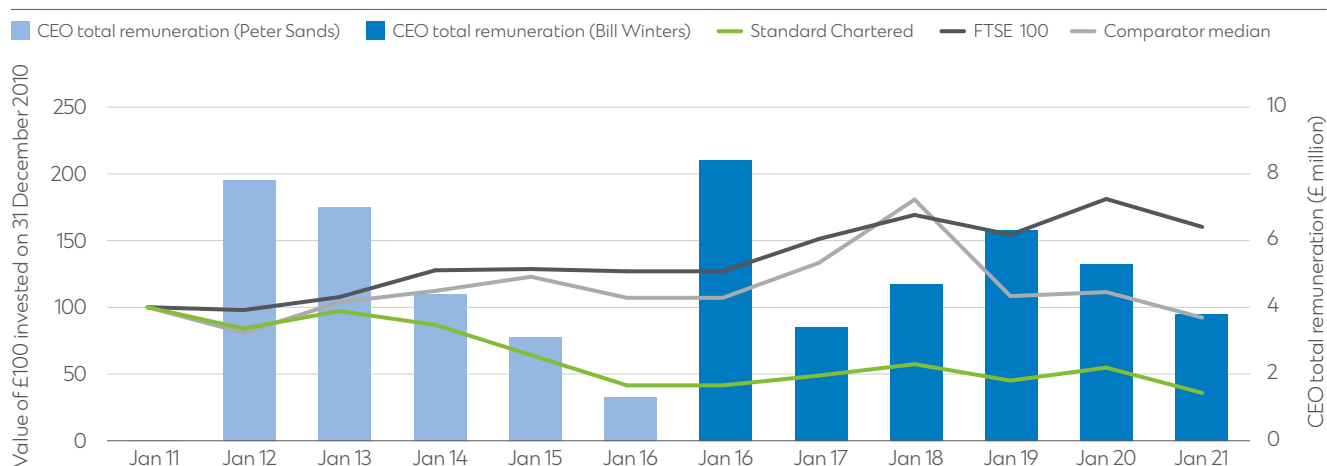
Salary	CEO £000	£000			Pay ratio		
		P25	P50	P75	P25	P50	P75
2020	2,370	63	93	116	38:1	25:1	20:1
2019	2,353	65	90	128	36:1	26:1	18:1
2018	2,300	59	86	142	39:1	27:1	16:1
2017	2,300	55	81	124	42:1	28:1	19:1
Salary plus annual incentive							
2020	2,756	74	104	175	37:1	26:1	16:1
2019	3,604	73	109	187	49:1	33:1	19:1
2018	3,691	72	105	183	52:1	35:1	20:1
2017	3,978	69	103	182	58:1	39:1	22:1

- The pay ratios are calculated using Option A published methodology, in line with investor guidance preference for this option

- Employee pay data is based on full-time equivalent pay for UK employees as at 31 December for the relevant year and excludes leavers, joiners, and employee transfers in or out of the UK during the year, to help ensure data is on a like-for-like basis. Total pay is calculated in line with the single figure methodology (i.e. fixed remuneration accrued during the financial year and variable remuneration relating to the performance year) and data for insured benefits are based on notional premia. No other calculation adjustments or assumptions have been made
- CEO pay is as per the single total figure of remuneration for 2020 and restated for 2019 to take account of the actual LTIP vesting in 2020. Further information on the single total figure is on page 146. The 2020 ratio will be restated in the 2021 directors' remuneration report to take account of the final LTIP vesting data for eligible employees and for the CEO
- The Committee has considered the data for the three individuals identified for 2020 and believes that it is a fair reflection of pay at the relevant quartiles among the UK employee population. Each of the individuals identified was a full-time employee during the year and received remuneration in line with the Group remuneration policy, and none received exceptional pay
- Our LTIP is intended to link total remuneration to the achievement of the Group's long-term strategy and to reinforce alignment between executive remuneration and shareholder interest. As set out on page 138, participation is therefore typically senior employees who have line of sight to influence directly the performance targets on the awards. The lower quartile, median and upper quartile employees identified this year are not participants in the LTIP
- The year-on-year decrease is due to the CEO receiving lower variable remuneration in relation to 2020: an annual incentive award of 18.5 per cent of maximum (55 per cent in 2019) and an LTIP award vesting at 26 per cent (38 per cent in 2019)

### Group performance versus the CEO's remuneration

The graph below shows the Group's TSR performance on a cumulative basis over the past 10 years alongside that of the FTSE 100 and peer banks. The graph also shows historical levels of remuneration of the CEO over the 10 years ended 31 December 2020 for comparison. The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns.



The table below shows the single figure of total remuneration for the CEO since 2011 and the variable remuneration delivered as a percentage of maximum opportunity.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Single figure of total remuneration £000</b>										
Peter Sands (CEO until 10 June 2015)	7,779	6,951	4,378	3,093	1,290	–	–	–	–	–
Bill Winters (appointed CEO on 10 June 2015)	–	–	–	–	8,399	3,392	4,683	6,287	5,360	<b>3,812</b>
<b>Annual incentive as a percentage of maximum opportunity</b>										
Peter Sands	70%	63%	50%	0%	0%	–	–	–	–	–
Bill Winters	–	–	–	–	0%	45%	76%	63%	55%	<b>18.5%</b>
<b>Vesting of LTIP awards as a percentage of maximum opportunity</b>										
Peter Sands	90%	77%	33%	10%	0%	0%	–	–	–	–
Bill Winters	–	–	–	–	–	–	–	27%	38%	<b>26%</b>

- Bill's single figure of total remuneration in 2015 includes his buyout award of £6.5 million to compensate for the forfeiture of share interests on joining from his previous employment
- The 2019 single figure for Bill has been restated based on the actual vesting and share price when the 2017-19 LTIP awards vested in March 2020

## Annual percentage change in remuneration of directors and employees

### UK percentage change in remuneration

In line with our Fair Pay Charter, we monitor year-on-year changes between the movement in salary, benefits and annual incentives for the CEO between performance years compared to the wider workforce. As required under the revised Shareholder Rights Directive we have expanded this to compare the directors of the PLC Board against an average full-time equivalent UK employee. The Shareholder Rights Directive requires this analysis to be undertaken for all individuals employed by Standard Chartered PLC (the parent company). As no individuals are employed by Standard Chartered PLC (they are employed by legal entities which sit below the parent company) we have voluntarily disclosed the comparisons against UK employees as we feel this provides a representative comparison.

	Salary/fees % change 2020	Taxable benefits % change 2020	Annual incentive % change 2020
<b>CEO</b>			
B Winters	0.7	(2.9)	(69.2)
<b>CFO</b>			
A Halford	3.7	30.2	(68.2)
<b>Group Chairman</b>			
J Viñals	0.0	(11.7)	–
<b>Current INEDs</b>			
L Cheung <sup>1</sup>	–	–	–
D P Conner	(0.6)	(57.5)	–
B E Grote	0.0	0.0	–
C M Hodgson, CBE	0.0	28.2	–
G Huey Evans, OBE	0.0	233.9	–
N Kheraj	0.0	7.9	–
N Okonjo-Iweala	0.0	63.6	–
P Rivett <sup>1</sup>	–	–	–
D Tang <sup>2</sup>	–	–	–
C Tong <sup>2</sup>	–	–	–
J M Whitbread	0.0	(49.2)	–
<b>Workforce</b>			
Average FTE UK employee <sup>3,4</sup>	3.8	2.9	(22.1)

1 In 2020: Louis Cheung stepped down from the Board on 25 March and Phil Rivett was appointed to the Board on 6 May

2 In 2019: Carlson Tong and David Tang were appointed to the Board on 21 February and 12 June, respectively

3 Employee data is based on full-time equivalent pay for UK employees as at 31 December of the relevant year. This data excludes leavers, joiners and employee transfers in or out of the UK during the year to help ensure data is on a like-for-like basis. Salary percentage change reflects increases decided at the end of 2019 and implemented in 2020

4 Average FTE UK employee percentage change has been calculated on a mean basis. As the employee population will change yearly and the mean average considers the full range of data, it is expected this will provide a more consistent year-on-year comparison. Any percentage changes impacted by extremes at either end of the data set will be explained in the supporting commentary

For the CEO and CFO and the Group Chairman and INEDs, the data the changes relate to are set out on pages 146 and 150, respectively. The change in taxable benefits relates to the change in the values for the 2019/20 and 2018/19 tax years.

Due to the low value of the taxable benefits received by INEDs, which have not exceeded £7,000 in 2020 (set out on page 150), small changes to these values are expected to cause the percentage change to fluctuate year-on-year.

### Scheme interests awarded, exercised and lapsed during the year

Employees, including executive directors, are not permitted to engage in any personal investment strategies with regards to their Company shares, including hedging against the share price of Company shares. The main features of the outstanding shares and awards are summarised below:

Award	Performance measures	Accrues notional dividends? <sup>1</sup>	No. of tranches	Tranche splits	Performance outcome
2016-18	33% – RoE 33% – TSR	Yes	5	50% tranche 1 12.5% tranches 2-5	27%
2017-19	33% – Strategic	Yes	5	5 equal tranches	38%
2018-20		No	5		26%
2019-21	33% – RoTE	No	5		To be assessed at end of 2021
2020-22	33% – TSR 33% – Strategic	No	5		To be assessed at end of 2022

1 2016-18 and 2017-19 LTIP awards may receive dividend equivalent shares based on dividends declared between grant and vest. From 1 January 2017 remuneration regulations for European banks mean that dividend equivalent shares are not permitted to be awarded therefore the number of shares awarded in respect of the 2018-20, 2019-21 and 2020-22 LTIP awards took into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award was maintained

The following table shows the changes in share interests (audited).

Change in interests during the period 1 January to 31 December 2020									
	Share award price (£)	As at 1 January	Awarded <sup>1</sup>	Dividends awarded <sup>2</sup>	Exercised <sup>3</sup>	Lapsed	As at 31 December	Performance period end	Vesting date
<b>B Winters<sup>4</sup></b>									
2016-18 LTIP	5.560	33,506	–	1,466	34,972	–	–	11 Mar 2019	4 May 2020
		33,506	–	–	–	–	33,506		4 May 2021
		33,506	–	–	–	–	33,506		4 May 2022
		33,507	–	–	–	–	33,507		4 May 2023
2017-19 LTIP	7.450	118,550	–	3,169	48,218	73,501	–	13 Mar 2020	13 Mar 2020
		118,550	–	–	–	73,501	45,049		13 Mar 2021
		118,550	–	–	–	73,501	45,049		13 Mar 2022
		118,550	–	–	–	73,501	45,049		13 Mar 2023
		118,551	–	–	–	73,502	45,049		13 Mar 2024
2018-20 LTIP	7.782	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2021
		108,378	–	–	–	–	108,378		9 Mar 2022
		108,378	–	–	–	–	108,378		9 Mar 2023
		108,378	–	–	–	–	108,378		9 Mar 2024
		108,379	–	–	–	–	108,379		9 Mar 2025
2019-21 LTIP	6.105	133,065	–	–	–	–	133,065	11 Mar 2022	11 Mar 2022
		133,065	–	–	–	–	133,065		11 Mar 2023
		133,065	–	–	–	–	133,065		11 Mar 2024
		133,065	–	–	–	–	133,065		11 Mar 2025
		133,067	–	–	–	–	133,067		11 Mar 2026
2020-22 LTIP	5.196	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2023
		–	161,095	–	–	–	161,095		9 Mar 2024
		–	161,095	–	–	–	161,095		9 Mar 2025
		–	161,095	–	–	–	161,095		9 Mar 2026
		–	161,095	–	–	–	161,095		9 Mar 2027
<b>A Halford<sup>4,5</sup></b>									
2016-18 LTIP	5.560	20,008	–	874	20,882	–	–	11 Mar 2019	4 May 2020
		20,008	–	–	–	–	20,008		4 May 2021
		20,008	–	–	–	–	20,008		4 May 2022
		20,009	–	–	–	–	20,009		4 May 2023
2017-19 LTIP	7.450	73,390	–	1,962	29,850	45,502	–	13 Mar 2020	13 Mar 2020
		73,390	–	–	–	45,502	27,888		13 Mar 2021
		73,390	–	–	–	45,502	27,888		13 Mar 2022
		73,390	–	–	–	45,502	27,888		13 Mar 2023
		73,394	–	–	–	45,504	27,890		13 Mar 2024
2018-20 LTIP	7.782	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2021
		67,108	–	–	–	–	67,108		9 Mar 2022
		67,108	–	–	–	–	67,108		9 Mar 2023
		67,108	–	–	–	–	67,108		9 Mar 2024
		67,108	–	–	–	–	67,108		9 Mar 2025
2019-21 LTIP	6.105	85,094	–	–	–	–	85,094	11 Mar 2022	11 Mar 2022
		85,094	–	–	–	–	85,094		11 Mar 2023
		85,094	–	–	–	–	85,094		11 Mar 2024
		85,094	–	–	–	–	85,094		11 Mar 2025
		85,096	–	–	–	–	85,096		11 Mar 2026
2020-22 LTIP	5.196	–	99,976	–	–	–	99,976	9 Mar 2023	9 Mar 2023
		–	99,976	–	–	–	99,976		9 Mar 2024
		–	99,976	–	–	–	99,976		9 Mar 2025
		–	99,976	–	–	–	99,976		9 Mar 2026
		–	99,977	–	–	–	99,977		9 Mar 2027
Sharesave	4.980	1,807	–	–	–	–	1,807	–	1 Dec 2022

- 1 For the 2020-22 LTIP awards granted to Bill Winters and Andy Halford on 9 March 2020; the values granted were Bill Winters: £3.4 million; Andy Halford: £2.1 million. Performance measures apply to 2020-22 LTIP awards. The share price at grant was the closing price on the day before the grant date (further details are included in Note 31, Share-based payments on pages 392 to 396)
- 2 On 31 March 2020 Standard Chartered announced that in response to the request from the PRA and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, the Board decided to withdraw the recommendation to pay a final dividend for 2019. 1,200 dividend equivalent shares allocated to Bill's 2017-19 LTIP award tranche vesting in March 2020 and 742 allocated to Andy's 2017-19 LTIP award tranche vesting in March 2020 relating to the cancelled dividend will therefore be deducted from the calculation of dividend equivalent shares to be allocated to shares vesting in March 2021. Dividend equivalent shares allocated to the 2016-18 LTIP award tranche vesting in May 2020 did not include any shares relating to the cancelled dividend
- 3 On 20 March 2020, Bill Winters exercised the 2017-19 LTIP award over a total of 48,218 shares. On 20 March 2020, Andy Halford exercised the 2017-19 LTIP award over a total of 29,850 shares. The closing share price on the day before exercise was £4.512. On 4 May 2020, Bill Winters exercised the 2016-18 LTIP award over a total of 34,972 shares. On 4 May 2020, Andy Halford exercised the 2016-18 LTIP award over a total of 20,882 shares. The closing share price on the day before exercise was £4.085
- 4 The unvested share awards held by Bill Winters and Andy Halford are conditional rights under the 2011 Plan. They do not have to pay towards these awards
- 5 The unvested Sharesave option held by Andy Halford is an option granted on 1 October 2019 under the 2013 Plan – to exercise this option, Andy has to pay an exercise price of £4.98 per share, which has been discounted by 20 per cent

As at 31 December 2020, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Investment Association's Principles of Remuneration and the terms of our listing on The Stock Exchange of Hong Kong Limited.

The Group has two employee benefit trusts that are administered by independent trustees and which hold shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.



Details of the trusts' shareholdings are set out in Note 28 to the financial statements on [page 383](#)

## Historical LTIP awards

The current position on vesting for all unvested LTIP awards from the 2018 and 2019 performance years based on current performance and share price as at 31 December 2020 is set out in the tables below. The TSR peer group for both awards is as set out on page 149.

### Current position on the 2019-21 LTIP award: projected partial vesting

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	2019-21 LTIP assessment as at 31 December 2020
RoTE in 2021 plus CET1 underpin of the higher of 13% or the minimum regulatory requirement	One-third	8.0%	11.0%	RoTE below threshold therefore indicative 0% vesting
Relative TSR performance against the peer group	One-third	Median	Upper quartile	TSR positioned below the median therefore indicative 0% vesting
Strategic measures	One-third	Targets set for strategic measures linked to the business strategy		Tracking above target performance therefore indicative partial vesting

### Current position on the 2020-22 LTIP award: projected partial vesting

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	2020-22 LTIP assessment as at 31 December 2020
RoTE in 2022 plus CET1 underpin of the higher of 13% or the minimum regulatory requirement	One-third	8.5%	11.0%	RoTE below threshold therefore indicative 0% vesting
Relative TSR performance against the peer group	One-third	Median	Upper quartile	TSR positioned below the median therefore indicative 0% vesting
Strategic measures	One-third	Targets set for strategic measures linked to the business strategy		Tracking above target performance therefore indicative partial vesting

The Committee assesses the value of LTIP awards on vesting and has the flexibility to adjust if the formulaic outcome is not considered to be an appropriate reflection of the performance achieved and to avoid windfall gains.

The approach used to determine Group-wide total discretionary incentives in 2020 is explained on page 142 of this report. The following tables show the income statement charge for these incentives.

### Income statement charge for Group discretionary incentives

	2020 \$million	2019 \$million
Total discretionary incentives	990	1,278
Less: deferred discretionary incentives that will be charges in future years	(129)	(155)
Plus: current year charge for deferred discretionary incentives from prior years	122	123
<b>Total</b>	<b>983</b>	<b>1,246</b>

Year in which income statement is expected to reflect deferred discretionary incentives	Actual		Expected	
	2019 \$million	2020 \$million	2021 \$million	2022 and beyond \$million
Discretionary incentives deferred from 2018 and earlier	113	38	24	16
Discretionary incentives deferred from 2019	64	63	40	33
Discretionary incentives deferred from 2020		43	53	68
<b>Total</b>	<b>177</b>	<b>144</b>	<b>117</b>	<b>117</b>

### Allocation of the Group's earnings between stakeholders

When considering Group variable remuneration, the Committee takes account of shareholders' concerns about relative expenditure on pay and determines the allocation of earnings to expenditure on remuneration carefully, and has approached this allocation in a disciplined way over the past five years. The table below shows the distribution of earnings between stakeholders over the past five years. The amount of corporate tax, including the bank levy, is included in the table because it is a significant payment and illustrates the Group's contribution through the tax system.

	Actual					Allocation				
	2020 \$million	2019 \$million	2018 \$million	2017 \$million	2016 \$million	2020 %	2019 %	2018 %	2017 %	2016 %
Staff costs	6,886	7,122	7,074	6,758	6,303	85	74	75	83	87
Corporate taxation including levy	1,193	1,720	1,763	1,367	983	15	18	19	17	13
Paid to shareholders in dividends	0	720	561	0	0	0	8	6	0	0

### Approach to risk adjustment

Individual remuneration is aligned with our long-term interests and the time frame over which financial risks crystallise:

- For relevant colleagues, a proportion of variable remuneration being delivered in the form of deferred awards: having an appropriate level of variable remuneration deferred for a sufficient period of time to which risk adjustments can be applied
- The potential application of performance adjustment through: diminution in the value of any deferred variable remuneration award through non-vesting due to performance measures and share price movement until vesting

The operation of in-year adjustments, malus and clawback is summarised in the following table:

	Criteria includes	Application
Individual level	<ul style="list-style-type: none"><li>• Deemed to have (i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or (ii) exhibited inappropriate behaviours or (iii) applied a lack of appropriate supervision and due diligence</li><li>• The individual failed to meet appropriate standards of fitness and propriety</li></ul>	<ul style="list-style-type: none"><li>• In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion</li></ul>
Business unit and/or Group level	<ul style="list-style-type: none"><li>• Material restatement of the Group's financials</li><li>• Significant failure in risk management</li><li>• Discovery of endemic problems in financial reporting</li><li>• Financial losses, due to a material breach of regulatory guidelines</li><li>• The exercise of regulatory or government action to recapitalise the Group following material financial losses</li></ul>	<ul style="list-style-type: none"><li>• In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion</li></ul>

## Pillar 3 disclosures on material risk takers' remuneration and disclosures on the highest-paid employees

### Identification of material risk takers

Individuals have been identified as material risk takers in accordance with the quantitative and qualitative criteria set out in the European Banking Authority's Regulatory Technical Standard (EU 604/2014 adopted by the PRA that came into force in June 2014). Material risk takers are identified on a (i) Standard Chartered PLC (Group) and (ii) solo level consolidated entities under Standard Chartered Bank UK (Solo) basis.

### Quantitative criteria

The quantitative criteria identify employees who:

- Have been awarded total remuneration of EUR500,000 or more in the previous financial year
- Are within the 0.3 per cent of the number of employees on a Group or Solo basis who have been awarded the highest total remuneration in the preceding financial year
- Were awarded total remuneration in the preceding financial year that was equal to or greater than the lowest total remuneration awarded that year to certain specified groups of employees

Employees identified by only the quantitative criteria can be excluded from being identified as material risk takers if it can be evidenced that they do not have the ability to have a material impact on the risk profile of the Group or the Solo entity.

### Qualitative criteria

The qualitative criteria broadly identifies the following employees:

- Directors (both executive and non-executive) of Standard Chartered PLC
- A member of senior management, which is defined as one or more of the following:
  - A senior manager under the PRA or Financial Conduct Authority (FCA) Senior Manager Regime
  - A member of the Group Management Team and the Solo Management Team
- The level beneath the Management Teams
- Senior employees within the Audit, Compliance, Legal and Risk functions
- Senior employees within material business units
- Employees who are members of specific committees
- Employees who are able to initiate or approve credit risk exposures above a certain threshold and sign off on trading book transactions at or above a specific value at risk limit

For the purpose of the Pillar 3 tables on pages 164 and 165, unless otherwise stated, senior management is defined as directors of Standard Chartered PLC (both executive and non-executive), senior managers under the PRA or FCA Senior Manager Regime and members of the Group Management Team.

### Material risk takers' remuneration delivery

Remuneration for material risk takers was delivered in 2020 through a combination of salary, pension, benefits and variable remuneration.

Variable remuneration for material risk takers is structured in line with the PRA and FCA's remuneration rules. For the 2020 performance year, the following structure applies to variable remuneration awarded to material risk takers in accordance with the regulations:

- At least 40 per cent of a material risk taker's variable remuneration will be deferred over a minimum period of three years depending on the category of material risk taker
- Non-deferred variable remuneration will be delivered 50 per cent in shares, subject to a minimum 12-month retention period, and 50 per cent in cash
- At least 50 per cent of deferred variable remuneration will be delivered entirely in shares, subject to a minimum 12-month retention period (with the exception of deferred shares awarded to risk managers, which are subject to a six-month minimum retention period) in line with the regulations
- For some material risk takers, part of their 2020 variable remuneration may be in share awards which vest after a minimum of three years, subject to the satisfaction of performance measures
- Variable remuneration awards are subject to remuneration adjustment provisions. This provides the Group with the ability to reduce or revoke variable remuneration in respect of a risk, control or conduct issue, event or behaviour
- Material risk takers are subject to the 2:1 maximum ratio of variable to fixed remuneration

Some material risk takers had been scheduled to receive the cash portion of their incentives after 31 March 2020, when the PRA issued their statement in relation to cash bonuses in response to COVID-19. This was after the main scheduled delivery of cash incentives in the March 2020 payroll. Where this was the case, share-based payments replaced outstanding cash incentive awards that would otherwise have been paid to material risk takers in the period April to December 2020. Such share-based payments were funded through existing shares held in the employee benefit trust.

### Material risk takers' deferred variable remuneration delivery

	Year 0 (grant) March 2021	Year 1 March 2022	Year 2 March 2023	Year 3 March 2024	Year 4 March 2025	Year 5 March 2026	Year 6 March 2027	Year 7 March 2028
Senior managers				Minimum of 40% of 2020 variable remuneration				
Risk managers		Minimum of 40% of 2020 variable remuneration						
Other material risk takers		Minimum of 40% of 2020 variable remuneration						

### Material risk takers' deferred remuneration in 2020

	Senior management \$000			All other material risk takers \$000		
	Total	Cash	Shares	Total	Cash	Shares
Start of the year (1 January):						
Unvested	95,828	11,240	84,588	274,009	96,046	177,963
Vested and unexercised	119	–	119	6,685	–	6,685
Impact of changes to material risk taker population including leavers during 2019 and joiners in 2020	(6,004)	(704)	(5,300)	(5,686)	(1,455)	(4,231)
Start of the year (1 January) (after adjustments):						
Unvested	89,943	10,536	79,407	268,075	94,591	173,484
Vested and unexercised	–	–	–	6,933	–	6,933
Awarded during the year	37,849	6,171	31,678	187,048	71,949	115,099
Total reduction during the year due to malus or clawback; or performance measures not being met	(6,361)	–	(6,361)	(5,371)	(2,959)	(2,412)
Total deferred remuneration paid out in the financial year	(6,788)	(696)	(6,092)	(98,208)	(36,788)	(61,420)
Close of the year (31 December):						
Unvested	114,643	16,011	98,632	351,097	126,793	224,304
Vested and unexercised	–	–	–	7,380	–	7,380

### Material risk takers' 2020 fixed and variable remuneration

	Senior management \$000	All other material risk takers \$000
<b>Fixed remuneration<sup>1</sup></b>		
Number of employees	27	778
Total fixed remuneration	36,712	349,588
Cash-based	34,566	349,588
Of which deferred	–	–
Shares or other share-linked instruments	2,146	–
Of which deferred	–	–
Other forms	–	–
Of which deferred	–	–
<b>Variable remuneration<sup>2,3</sup></b>		
Number of employees	16	739
Total variable remuneration	41,302	224,869
Cash-based	9,703	121,459
Of which deferred	2,868	49,956
Shares or other share-linked instruments	31,599	103,410
Of which deferred	23,957	49,776
Other forms	–	–
Of which deferred	–	–
<b>Total remuneration</b>	<b>78,014</b>	<b>574,457</b>

1 Fixed remuneration includes salary, cash allowances, benefits and pension, in the case of the Chairman and INEDs, any fees

2 For some material risk takers, part of their 2020 variable remuneration may be delivered in share awards, with vesting subject to performance measures. These awards are shown on a face value basis. As the Chairman and INEDs are not eligible to receive variable remuneration they are not included in this data

3 The ratio between fixed and variable remuneration for all material risk takers in 2020 was 1:0.69

## Material risk takers' aggregate 2020 remuneration by business

	Corporate & Institutional Banking \$000	Commercial Banking \$000	Private Banking <sup>1</sup> \$000	Retail Banking \$000	Central management & other <sup>2</sup> \$000
2020	327,895	5,134	24,159	14,556	280,727

1 Private Banking includes Wealth Management

2 Central management & other includes Group executive directors, the Chairman, INEDs, control functions, support functions and central roles

## Material risk takers' sign-on and severance payments in 2020

	Senior management		All other material risk takers	
	Number of employees	Total amount \$000	Number of employees	Total amount \$000
Sign-on payments	–	–	–	–
Guaranteed incentives	–	–	–	–
Severance payments	–	–	–	–

## Remuneration at or above EUR1 million

The table below is prepared in accordance with Article 450 of the Capital Requirements Regulation.

Remuneration band EUR	Number of employees
1,000,000 – 1,500,000	90
1,500,001 – 2,000,000	21
2,000,001 – 2,500,000	12
2,500,001 – 3,000,000	6
3,000,001 – 3,500,000	3
3,500,001 – 4,000,000	7
4,000,001 – 4,500,000	1
5,000,001 – 6,000,000	1
7,000,001 – 8,000,000	1
8,000,001 – 9,000,000	1
9,000,001 – 10,000,000	1
<b>Total</b>	<b>144</b>

## Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of the Stock Exchange of Hong Kong Limited, the following table sets out, on an aggregate basis, the annual remuneration of (i) the five highest-paid employees; and (ii) senior management for the year ended 31 December 2020.

Components of remuneration	Five highest paid <sup>1</sup> \$000	Senior management <sup>2</sup> \$000
Salary, cash allowances and benefits in kind	14,650	24,342
Pension contributions	351	1,400
Variable remuneration awards paid or receivable	22,669	33,953
Payments made on appointment	3,125	–
Remuneration for loss of office (contractual or other)	–	–
Other	–	–
<b>Total</b>	<b>40,795</b>	<b>59,695</b>
<b>Total HK dollar equivalent</b>	<b>316,415</b>	<b>463,011</b>

1 The five highest-paid individuals include Bill Winters

2 Senior management comprises the executive directors and the members of the Group Management Team at any point during 2020

The table below shows the emoluments of (i) the five highest-paid employees; and (ii) senior management for the year ended 31 December 2020.

Remuneration band HKD	Remuneration band USD equivalent	Number of employees	
		Five highest paid	Senior management <sup>1</sup>
18,500,001 – 19,000,000	2,385,158 – 2,449,622	–	1
21,000,001 – 21,500,000	2,707,477 – 2,771,940	–	1
24,000,001 – 24,500,000	3,094,259 – 3,158,723	–	1
25,000,001 – 25,500,000	3,223,186 – 3,287,650	–	1
27,500,001 – 28,000,000	3,545,505 – 3,609,969	–	1
29,500,001 – 30,000,000	3,803,360 – 3,867,824	–	1
33,000,001 – 33,500,000	4,254,606 – 4,319,070	–	1
33,500,001 – 34,000,000	4,319,070 – 4,383,533	–	1
34,500,001 – 35,000,000	4,447,997 – 4,512,461	–	2
39,500,001 – 40,000,000	5,092,634 – 5,157,098	–	1
45,500,001 – 46,000,000	5,866,199 – 5,930,663	1	–
48,500,001 – 49,000,000	6,252,981 – 6,317,445	1	–
62,500,001 – 63,000,000	8,057,966 – 8,122,429	1	1
76,500,001 – 77,000,000	9,862,950 – 9,927,414	1	1
82,000,001 – 82,500,000	10,572,051 – 10,636,515	1	–
<b>Total</b>		<b>5</b>	<b>13</b>

<sup>1</sup> Senior management comprises the executive directors and the members of the Group Management Team at any point during 2020

### The exchange rates used in this report

Unless an alternative exchange rate is detailed in the notes to the relevant table, the exchange rates used to convert the disclosures to US dollars are set out in the table below.

	2020	2019
EUR	0.8827	0.8930
GBP	0.7833	0.7858
HKD	7.7563	7.8387



**Christine Hodgson**

Chair of the Remuneration Committee

25 February 2021

# Other disclosures

The Directors' report for the year ended 31 December 2020 comprises pages 82 to 177 of this report (together with the sections of the Annual Report incorporated by reference). The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be disclosed in this Directors' report. Both the Strategic report and the Directors' report have been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Other information to be disclosed in the Directors' report is given in this section. In addition to the requirements set out in the Disclosure Guidance and Transparency Rules relating to the Annual Report, information required by UK Listing Rule 9.8.4 to be included in the Annual Report, where applicable, is set out in the table below and cross-referenced.

## Information to be included in the Annual Report (UK Listing Rules 9.8.4)

Relevant Listing Rule	Pages
LR 9.8.4 (1) (2) (5-14) (A) (B)	N/A
LR 9.8.4 (4)	145, 148 and 149

## Principal activities

Standard Chartered is a leading international banking group, with over 160 years of history in some of the world's most dynamic markets. Our purpose is driving commerce and prosperity through our unique diversity. The Group's roots in trade finance and commercial banking have been at the core of its success throughout its history, but the Group is now more broadly based across Retail Banking in its footprint markets in Asia, Africa and the Middle East. The Group operates in the UK and overseas through a number of subsidiaries, branches and offices.



Further details on our business, including key performance indicators, can be found within the [Strategic report](#)

## Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the Annual Report and the process by which the Group believes that the Annual Report, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report.

## Events after the balance sheet date

For details on post balance sheet events, see Note 37 to the financial statements.

## Code for Financial Reporting Disclosure

The Group's 2020 financial statements have been prepared in accordance with the principles of the UK Finance Disclosure Code for Financial Reporting Disclosure.

## Disclosure of information to auditor

As far as the directors are aware, there is no relevant audit information of which the Group statutory auditor, EY is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditors are aware of such information.

## Viability and going concern

Having made appropriate enquiries, the Board is satisfied that the Company and the Group as a whole have adequate resources to continue in operation and meet its liabilities as they fall due for a period of at least 12 months from the date of this report and therefore continue to adopt the going concern basis in preparing the financial statements.

The directors' viability statement in respect to the Group can be found in the Strategic report on pages 78 and 79, while the directors' going concern considerations of the Group can be found on page 306.

## Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Rules), based on the information publicly available to the Company and within the knowledge of the directors.

## Research and development

During the year, the Group invested \$1.59 billion (2019: \$1.60 billion) in research and development, primarily relating to the planning, analysis, design, development, testing, integration, deployment and initial support of technology systems.

## Political donations

The Group has a policy in place which prohibits donations being made that would: (i) improperly influence legislation or regulation, (ii) promote political views or ideologies, and (iii) fund political causes. In alignment to this, no political donations were made in the year ended 31 December 2020.

## Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 83 to 86. Details of the directors' beneficial and non-beneficial interests in the ordinary shares of the Company are shown in the Directors' remuneration report on pages 133 to 166. The Group operates a number of share-based arrangements for its directors and employees.



Details of these arrangements are included in the Directors' remuneration report and in Note 31 to the financial statements

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Hong Kong Listing Rules and still considers all of the non-executive directors to be independent.

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings.

In accordance with the Companies Act 2006, we have established a process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. On behalf of the Board, the Governance and Nomination Committee reviews existing conflicts of interest annually to consider if they continue to be conflicts of interest, and also to revisit the terms upon which they were determined to be. The Board is satisfied that our processes in this respect continue to operate effectively.

Subject to company law, the Articles of Association and the authority granted to directors in general meeting, the directors may exercise all the powers of the Company and may delegate authorities to committees. The Articles of Association contain provisions relating to the appointment, re-election and removal of directors. Newly appointed directors retire at the AGM following appointment and are eligible for election. All directors are nominated for annual re-election by shareholders subject to continued satisfactory performance based upon their annual assessment.

Non-executive directors are appointed for an initial period of one year and, subject to (re)election by shareholders at AGMs. In line with the UK Corporate Governance Code 2018, all directors will stand for annual (re)election at the 2021 AGM.

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2020 and remain in force at the date of this report.

### Qualifying pension scheme indemnities

Qualifying pension scheme indemnity provisions (as defined by section 235 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2020 for the benefit of the UK's pension fund corporate trustee (Standard Chartered Trustees (UK) Limited), and remain in force at the date of this report.

### Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

### Future developments in the business of the Group

An indication of likely future developments in the business of the Group is provided in the Strategic report.

### Results and dividends

**2020: no interim dividend paid**  
(2019: paid interim dividend of 7 cents per ordinary share)

**2020: proposed final dividend of 9 cents per ordinary share**  
(2019: no final dividend paid)

**2020: total dividend of 9 cents per ordinary share**  
(2019: total dividend, 7 cents per ordinary share)

### Share capital

The issued ordinary share capital of the Company was reduced by a total of 40,029,585 over the course of 2020. This was due to the cancellation of ordinary shares as part of the Company's share buy-back programme. No ordinary shares were issued during the year. The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every \$2 nominal value of share capital held.

The issued nominal value of the ordinary shares represents 85.5 per cent of the total issued nominal value of all share capital. The remaining 14.5 per cent comprises preference shares, which have preferential rights to income and capital but which, in general, do not confer a right to attend and vote at our general meetings.

➔ Further details of the Group's share capital can be found in Note 28 to the financial statements

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. There are no specific restrictions on voting rights and the directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

### Articles of Association

The Articles of Association may be amended by special resolution of the shareholders. Shareholders approved, by special resolution, new Articles of Association at the 2020 AGM.

⊕ A copy of the Company's new Articles of Association can be found on our website here [sc.com/investors](https://www.sc.com/investors)

⊕ The principal changes to the Company's Articles of Association are summarised in Appendix 2 of the Notice of AGM 2020 which can be found on our website here [sc.com/agm](https://www.sc.com/agm)

### Authority to purchase own shares

At the AGM held on 6 May 2020, our shareholders renewed the Company's authority to make market purchases of up to 317,956,410 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 13 March 2020, and up to all of the issued preference share capital.

The authority to make market purchases up to 10 per cent of issued ordinary share capital was used during the year through the buy-back programme announced in February 2020. This was utilised to reduce the number of ordinary shares in issue and as part of the Group's approach to dividend growth and capital returns. In response to a request from the PRA and as a consequence of the impact of the COVID-19 pandemic, the Board decided to suspend the buy-back programme in March 2020. The share buy-back programme was launched on 2 March 2020 and ended on 31 March 2020. A total of 40,029,585 ordinary shares with a nominal value of \$0.50 were re-purchased for an approximate aggregate consideration paid of \$242 million.

A monthly breakdown of the shares purchased during the period including the lowest and highest price paid per share is set out in Note 28 to the financial statements. All ordinary shares which were bought back were cancelled.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) as subsequently modified, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of granting the waiver by the HKSE. No treasury shares were held during the year.

→ Further details can be found in Note 28 to the financial statements

## Authority to issue shares

The Company is granted authority to issue shares by the shareholders at its AGM. The size of the authorities granted depends on the purposes for which shares are to be issued and is within applicable legal and regulatory requirements.

## Major interests in shares and voting rights

As at 31 December 2020, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

As at 19 February 2021, the Company has been notified of the following information, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital. The information provided in the table below was correct at the date of notification; however, the date received may not have been within 2020. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Ordinary shares	Percentage of capital disclosed	Nature of holding as per disclosure
Temasek Holdings (Private) Limited	510,451,383	16.01	Indirect
BlackRock Inc.	183,640,172	5.55	Indirect (5.01%) Securities Lending (0.39%) Contracts for Difference (0.14%)
Norges Bank	123,929,776	3.93	Direct

## Related party transactions

Details of transactions with directors and officers and other related parties are set out in Note 36 to the financial statements.

## Connected/continuing connected transactions

By virtue of its shareholding of over 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Hong Kong Listing Rules, respectively (together 'the Rules'). The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates to the detriment of other shareholders in the Company. Unless transactions between the Group and Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

## Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company are able to require the directors to hold a general meeting.

A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting.

Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid-up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later, the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.



Shareholders are also able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website [sc.com](http://sc.com) or by emailing the Group Corporate Secretariat at [group-corporate.secretariat@sc.com](mailto:group-corporate.secretariat@sc.com)

On 27 December 2018, the HKSE extended a waiver ('the Waiver') it previously granted to the Company for the revenue banking transactions with Temasek which do not fall under the passive investor exemption (the Passive Investor Exemption) under Rules 14A.99 and 14A.100. Under the Waiver, the HKSE agreed to waive the announcement requirement, the requirement to enter into a written agreement and set an annual cap and the reporting (including annual review) requirements under Chapter 14A for the three-year period ending 31 December 2021 on the conditions that:

- The Company will disclose details of the Waiver (including nature of the revenue banking transactions with Temasek and reasons for the Waiver) in subsequent annual reports, and
- The Company will continue to monitor the revenue banking transactions with Temasek during the three years ending 31 December 2021 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

The main reasons for seeking the Waiver were:

- The nature and terms of revenue banking transactions may vary and evolve over time; having fixed-term written agreements would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek) and would be impractical and unduly burdensome
- It would be impracticable to estimate and determine an annual cap on the revenue banking transactions with Temasek as the volume and aggregate value of each transaction are uncertain and unknown to the Company as a banking group due to multiple factors including market driven factors
- The revenues generated from revenue banking transactions were insignificant. Without a waiver from the HKSE or an applicable exemption, these transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results

For the year ended 31 December 2020, the Group provided Temasek with money market placement products and services that were revenue transactions in nature. As a result of the Passive Investor Exemption and the Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues. The Company confirms that:

- The revenue banking transactions entered into with Temasek in 2020 were below the 5 per cent threshold for the revenue ratio test under the Hong Kong Listing Rules, and
- It will continue to monitor revenue banking transactions with Temasek during the three years ending 31 December 2021 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

The Company therefore satisfied the conditions of the Waiver.

### Non-revenue transaction with Temasek

Temasek and the Group entered into the following non-revenue transaction during the year ended 31 December 2020, in respect of which an announcement was published by the Company on 26 March 2020 (the Announcement).

On 26 March 2020, the Company, through its wholly-owned subsidiary, Standard Chartered Bank (Singapore) Limited (SCBSL), entered into the investment agreement (Investment Agreement) with Clifford Capital Holdings Pte. Ltd. (CCH), the special purpose vehicles wholly owned by Temasek, namely, Kovan Investments Pte. Ltd. and Aranda Investments Pte. Ltd. (Temasek SPVs) and DBS Bank Ltd., Sumitomo Mitsui Banking Corporation, Prudential Assurance Company Singapore (Pte) Limited, John Hancock Life Insurance Company (U.S.A.) (collectively the Other Transaction Parties), pursuant to which SCBSL (i) agreed to swap its existing shares in Clifford Capital Pte. Ltd. (CCPL) for ordinary shares in the capital of CCH (CCH Shares) at a 1:1 exchange ratio and (ii) committed to contribute additional funds to CCH up to a total amount of \$43,438,824 by way of subscription for CCH Shares as and when called by CCH within the period commencing on 26 March 2020 and ending on 31 December 2025 (the Commitment Period) at a price of \$1.6775 per CCH Share. Such additional funds will be utilised to support further business growth at CCPL and the expansion of new business lines under CCH.

The principal terms of the Investment Agreement are as follows:

- SCBSL will sell its shares in CCPL to CCH for the aggregate amount of \$33,705,585.94, such amount to be wholly satisfied by (i) the allotment and issue of 22,770,000 CCH Shares to SCBSL and (ii) the transfer of 99 incorporation CCH Shares from the CCH company secretary to SCBSL;
- SCBSL undertakes to contribute additional funds in the total amount of \$43,438,824 to CCH by way of subscription for CCH Shares as and when called by CCH during the Commitment Period;
- SCBSL currently holds 9.9% of CCPL. Following completion of the steps in (i) above, SCBSL will hold 9.9% of CCH. Following completion of the steps in (ii) above, SCBSL is anticipated to maintain a 9.9% holding in CCH; and
- failure to subscribe for CCH Shares as and when called by CCH will result in SCBSL's shareholding in CCH being diluted and will entitle other shareholders to acquire its CCH Shares at a discount to the lower of fair market value and book value.

On 26 March 2020, SCBSL also entered into the shareholders' agreement (Shareholders' Agreement) between CCH, the Temasek SPVs and the Other Transaction Parties. The Shareholders' Agreement contains terms and shareholder rights customary for transactions of this nature, including as to board representation, voting, transfer restrictions and exit provisions. SCBSL's material rights in this regard include:

- the right to appoint a director for so long as it holds 5% or more of the CCH Shares (see subsequent changes to this right below);
- customary pre-emptive rights to subscribe, on a pro rata basis, for new equity securities to be issued by CCH;
- a right of first refusal in respect of the transfer of CCH Shares by other shareholders; and
- a tag along right in the event of a sale by one of the Temasek SPVs that would result in the occurrence of certain events.

Any sale of CCH Shares by SCBSL will be subject to customary pre-emptive rights in favour of the other shareholders. As Temasek and its associates are connected persons of the Company, and by virtue of Temasek holding more than 30% of the issued share capital of CCH and CCPL, CCH and CCPL are connected persons of the Company. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the entry into the Investment Agreement and the Shareholders' Agreement between SCBSL, CCH, the Temasek SPVs and the Other Transaction Parties constitutes a connected transaction for the Company.

Subsequent to the Announcement, Asian Development Bank (ADB) made a commitment to invest \$95 million into CCH on 8 September 2020, pursuant to which SCBSL entered into a restated and amended Investment Agreement and Shareholders' Agreement with CCH, the Temasek SPVs, ADB and the Other Transaction Parties. SCBSL's rights and obligations remain unchanged in all material respects, except that under the restated and amended Shareholders' Agreement, at any time on or before 31 December 2024, SCBSL's right to appoint a director would only be retained for so long as it holds 7.5% of the CCH shares, as opposed to the previous threshold of 5%. On or after 1 January 2025, the shareholding percentage threshold to trigger SCBSL's right to appoint a director would revert to 5%.

Since CCH is also an associate and a related party of the Group for the purposes of IAS 24, the above transaction constitutes a related party transaction. Please see Note 36 to the financial statements for further details.

### Fixed assets

Details of additions to fixed assets are presented in Note 18 to the financial statements.

### Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in Notes 22 and 27 to the financial statements.

### Debenture issues and equity-linked agreements

During the financial year ended 31 December 2020, the Company made no issuance of debentures or equity-linked agreements.

### Risk management

The Board is responsible for maintaining and reviewing the effectiveness of the risk management system. An ongoing process for identifying, evaluating and managing the significant risks that we face is in place. The Board is satisfied that this process constitutes a robust assessment of all of the principal risks, emerging risks and material cross-cutting risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

→ The Risk review and Capital review on [pages 180 to 283](#) sets out the principal risks, emerging risks and material cross-cutting risks, our approach to risk management, including our risk management principles, an overview of our Enterprise Risk Management Framework and the risk management and governance practices for each principal risk type. The Board-approved Risk Appetite Statement can be found on [page 250](#)

In accordance with Article 435(e) of the Capital Requirements Regulation, the Board Risk Committee, on behalf of the Board, has considered the adequacy of the risk management arrangements of the Group and has sought and received assurance that the risk management systems in place are adequate with regard to the Group's profile and strategy.

### Internal control

The Board is responsible for maintaining and reviewing the effectiveness of the internal control system. Its effectiveness is reviewed regularly by the Board, its committees, the Management Team and Group Internal Audit.

For the year ended 31 December 2020, the Board Risk Committee has reviewed the effectiveness of the Group's system of internal control. As part of this review, confirmation was received that the Group Chief Risk Officer is satisfied that the Group's risk management and internal control framework is materially effective and adequately highlights risks and improvement areas for management attention. Group Internal Audit represents the third line of defence and provides independent assurance of the effectiveness of management's control of business activities (the first line) and of the control processes maintained by the Risk Framework Owners and Policy Owners (the second line). The audit programme includes obtaining an understanding of the processes and systems under audit review, evaluating the design of controls, and testing the operating effectiveness and outcomes of key controls. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Board considers the internal control systems of the Company to be effective and adequate.

Group Internal Audit reports regularly to the Audit Committee, the Group Chairman and the Group Chief Executive; and the Group Head, Internal Audit reports directly to the Chair of the Audit Committee and administratively to the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required. The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental risks as well as reviewing the effectiveness of the Company's Enterprise Risk Management Framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

→ The risk management approach starting on [page 248](#) describes the Group's risk management oversight committee structure.

Our business is conducted within a developed control framework, underpinned by policy statements and written procedures. There are written policies and procedures designed to ensure the identification and management of risk, including Credit Risk, Traded Risk, Capital and Liquidity Risk, Operational and Technology Risk, Reputational and Sustainability Risk, Compliance Risk, Information and Cyber Security Risk, Financial Crime Risk and Model Risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines.

Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile. The performance of the Group's businesses is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently.

Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions. In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### Employee policies and engagement

We work hard to ensure that our employees are kept informed about matters affecting or of interest to them, but more importantly to provide opportunities for feedback and dialogue.

We continue to listen and act on feedback from colleagues to ensure internal communications remain impactful and meaningful, in support of the Group's strategy and transformation. In addition to the Bridge (our business collaboration platform) which allows colleagues to receive key updates, exchange ideas and provide feedback, we also leverage a range of channels including email broadcasts, newsletters with customised content for each employee, audio and video calls, town halls and other engagement events. To continue to improve the way we communicate and ensure our employee communications remain relevant we periodically analyse and measure the impact of our communications.

Our senior leaders and people leaders continue to have a critical role to play in engaging our people, ensuring that they are kept up to date on key business information, our performance and strategy, their role in executing the strategy and ensuring that they consult and listen to their teams' views, feedback and concerns. Naturally COVID-19 was a major element of communication with our employees in 2020 and pleasingly 91% of those surveyed in April said they were satisfied with the communication they were getting from the organisation about its response to the pandemic, and 90% felt senior leadership were effective in leading. More information on this engagement survey and our annual My Voice survey can be found within the employee's section of the Strategic report.

Across the organisation, team meetings with people leaders, one-to-one discussions, and management meetings enable our people to discuss and clarify matters of concern to them as employees. There are global communications from our Group Chief Executive, supported by local meetings with regional and country CEOs to discuss the annual financial results and overall performance. Performance conversations provide the opportunity to discuss how individuals, the team and the business area have contributed to our overall performance and, in full year conversations, how any compensation awards relate to this.

The Board listens to the view of workforce through several sources, including information reported from senior management on culture and directly via workforce engagement sessions. More information can be found on pages 105 and 106 in the Directors' report.

Employees, past, present and future can follow our progress through the Group's LinkedIn network and Facebook page, and other social network channels, which collectively have over 1.8 million followers.

This mix of channels ensures that all our colleagues receive relevant information promptly regardless of how they prefer to be communicated with and regardless of where they sit in the organisation.

The wellbeing of our employees is central to our thinking about benefits and support, so they can thrive at work and in their personal lives. Our Group minimum standards provide employees with a range of flexible working options, and, in terms of leave, at least 30 days' leave (through annual leave and public holidays), a minimum of 20 calendar weeks' fully paid maternity leave, a minimum of two calendar weeks of leave for spouses or partners, and two calendar weeks for adoption leave. Combined, this is above the International Labour Organisation minimum standards.

We seek to build productive and enduring partnerships with various employee representative bodies (including unions and work councils). In our recognition and interactions, we are heavily influenced by the 1948 United Nations Universal Declaration of Human Rights (UDHR), and several International Labour Organisation (ILO) conventions including the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) and the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87). Additionally, we abide by all local country labour laws and regulations that protect employees' rights to organise.

The Group Grievance Standard provides a formal framework to deal with concerns that employees have in relation to their employment or another colleague, which affects them directly, and cannot be resolved through informal mechanisms, e.g. counselling, coaching or mediation. This can include bullying, harassment or discrimination situations, and concerns around conditions of employment (e.g. health and safety, work relations, new working practices or working environment). There is a distinct Group Speaking Up Policy which covers instances where an employee wishes to 'blow the whistle' on actual, planned or potential (non-employment related) wrongdoing by another employee or the Group.

The Group is committed to creating a fair, consistent, and transparent approach to making decisions in a disciplinary context. This commitment is codified in our Fair Accountability Principles, which underpin our Group Disciplinary Standard.

Dismissals due to misconduct issues and/or performance (where required by law to follow a disciplinary process) are governed by the Group Disciplinary Standard. Where local law or regulation requires a different process with regards to dismissals and other disciplinary outcomes, we have country variances in place.

Our Group Diversity and Inclusion Standard (the Standard) has been developed to ensure a respectful workplace, with fair and equal treatment, diversity and inclusion, and the provision of opportunities for employees to participate fully and reach their full potential in an appropriate working environment. All individuals are entitled to be treated with dignity and respect, and to be free from harassment, bullying, discrimination and victimisation. This helps support effective and productive working conditions, decreased staff attrition, high morale and engagement, maintains employee wellbeing, and reduced risk.

The Group aims to operate diversity and inclusion policies, standards and practices that provide equality of opportunity for all, protect the dignity of employees and promote respect at work. All employees and contractors are required to take personal and individual responsibility to comply with the Standard, behave in a non-discriminatory way and not to participate in acts of inappropriate behaviour or conduct, harassment or bullying.

The Group is committed to provide equal opportunities and fair treatment in employment. We do not accept unlawful discrimination in our recruitment or employment practices on any grounds including but not limited to; sex, race, colour, nationality, ethnic, national or indigenous origin, disability, age, marital or civil partner status, pregnancy or maternity, sexual orientation, gender identity, expression or reassignment, HIV or AIDS status, parental status, military and veterans status, flexibility of working arrangements, religion or belief.

We strive for recruitment, appraisals, pay and conditions, training, development, succession planning, promotion, grievance/disciplinary procedures and employment termination practices that are free of barriers, both systemic and deliberate; and that do not directly or indirectly discriminate.

Recruitment, employment, training, development and promotion decisions are based on the existing skills, knowledge and behaviour required to perform the role to the Group's standards. Implied in all employment terms is the commitment to equal pay for equal work. We will also make reasonable workplace adjustments (including during hiring), inclusive for disabilities and religious practices. If employees become disabled, all reasonable efforts are made to ensure their employment continues, with appropriate training and workplace adjustments where possible.

As part of our engagement with the 'Valuable 500', each country with 50 or more employees in our network has completed an internal disability assessment and incorporated areas of improvement into their local diversity and inclusion plans. This disability benchmark will help every market measure and demonstrate progress towards becoming disability confident by reviewing inclusive processes and practices, infrastructure accessibility, client accessibility and impact in communities.

## Health and safety

Our Health, Safety and wellbeing (H&S) programme covers both mental and physical wellbeing. The Group complies with both external regulatory requirements and internal policy and standards for H&S in all markets. It is Group policy to ensure that the more stringent of the two requirements is always met, ensuring our H&S practices meet or exceed the regulatory minimum. Compliance rates are reported quarterly to each country's management team. H&S performance and risks are reported annually to the Group Risk Committee and the Board Risk Committee. Based on our risk profile, our H&S standards define our requirements for H&S governance and assurance, workstation ergonomics, fire safety, first aid and mental health first aid, indoor air quality and the work environment, vehicle and driving safety, incident reporting and investigation, and accessible design and wellbeing.

## Major customers

Our five largest customers together accounted for 1.9 per cent of our total operating income in the year ended 31 December 2020.

## Major suppliers

Our five largest suppliers together accounted for 15 per cent of purchases in the year ended 31 December 2020.

## Supply chain management

For information about how the Group engages with suppliers on environmental and social matters, please see our Supplier Charter and Supplier Diversity and Inclusion Standard.

As set out under the UK Modern Slavery Act 2015, the Group is required to publish a Modern Slavery Statement annually. The Group's 2020 Modern Slavery Statement will be issued at the same time as the Annual Report. This document will give further detail on how the Group has managed modern slavery and human trafficking in its operations, financing and supply chain during 2020.



Our Supplier Charter and Supplier Diversity and Inclusion Standard can be viewed at [sc.com/suppliercharter](https://sc.com/suppliercharter)



Details of how we create value for our stakeholder groups can be found on [pages 54 to 71](#)

## Product responsibility

We aim to design and offer products based on client needs to ensure fair treatment and outcomes for clients.

The Group has in place a risk framework, comprising policies and standards, to support these objectives in alignment with our Conduct Risk Framework. This Framework covers sales practices, client communications, appropriateness and suitability, and post-sales practice. As part of this, we ensure products sold are suitable for clients and comply with relevant laws and regulations.

We have processes and guidelines specific to each of our client businesses, to promptly resolve client complaints, understand and respond to client issues. Conduct considerations are given significant weighting in front-line incentive structures to drive the right behaviours.

## Group Code of Conduct

The Board has adopted a Group Code of Conduct (the Code) relating to the lawful and ethical conduct of business and this is supported by the Group's valued behaviours. It has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, employees and regulators in the communities in which the Group operates. Directors and employees are asked to recommit to the Code annually, and 99.8 per cent have completed the 2020 recommitment. All Board members have recommitted to the Code.

## Managing environmental and social risk

The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. This encompasses risk associated with clients' operations and their potential impact on the environment, including climate change, and local communities.

The Board recognises its responsibility to manage these risks and that failure to manage them adequately could have adverse impact on stakeholders as well as the Group. The Board, via the Brand, Values and Conduct Committee, reviews sustainability priorities, and oversees the development of, and delivery against, public commitments regarding the activities and/or businesses that the Group will or will not accept in alignment with our Here for good brand promise.

At a management level, the CEO, Corporate & Institutional Banking is responsible for sustainable finance, which incorporates E&S risk management. In 2020, this included the release of our first Sustainability Bond Impact Report and managing our COVID-19 \$1 billion facility. The Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance leads a cross-business Sustainability Forum to develop and deliver the Group's broader sustainability strategy. In addition, climate change is integrated into the Group-wide approach to risk management as a material cross-cutting risk to be considered.

The Board welcomed the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The Group has set out how climate change considerations are being incorporated into its governance, strategy, risk management and target-setting activities in its stand-alone TCFD report. This was approved by the Board before publication.



The Group's TCFD report can be read at [sc.com/tcf](https://sc.com/tcf)

## Community engagement

We collaborate with local partners to support social and economic development in communities across our markets. For more on how we engage with communities go to page 70 of the Sustainable and Responsible Business section.

## ESG reporting guide

We comply with the requirements for environmental, social and governance reporting under Appendix 27 of the Hong Kong Listing Rules with the exception of A1.3 on hazardous waste and A1.6 on production and handling of hazardous waste and A2.5 on packaging. As an office-based financial services provider, we generate minimal hazardous waste or packaging material. As such, these issues are not material and we do not report them.

## Environmental impact of our operations

We aim to minimise the environmental impact of our operations as part of our commitment to be a responsible company. We report on energy, water, paper and non-hazardous waste data that are the basis of our Greenhouse Gas (GHG) emissions management, as well as the targets we have set to reduce energy, water and paper use.

Our reporting criteria document sets out the principles and methodology used to calculate the GHG emissions of the Group. For more information, review the reporting criteria at [sc.com/environmentcriteria](https://sc.com/environmentcriteria)

Disclosures related to the Group's environmental policies and performance are included in the Sustainable and responsible business section of the Strategic report on page 68.

Our reporting methodology is based upon the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised Edition). We report on all emission sources required under the Companies Act 2006 (Strategic report and Directors' reports) Regulations.

Using conversion factors from the International Energy Agency 2019 Emissions Factors and the UK Government's Department for Environment, Food and Rural Affairs (DEFRA), emissions are reported in metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e), encompassing the six Kyoto gases. Our definition of different emission sources is provided below.

**Scope 1** Scope 1 emissions are defined as arising from the consumption of energy from direct sources, such as by burning diesel within generators, during the use of property occupied by the Group.

**Scope 2** Scope 2 emissions are defined as arising from the consumption of indirect sources of energy, such as consumption of purchased electricity and heat, during the use of property occupied by the Group. Considering the amendment issued to the GHG Protocol in 2015, we report Scope 2 emissions under location-based and market-based methods. We continue to monitor the development of Scope 2 Quality Criteria, as well as the development of residual mixes by national agencies. We have recently added market-based reporting as we have found data has become more available on emissions. The Group does not currently use any form of offset such as carbon credits to offset Scope 1 or Scope 2 emissions; however, we will instigate an offset programme in 2021.

**Scope 3** Scope 3 emissions are defined as occurring as a consequence of the Group's activities but arising from sources not controlled by us. The Group currently reports on Scope 3 emissions arising from air travel and our outsourced data centres globally.

## Reporting period

The reporting period of our environmental data is from 1 October 2019 to 30 September 2020. This allows sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same time period rather than the calendar year used in financial reporting.

## Assurance

Our Scope 1 and 2 emissions are assured by an independent body, Global Documentation, against the requirements of ISO14064.

Indicator	2020	2019	2018	Units
Headcount	83,657	84,398	85,402	Headcount
Net internal area of occupied property covered by reporting	1,050,414	1,154,999	1,185,929	m <sup>2</sup>
Annual operating income from 1 October to 30 September	15,233	15,200	14,958	\$m
<b>Greenhouse gas emissions</b>				
Scope 1 emissions (combustion of fuels)	3,988	4,542	8,584	tonnes CO <sub>2</sub> eq/year
Scope 2 emissions (purchased electricity)	113,870	141,771	139,366	tonnes CO <sub>2</sub> eq/year
Scope 1 and 2 emissions	117,858	146,313	147,950	tonnes CO <sub>2</sub> eq/year
Scope 3 emissions with distance uplift (air travel)	33,811	94,043	121,464	tonnes CO <sub>2</sub> eq/year
Scope 3 emissions (Global Data Centre)	29,562	46,362	21,523	tonnes CO <sub>2</sub> eq/year
Total Scope 1, 2 and 3 emissions	181,231	286,718	290,937	tonnes CO <sub>2</sub> eq/year
Total Scope 1, 2 and 3 emissions/Headcount	2.17	3.40	3.41	tonnes CO <sub>2</sub> eq/Headcount/year
Total Scope 1, 2 and 3 emissions/m <sup>2</sup>	173	248	245	kg CO <sub>2</sub> eq/m <sup>2</sup> /year
Total Scope 1, 2 and 3 emissions/operating income	11.90	18.86	19.45	tonnes CO <sub>2</sub> eq/\$m/year

## Electronic communication

The Board recognises the importance of good communications with all shareholders. Directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and any dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future, please contact our registrars at the address on page 442.

Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at [investorcentre.co.uk](http://investorcentre.co.uk).

## Annual General Meeting

Our 2021 AGM will be held at 11:00am (UK time) (6:00pm Hong Kong time) on 12 May 2021. Further details regarding the format, location and business to be transacted will be disclosed within the 2021 Notice of AGM.

Our 2020 AGM was held on 6 May 2020 at 11:00am (UK time) (6:00pm Hong Kong time) at 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom. Special business at the meeting included the approval of the power to allot ECAT1 Securities for cash without certain formalities.

All resolutions were passed at the meeting, the details of which can be viewed on our website.

## Termination of Indian Depository Receipt (IDR) programme

In March 2020, the Group announced the termination of the IDR programme. The termination notice period ended on 15 June 2020. The approximately 750,000 underlying Standard Chartered PLC ordinary shares that these IDRs represented were sold on the London Stock Exchange on 22 June 2020 and the net sale proceeds distributed to the relevant IDR holders. The IDR programme was formally delisted from the BSE Limited (formerly the Bombay Stock Exchange) and National Stock Exchange of India Limited with effect from 22 July 2020.

## Non-audit services

The Group's non-audit services policy (the policy) was reviewed and approved by the Audit Committee on 27 July 2020. The policy is based on an overriding principle that, to avoid any actual or perceived conflicts of interest, the Group's auditor should only be used when either there is evidence that there is no alternative in terms of quality and there is no conflict with their duties as auditor. EY can be used where the work is required by a regulator or competent authority.

The policy clearly sets out the criteria for when the Audit Committee's prior written approval is required. The policy requires a conservative approach to be taken to the assessment of requests for EY to provide non-audit services. Subject to the overriding principle, the Audit Committee's view is that EY can be of value in a range of non-audit service activities and should be allowed to tender subject to the terms of the policy. The Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them.

EU legislation and guidance from the FRC sets out threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining EY's independence from the Group requires EY to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retains the decision-making capability as to whether to act on advice given by EY as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgement as to its validity. All of this is contained within the policy.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are likely to be permissible under the policy:

- Reviews of interim financial information and verification of interim profits – the Group would also extend this to work on investor circulars in most foreseeable circumstances
- Extended audit or assurance work on financial information and/or financial or operational controls, where this work is closely linked to the audit engagement
- Agreed upon procedures on materials within or referenced in the annual report of the Group or an entity within the Group

Internal control review services

Strictly prohibited under the policy:

- Bookkeeping, information technology and valuation services
- Internal audit, litigation support or corporate finance services
- Tax or regulatory structuring proposals
- Services where fees are paid on a contingent basis (in whole or in part)
- Consulting services that actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

The policy is not a prescribed list of non-audit services that EY is permitted to provide. Rather, each request for EY to provide non-audit services will be assessed on its own merits. The Audit Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for EY to provide non-audit services while (ii) preserving sufficient flexibility for the Group to engage EY to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising EY's objectivity and independence. To ensure that the Group will comply with a cap that limits fees on non-audit services provided by EY to under 70 per cent of the average Group audit fee from the previous three consecutive financial years, (which will apply from EY's fourth year of being the Group's external auditor), the policy requires that annual non-audit service fees are lower than 70 per cent of the average annual Group audit fee up to this time. The caps exclude audit related non-audit services and services carried out pursuant to legislation. For 2020 the ratio, without deducting non-audit service fees which were required by law or regulation and performed by EY, was 36 per cent. Details relating to EY's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by EY are given in Note 38 to the financial statements.

## Auditor

The Audit Committee reviews the appointment of the Group's statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid.

Following an annual performance and effectiveness review of EY, it was felt that EY is considered to be effective, objective and independent in its role as Group statutory auditor.

Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that the Group statutory auditor is made aware of any pertinent information.

EY will be available at the 2021 AGM to answer any questions about their audit of the financial statements. In view of the external audit tender conducted in 2017, where it was agreed that EY be appointed as the Group's statutory auditor for the financial year ending 31 December 2020, KPMG resigned as the Group's statutory auditor from the conclusion of the 2019 audit; and, the Board resolved to appoint EY to fill the casual vacancy. A resolution to appoint EY as auditor was proposed at the Company's 2020 AGM and was successfully passed.

EY is a Public Interest Entity Auditor recognised in accordance to the Hong Kong Financial Reporting Council Ordinance.

By order of the Board



### Amanda Mellor

Group Company Secretary

25 February 2021

Standard Chartered PLC

Registered No. 966425

# Statement of directors' responsibilities

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU IFRS) and applicable law, and the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with EU IFRS
- Assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so

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

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

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

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

We confirm that to the best of our knowledge:

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

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

By order of the Board



**Andy Halford**


Group Chief Financial Officer

25 February 2021



# ▶ Feeding families in Singapore ▶

When COVID-19 spread around the world, many of our employees did what they could to help their local communities. Singapore-based Operational Risk Officer, Himani Rajnikant Shah, wanted to go above and beyond simply donating money. Every week, Himani and a group of friends turn their homes into kitchens to prepare hundreds of chapatis – Indian flatbreads – to help feed migrant workers and low-income families. The chapatis form part of larger bento boxes, including curry and rice, which help feed 1,400 families.

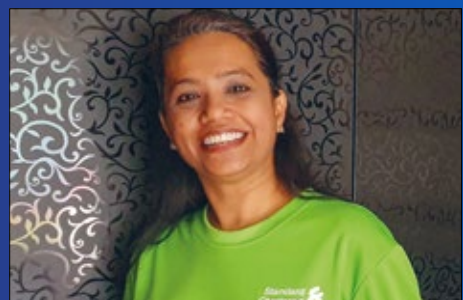
 Read more online at [sc.com/giveoneday](https://sc.com/giveoneday)



## Risk review and Capital review

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**Himani Rajnikant Shah**  
Operational Risk Officer



# Risk review and capital review

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

- **a) Risk review:** Disclosures marked as 'audited' from the start of Credit risk section (page 186) to the end of other principal risks in the same section (page 247)
- **b) Capital review:** Tables marked as 'audited' from the start of 'CRD capital base' to the end of 'Movement in total capital', excluding 'Total risk-weighted assets' (pages 278 to 279).

# Risk update

All risk types, both financial and non-financial, are managed and reported in accordance with the Group's Enterprise Risk Management Framework. Our key highlights from the past year are shown here.

## Key highlights 2020

- Asset quality has deteriorated against a challenging macroeconomic environment
- Credit impairment more than doubled, reflecting the impact of COVID-19
- The Group remains highly liquid and our capital position has strengthened further

## Our portfolio quality

COVID-19 and the related economic shock has impacted our loan portfolio. The wide-ranging disruption to supply chains and normal business practices, in addition to the human cost of the pandemic, has placed intense pressure on the majority of our markets. Despite this, we have delivered resilient performance with risk fundamentals remaining solid in the face of unprecedented challenges. This has been helped by actions we have taken over the past five years to build a strong foundation and ensure our portfolios remain resilient.

The impact has varied dramatically across markets and sectors but by leveraging our stress testing capabilities and conducting portfolio reviews, we have identified and proactively managed a number of portfolios that were at risk as the crisis unfolded. Collateral remains strong in the Corporate & Institutional Banking and Commercial Banking books and we continue to support clients and offer alternative financing options where available.

In the second half of the year, we began to see signs of recovery in some markets as actions taken by governments helped to limit the economic effects of the pandemic. However, despite initial vaccine rollouts, cases increased as 2020 came to a close, and lockdowns have been reintroduced in a number of territories. We remain cognisant that the recovery will be uneven globally, and the threat of prolonged weak economic outlooks may lead to a sustained period of increased risk aversion and uncertainty.

In the first half of the year, we placed selected clients on our watchlist categories for close monitoring, and have conducted extensive portfolio and sector reviews, particularly for areas with higher vulnerability to COVID-19 and volatile crude oil markets, such as our Aviation, Hospitality and Oil & Gas exposures. This has led to a \$5.4 billion increase in early alerts exposure (2020: \$10.7 billion; 2019: \$5.3 billion). This is a reduction of \$3.7 billion compared with 30 June 2020, with just over half due to reductions in exposure and regularisations, and the remainder due to downgrades. As a result, Credit Grade 12 loans have increased to \$2.2 billion (2019: \$1.6 billion) as outflows to non-performing loans were offset by inflows from early alert categories.

The proportion of the Group's loans and advances to customers in stage 1 and 2 has remained broadly consistent with the end of 2019, at 89 per cent and 8 per cent respectively, as we continue to focus on high-quality origination. The percentage of investment grade corporate exposure has also increased slightly to 62 per cent compared with 61 per cent a year ago. Stage 3 loans to customers increased to \$9.2 billion (2019: \$7.4 billion), although they remained at 3 per cent of overall loans and advances.

There has been an increase in exposure to our Top 20 corporate clients as a percentage of Tier 1 Capital to 60 per cent (2019: 56 per cent); however this has reduced slightly since half year. This is primarily driven by an increase in exposure to a few investment grade clients. The Corporate & Institutional Banking and Commercial Banking portfolios remain predominantly short-tenor and continue to be diversified across industry sectors, products, and geographies.

Our Retail Banking portfolio remains stable and resilient, with stage 1 loans increasing by \$9 billion in 2020 driven by growth in mortgage products. Stage 1 loans now represent 97 per cent of the Retail Banking portfolio (2019: 96 per cent). The majority of Retail products continue to be fully secured loans, which have increased slightly to 86 per cent of total loans (2019: 85 per cent). The overall average loan-to-value of the mortgage portfolio remains low at 45 per cent. The unsecured loan portfolio has remained flat compared with the previous year.

Average Group value at risk (VaR) in 2020 was \$108 million, a significant increase compared with the previous year (2019: \$30 million), driven by the extreme market volatility in interest rates and credit spreads following the outbreak of COVID-19 and the collapse in oil prices. The increase in VaR was predominantly observed in the non-trading book from credit bonds held in the Treasury Markets liquid assets buffer which are almost exclusively of investment grade. Trading activities remain primarily client driven.

Despite challenges brought by COVID-19, the Group has remained resilient and kept a strong liquidity and funding position. The Group Liquidity Coverage Ratio was broadly stable year-on-year, closing December 2020 at 143 per cent (2019: 144 per cent) as the liquidity buffer and net outflows both increased in line with overall balance sheet growth. Customer deposits increased by 9 per cent driven by growth in stable current and savings account balances, which was offset by a decrease in term deposits, as we sought to manage liquidity more efficiently. Customer loan growth was mainly driven by mortgages in Hong Kong and Korea. The increase in overall deposits drove a decrease in the Group's advances-to-deposits ratio which reduced to 61 per cent (2019: 64 per cent).

The Group's Common Equity Tier 1 ratio increased by 60 basis points (bps) to 14.4 per cent, which is above the top end of our target range of 13 to 14 per cent.

## Key Indicators

	2020	2019	2018
Group total business <sup>1</sup>			
Stage 1 loans (\$ billion)	256.4	246.1	237.1
Stage 2 loans (\$ billion)	22.7	20.8	17.4
Stage 3 loans, credit-impaired (\$ billion) <sup>2</sup>	9.2	7.4	8.5
Stage 3 cover ratio <sup>2</sup>	58%	68%	66%
Stage 3 cover ratio (including collateral) <sup>2</sup>	76%	85%	85%
<b>Corporate &amp; Institutional Banking and Commercial Banking</b>			
Investment grade corporate net exposures as a percentage of total corporate net exposures	62%	61%	62%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers	61%	62%	61%
Early alert portfolio net exposures (\$ billion)	10.7	5.3	4.8
Credit grade 12 loans (\$ billion)	2.2	1.6	1.5
Aggregate top 20 corporate net exposures as a percentage of Tier 1 capital	60%	56%	55%
Collateralisation of sub-investment grade net exposures maturing in more than one year	46%	45%	51%
<b>Retail Banking</b>			
Loan-to-value ratio of retail mortgages	45%	45%	45%

1 These numbers represent total loans and advances to customers

2 Balances for 2019 and 2018 reflect interest due but unpaid together with equivalent credit impairment charges

## COVID-19

There is a heightened level of risk in the environment and we have taken a number of steps to mitigate the effect on our portfolios and risk profile, informed by stress testing of various COVID-related scenarios and deep-dives on specific portfolios. A number of management actions have been taken since the start of the year, including enhancing our monitoring of facility drawdowns, improving the Group's position through reducing exposures where required.

The Group has continued to support clients we believe are experiencing temporary issues due to COVID-19 and we have enacted comprehensive support schemes for retail and corporate customers, including loan and interest repayment holidays, covenant relief, fee waivers or cancellations, loan extensions and new facilities. In Corporate & Institutional Banking and Commercial Banking, around 54 per cent of the amounts outstanding have a remaining tenor of 90 days or less, and approximately 19 per cent of the amounts outstanding are to clients in vulnerable sectors.

In Retail Banking, various short-term relief measures have been implemented and we have increased engagement with our customers to find alternative financing options where available. As of 31 December 2020, approximately 2 per cent of total Retail Banking exposure has relief measures approved, of which 81 per cent is fully secured with an average loan-to-value of less than 40 per cent. The portfolio under moratoria reduced from \$8.9 billion at its peak in the first half of the year (a significant portion of which was applied to all eligible loans and generally mandated or supported by regulators) to \$2.4 billion, mainly concentrated in Singapore and Hong Kong which are largely secured.

The macroeconomic environment remains challenging for the majority of the markets in our footprint and we are cognisant of the potential longer-term impact, especially once relief measures are eased. This will lead to an uneven recovery even as the global economy is expected to return to growth in 2021 and beyond.

We are managing exposures to a set of identified vulnerable sectors, including Aviation\*, Oil & Gas, Commodity Traders, Metals & Mining, Commercial Real Estate and Hotels & Tourism, particularly closely, and net exposure decreased by \$6 billion in 2020. These sectors now represent 27 per cent (31 December 2019: 30 per cent) of the total net exposure in Corporate & Institutional Banking and Commercial Banking, with reductions largely due to increased levels of collateral and reduced undrawn commitments, particularly in the Commodity Traders, Metals and Mining, and Commercial Real Estate sectors.

## Stage 3 loans

Overall gross credit-impaired (stage 3) loans for the Group increased by 25 per cent in 2020, from \$7.4 billion to \$9.2 billion, driven by downgrades in Corporate & Institutional Banking.

Gross credit-impaired (stage 3) loans in Corporate & Institutional Banking increased by 32 per cent (2020: \$5.5 billion; 2019: \$4.2 billion) driven by significant client downgrades in ASEAN & South Asia and Africa & Middle East across unrelated sectors. Total stage 3 inflows across Corporate & Institutional Banking and Commercial Banking tripled to \$3.6 billion in 2020, compared with \$1.2 billion the previous year, driven by a few major downgrades. These stage 3 inflows were offset by \$1.2 billion of write-offs and \$1.0 billion of recoveries. Stage 3 loans in Commercial Banking increased marginally from \$2.0 billion to \$2.1 billion.

Private Banking stage 3 loans remained broadly stable at \$0.4 billion.

Stage 3 loans in the Retail Banking portfolio increased by \$0.3 billion driven by the impact of COVID-19 on the portfolio, but remains at 1 per cent of total Retail loans.

\* In addition to the Aviation sector loan exposures, the Group owns \$3.9 billion of aircraft under operating leases. Refer to page 371 – Operating lease assets.

The stage 3 cover ratio in the total customer loan book decreased by 10 percentage points to 58 per cent (2019: 68 per cent) mainly in Corporate & Institutional Banking. This was driven by write-offs and new stage 3 loans with low levels of coverage, which benefit from credit insurance and guarantees, including from export credit agencies. The cover ratio including tangible collateral decreased to 76 per cent (2019: 85 per cent) with some of the 2020 downgrades being covered by guarantees and insurance which are not included as tangible collateral.

## Credit impairment

At Group level, the total credit impairment charge including the restructuring portfolio is \$2.3 billion (2019: \$0.9 billion), representing a loan loss rate of 66 bps of average customer loans and advances (2019: 27 bps). Increases were seen across all three stages, with stage 3 impairment up \$823 million, of which more than 60 per cent is from Corporate & Institutional Banking. Stage 1 and 2 impairment increased by \$565 million, over half of which is due to management overlays of \$353 million, with the remainder due to deteriorating macroeconomic forecasts and stage downgrades as a result of COVID-19 uncertainties.

Credit impairment for Corporate & Institutional Banking has increased significantly to \$1,237 million, compared with \$475 million last year. Stage 1 and 2 impairments increased by \$226 million in part due to a judgemental overlay estimating the impact of further deterioration to the early alert portfolio, as well as deterioration of macroeconomic forecasts and stage downgrades from clients impacted by COVID-19 volatility. Stage 3 impairments also increased by \$536 million driven by three significant but unrelated downgrades in the first quarter of 2020.

Commercial Banking credit impairment also increased by \$194 million (2020: \$316 million, 2019: \$122 million). Stage 3 impairment increased by \$111 million due to a few new client downgrades partly driven by the impact of the pandemic. Stage 1 and 2 impairments increased to \$70 million in 2020 compared with a release of \$13 million the previous year. There was also a judgemental overlay for expected future early alert deterioration.

Retail Banking credit impairment has more than doubled (2020: \$715 million, 2019: \$336 million). Stage 3 impairment was higher particularly in ASEAN & South Asia unsecured products, as volatility created by the pandemic resulted in a slowdown in field collections. Stage 1 and 2 impairment more than doubled compared with 2019 at \$414 million. This was due to deteriorations in macroeconomic forecasts and higher flows to stage 2, as well as an overlay of \$156 million to account for the expected increase in delinquencies once government relief measures in our key markets expire.

Private Banking impairment increased to \$2 million as 2019 saw a material provision release in ASEAN & South Asia.

Central & Others saw impairment of \$24 million (2019: \$4 million), driven by stage 1 and 2 impairment from stage downgrades of sovereign clients in the Africa & Middle East region.

Credit impairment in the restructuring portfolio was a net \$31 million from the Group's discontinued businesses.

	2020			2019		
	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million
<b>Ongoing business portfolio</b>						
Corporate & Institutional Banking	321	916	1,237	95	380	475
Retail Banking	414	301	715	175	161	336
Commercial Banking	70	246	316	(13)	135	122
Private Banking	(2)	4	2	1	(32)	(31)
Central & Others	24	-	24	4	-	4
<b>Credit impairment charge</b>	<b>827</b>	<b>1,467</b>	<b>2,294</b>	<b>262</b>	<b>644</b>	<b>906</b>
<b>Restructuring business portfolio</b>						
Others	-	31	31	1	1	2
<b>Credit impairment charge</b>	<b>-</b>	<b>31</b>	<b>31</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Total credit impairment charge</b>	<b>827</b>	<b>1,498</b>	<b>2,325</b>	<b>263</b>	<b>645</b>	<b>908</b>

→ Further details of the risk performance for 2020 is set out in the Risk profile section (pages 185 to 247)

# Risk profile

## Our risk profile in 2020

The Enterprise Risk Management Framework (ERMF) enables us to closely manage enterprise-wide risks with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. We maintain a dynamic risk-scanning process for risk identification and assessment, with inputs from the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives, enabling us to proactively manage our portfolio. We maintain an inventory of the Principal Risk Types and risk sub-types that are inherent to the strategy and business model; and emerging risks that include near-term as well as longer-term uncertainties.

The Group's portfolios continue to exhibit a resilient risk profile. Our corporate portfolios remain predominantly short-tenor and diversified across industry sectors, products and geographies. Work done in previous years to build a strong foundation, including reducing our concentration to single names and high-risk sectors and increasing the proportion of investment grade assets, and actions taken in response to the heightened level of risk in the environment brought on by the pandemic, have helped to mitigate deterioration in our portfolios and risk profile.

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

## Our risk profile in 2020

### Strong risk management underpinned by the ERMF

- As part of the Group's commitment to be a leader in sustainable and responsible banking, environmental, social and governance risks have been incorporated within the expanded Reputational and Sustainability Risk Type Framework
- Conduct Risk and Country Risk have been embedded as overarching components of the ERMF, rather than viewed as standalone risks
- Operational Risk has been expanded to include Technology Risk to meet the needs of the digital agenda of the Group
- We are making good progress on integrating Climate Risk into mainstream risk management
- Self-assessments performed in our footprint markets reflect the use of the ERMF and Principal Risk Types, with reinforced first line ownership
- Overall ERMF effectiveness has improved year-on-year, with a substantial focus on development of non-financial risk management

→ Further details on the ERMF can be found on pages 248 to 253

### Resilient performance despite a challenging macroeconomic environment

- Investment grade corporate net exposures have increased slightly to 62 per cent (2019: 61 per cent)
- The Group's proportions of stage 1 and stage 2 loans and advances to customers are broadly consistent at 89 per cent and 8 per cent respectively
- Stage 3 loans increased to \$9.2 billion (up 25 per cent), although they remain at a consistent proportion of overall loans and advances. The overall stage 3 cover ratio has reduced to 58 per cent (2019: 68 per cent) mainly in Corporate & Institutional Banking, driven by write-offs and new stage 3 loans with low levels of coverage, which benefit from credit insurance and guarantees including from export credit agencies
- Early alerts increased by \$5.4 billion to \$10.7 billion on the back of proactive portfolio and sector reviews, particularly for vulnerable sectors
- Total credit impairment more than doubled to \$2.3 billion, reflecting the impact of COVID-19, with stage 3 impairment up \$0.8 billion
- 86 per cent of our Retail Banking portfolio is fully secured (2019: 85 per cent). The average loan-to-value ratio of retail mortgages remains low at 45 per cent
- Average Group value at risk (VaR) was \$108 million (2019: \$30 million), driven by the extreme market volatility due to COVID-19 and the collapse in oil prices

### Our capital and liquidity positions remain robust

- We remain well capitalised and our balance sheet remains highly liquid
- Our liquidity buffer and cash outflows both grew in 2020 in line with overall balance sheet growth, and our Liquidity Coverage Ratio remains strong and broadly stable at 143 per cent
- Our advances-to-deposits ratio decreased by 3.1 per cent to 61.1 per cent, driven by an increase in overall deposits
- Our customer deposit base is diversified by type and maturity

## Credit Risk (audited)

### Basis of preparation

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

Loans and advances to customers and banks held at amortised cost in this Risk profile section include reverse repurchase agreement balances held at amortised cost, per Note 16 Reverse repurchase and repurchase agreements including other similar secured lending and borrowing.

### Credit Risk overview

Credit Risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group. Credit exposures arise from both the banking and trading books.

### Impairment model

IFRS 9 requires an impairment model that recognises the expected credit losses (ECL) on all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

### Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant change in the Credit Risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out below.

#### Stage 1

- 12-month ECL
- Performing

#### Stage 2

- Lifetime expected credit loss
- Performing but has exhibited significant increase in credit risk (SICR)

#### Stage 3

- Credit-impaired
- Non-performing

### IFRS 9 principles and approaches

The main methodology principles and approach adopted by the Group are set out in the following table.

Title	Description	Supplementary information	Page
Approach to determining expected credit losses	For material loan portfolios, the Group has adopted a statistical modelling approach for determining expected credit losses that makes extensive use of credit modelling. While these models leveraged existing advanced Internal Ratings Based (IRB) models, for determining regulatory expected losses where these were available, there are significant differences between the two approaches.	Credit Risk methodology	224
		Determining lifetime expected credit loss for revolving products	224
		Post-model adjustments	225
Incorporation of forward-looking information	The determination of expected credit loss includes various assumptions and judgements in respect of forward-looking macroeconomic information. Refer to page 225 for incorporation of forward-looking information, forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity and sensitivity of expected credit loss calculation to macroeconomic variables.	Incorporation of forward-looking information and impact of non-linearity	225
		Forecast of key macroeconomic variables underlying the expected credit loss calculation	225
		Management overlay and sensitivity to macroeconomic variables	228
Significant increase in credit risk (SICR)	Expected credit loss for financial assets will transfer from a 12-month basis (stage 1) to a lifetime basis (stage 2) when there is a SICR relative to that which was expected at the time of origination, or when the asset becomes credit-impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty.	Quantitative criteria	230
		Significant increase in credit risk thresholds	230
		Specific qualitative and quantitative criteria per segment:	231
		Corporate & Institutional and Commercial Banking clients	231
		Retail Banking clients Private Banking clients Debt securities	231

Title	Description	Supplementary information	Page
Assessment of credit-impaired financial assets	<p>Credit-impaired (stage 3) financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay. This definition is consistent with internal Credit Risk management and the regulatory definition of default.</p> <p>Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit-related modifications of contractual cashflows due to significant financial difficulty (forbearance) where the Group has granted concessions that it would not ordinarily consider.</p> <p>When financial assets are transferred from stage 3 to stage 2, any contractual interest earned while the asset was in stage 3 is recognised within the credit impairment line. The gross asset balances for stage 3 financial instruments includes contractual interest due but not paid with a corresponding increase in credit impairment provisions.</p>	<p>Retail Banking clients</p> <p>Corporate &amp; Institutional Banking clients</p> <p>Commercial Banking and Private Banking clients</p>	<p>231</p> <p>231</p> <p>231</p>
Transfers between stages	<p>Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms.</p> <p>Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in credit risk. This will be immediate when the original probability of default (PD) based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).</p>	Movement in gross exposures and expected credit losses	199
Modified financial assets	<p>Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cashflows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument.</p> <p>If the modification is credit-related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit-related will be subject to an assessment of whether the asset's Credit Risk has increased significantly since origination by comparing the remaining lifetime PD based on the modified terms to the remaining lifetime PD based on the original contractual terms.</p>	<p>COVID-19 relief measures</p> <p>Forbearance and other modified loans</p>	<p>207</p> <p>208</p>
Governance and application of expert credit judgement in respect of expected credit losses	<p>The models used in determining ECL are reviewed and approved by the Group Credit Model Assessment Committee and have been validated by Group Model Validation, which is independent of the business.</p> <p>A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds then an assessment of whether an ECL adjustment is required to correct for the identified model issue is completed.</p> <p>The determination of expected credit losses requires a significant degree of management judgement which had an impact on governance processes, with the output of the expected credit models assessed by the IFRS 9 Impairment Committee.</p>	<p>Group Credit Model Assessment Committee</p> <p>IFRS 9 Impairment Committee</p>	<p>231</p> <p>232</p>

## Composition of credit impairment provisions (audited)

The table below summarises the key components of the Group's credit impairment provision balances at 31 December 2020 and 31 December 2019.

Modelled ECL provisions, which include post-model adjustments (page 225), management overlays (page 228) and the impact of multiple economic scenarios (page 227) were 24 per cent of total credit impairment provisions at 31 December 2020, compared with 17 per cent at 31 December 2019. 11 per cent of the modelled ECL provisions at 31 December 2020 comprised post-model adjustments, management overlays and the impact of multiple economic scenarios compared with 1 per cent in 2019, primarily due to COVID-19 related volatilities in 2020.

Modelled ECL provisions increased by \$623 million compared with 31 December 2019, just under half of which was due to an increased management overlay to capture risks arising from COVID-19 not identified by the credit impairment models. Excluding the effect of stage changes, the impact of deteriorating macroeconomic forecasts increased provisions by \$81 million in 2020 (2019: increase of \$96 million) with the remainder of the increase from portfolio movements and transfers into stage 2 during the year.

Stage 3 non-modelled provisions increased by 2 per cent compared with 2019.

	2020 \$million	2019 \$million	Page
<b>ECL provisions (base forecast)</b>	<b>1,380</b>	1,079	227
Of which: Post-model adjustments	(158)	(13)	225
<b>Impact of multiple economic scenarios and management overlays</b>	<b>351</b>	29	227-228
<b>Total modelled ECL provisions</b>	<b>1,731</b>	1,108	227
Of which: Stage 1	664	517	
Stage 2	885	458	
Stage 3	182	133	
<b>Stage 3 non-modelled provisions</b>	<b>5,414</b>	5,283	
<b>Total credit impairment provisions</b>	<b>7,145</b>	6,391	190

## Maximum exposure to Credit Risk (audited)

The table below presents the Group's maximum exposure to Credit Risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2020, before and after taking into account any collateral held or other Credit Risk mitigation.

The Group's on-balance sheet maximum exposure to Credit Risk increased by \$66 billion to \$760 billion (2019: \$694 billion). Cash and balances at central banks increased by \$14 billion, and loans and advances to customers grew by \$13 billion, primarily in mortgages which saw growth of \$7 billion. Investment securities increased by \$9 billion, of which the majority was in government and sovereign securities. Fair value through profit or loss assets and derivative exposure also increased by \$12 billion and \$22 billion respectively.

Off-balance sheet instruments increased by \$19 billion, of which undrawn commitments increased by \$12 billion and financial guarantee, trade credit and irrevocable letters of credit increased by \$7 billion.

	2020				2019			
	Credit risk management				Credit risk management			
	Maximum exposure \$million	Collateral \$million	Master netting agreements \$million	Net exposure \$million	Maximum exposure \$million	Collateral \$million	Master netting agreements \$million	Net exposure \$million
<b>On-balance sheet</b>								
Cash and balances at central banks	66,712			66,712	52,728			52,728
Loans and advances to banks <sup>1,8</sup>	44,347	1,247		43,100	53,549	1,341		52,208
of which – reverse repurchase agreements and other similar secured lending <sup>7</sup>	1,247	1,247		–	1,341	1,341		–
Loans and advances to customers <sup>1,8</sup>	281,699	130,200		151,499	268,523	122,115		146,408
of which – reverse repurchase agreements and other similar secured lending <sup>7</sup>	2,919	2,919		–	1,469	1,469		–
Investment securities – debt securities and other eligible bills <sup>2</sup>	152,861			152,861	143,440			143,440
Fair value through profit or loss <sup>3,7</sup>	102,259	63,405	–	38,854	90,349	57,604	–	32,745
Loans and advances to banks	3,877			3,877	3,528			3,528
Loans and advances to customers	9,377			9,377	6,896			6,896
Reverse repurchase agreements and other similar lending <sup>7</sup>	63,405	63,405		–	57,604	57,604		–
Investment securities – debt securities and other eligible bills <sup>2</sup>	25,600			25,600	22,321			22,321
Derivative financial instruments <sup>4,7</sup>	69,467	10,136	47,097	12,234	47,212	7,824	28,659	10,729
Accrued income	1,775			1,775	2,358			2,358
Assets held for sale	83			83	90			90
Other assets <sup>5</sup>	40,978			40,978	36,161			36,161
Total balance sheet	760,181	204,988	47,097	508,096	694,410	188,884	28,659	476,867
<b>Off-balance sheet<sup>6</sup></b>								
Undrawn commitments	153,403			153,403	141,194			141,194
Financial guarantees, trade credits and irrevocable letters of credit	53,832			53,832	46,714			46,714
Total off-balance sheet	207,235	–	–	207,235	187,908	–	–	187,908
Total	967,416	204,988	47,097	715,331	882,318	188,884	28,659	664,775

1 An analysis of credit quality is set out in the credit quality analysis section (page 192). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 212)

2 Excludes equity and other investments of \$454 million (31 December 2019: \$291 million). Further details are set out in Note 13 Financial instruments

3 Excludes equity and other investments of \$4,528 million (31 December 2019: \$2,469 million). Further details are set out in Note 13 Financial instruments

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

5 Other assets include Hong Kong certificates of indebtedness, cash collateral, and acceptances, in addition to unsettled trades and other financial assets

6 Excludes ECL allowances which are reported under Provisions for liabilities and charges

7 Collateral capped at maximum exposure (over-collateralised)

8 Adjusted for over-collateralisation, which has been determined with reference to the drawn and undrawn component as this best reflects the effect on the amount arising from expected credit losses

## Analysis of financial instrument by stage (audited)

This table shows financial instruments and off-balance sheet commitments by stage, along with the total credit impairment loss provision against each class of financial instrument.

The proportion of financial instruments held within stage 1 remained stable at 94 per cent (2019: 94 per cent). Total stage 1 balances increased by \$49 billion, of which around \$14 billion in Cash and balances at central banks and \$10 billion in loans and advances to customers primarily in mortgages, up \$8 billion. Off-balance sheet exposures also increased, up \$18 billion, mainly due to undrawn commitments.

Stage 2 financial instruments remained at 5 per cent (2019: 5 per cent). The proportion of loans and advances to customers classified in stage 2 remains stable at 8 per cent (2019: 8 per cent).

Stage 3 financial instruments were stable at 1 per cent of the Group total. Gross stage 3 loans and advances to customers increased by \$1.8 billion primarily due to new but unrelated downgrades in Corporate & Institutional Banking.

	2020											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million
Cash and balances at central banks	66,649	–	66,649	67	(4)	63	–	–	–	66,716	(4)	66,712
Loans and advances to banks (amortised cost)	44,015	(14)	44,001	349	(3)	346	–	–	–	44,364	(17)	44,347
Loans and advances to customers (amortised cost)	256,437	(534)	255,903	22,661	(738)	21,923	9,214	(5,341)	3,873	288,312	(6,613)	281,699
Debt securities and other eligible bills⁵	149,316	(56)		3,506	(26)		114	(58)		152,936	(140)	
Amortised cost	19,246	(15)	19,231	195	(2)	193	114	(58)	56	19,555	(75)	19,480
FVOCI²	130,070	(41)		3,311	(24)		–	–		133,381	(65)	
Accrued income (amortised cost)⁴	1,775	–	1,775	–	–	–	–	–	–	1,775	–	1,775
Assets held for sale⁴	83	–	83	–	–	–	–	–	–	83	–	83
Other assets	40,978	(1)	40,977	–	–	–	4	(3)	1	40,982	(4)	40,978
Undrawn commitments³	143,703	(39)		9,698	(78)		2	–		153,403	(117)	
Financial guarantees, trade credits and irrevocable letter of credits³	49,489	(20)		3,573	(36)		770	(194)		53,832	(250)	
<b>Total</b>	<b>752,445</b>	<b>(664)</b>		<b>39,854</b>	<b>(885)</b>		<b>10,104</b>	<b>(5,596)</b>		<b>802,403</b>	<b>(7,145)</b>	

1 Gross carrying amount for off-balance sheet refers to notional values

2 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

3 These are off-balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no “net carrying amount”. ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component

4 Stage 1 ECL is not material

5 Stage 3 gross includes \$38 million originated credit-impaired debt securities

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million	Gross balance¹ \$million	Total credit impairment \$million	Net carrying value \$million
Cash and balances at central banks	52,728	–	52,728	–	–	–	–	–	–	52,728	–	52,728
Loans and advances to banks (amortised cost)	52,634	(5)	52,629	924	(4)	920	–	–	–	53,558	(9)	53,549
Loans and advances to customers (amortised cost)	246,149	(402)	245,747	20,759	(377)	20,382	7,398	(5,004)	2,394	274,306	(5,783)	268,523
Debt securities and other eligible bills	138,782	(50)		4,644	(23)		75	(45)		143,501	(118)	
Amortised cost	13,678	(10)	13,668	277	(6)	271	75	(45)	30	14,030	(61)	13,969
FVOCI²	125,104	(40)		4,367	(17)		–	–		129,471	(57)	
Accrued income (amortised cost)⁴	2,358	–	2,358	–	–	–	–	–	–	2,358	–	2,358
Assets held for sale⁴	90	–	90	–	–	–	–	–	–	90	–	90
Other assets	36,161	(3)	36,158	–	–	–	164	(161)	3	36,325	(164)	36,161
Undrawn commitments³	132,242	(43)		8,951	(38)		1	–		141,194	(81)	
Financial guarantees, trade credits and irrevocable letter of credits³	42,597	(14)		3,509	(16)		608	(206)		46,714	(236)	
<b>Total</b>	<b>703,741</b>	<b>(517)</b>		<b>38,787</b>	<b>(458)</b>		<b>8,246</b>	<b>(5,416)</b>		<b>750,774</b>	<b>(6,391)</b>	

1 Gross carrying amount for off-balance sheet refers to notional values

2 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

3 These are off-balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no "net carrying amount". ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component

4 Stage 1 ECL is not material

## Credit quality analysis (audited)

### Credit quality by client segment

For the Corporate & Institutional Banking and Commercial Banking portfolios, exposures are analysed by credit grade (CG), which plays a central role in the quality assessment and monitoring of risk. All loans are assigned a CG, which is reviewed at least annually and amended in light of changes in the borrower's circumstances or behaviour. CGs 1 to 12 are assigned to stage 1 and stage 2 (performing) clients or accounts, while CGs 13 and 14 are assigned to stage 3 (defaulted) clients. The mapping of credit quality is as follows.

### Mapping of credit quality

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

Credit quality description	Corporate & Institutional Banking and Commercial Banking			Private Banking <sup>1</sup>	Retail Banking
	Internal grade mapping	S&P external ratings equivalent	Regulatory PD range (%)	Internal ratings	Number of days past due
Strong	1A to 5B	AAA to BB+	0 to 0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	6A to 11C	BB to B-/CCC	0.426 to 15.75	Class II and Class III	Loans past due till 29 days
Higher risk	Grade 12	CCC/C	15.751 to 99.999	GSAM managed	Past due loans 30 days and over till 90 days

<sup>1</sup> For Private Banking, classes of risk represent the type of collateral held. Class I represents facilities with liquid collateral, such as cash and marketable securities. Class II represents unsecured/partially secured facilities and those with illiquid collateral, such as equity in private enterprises. Class III represents facilities with residential or commercial real estate collateral. Class IV covers margin trading facilities

The table overleaf sets out the gross loans and advances held at amortised cost, expected credit loss provisions and expected credit loss coverage by business segment and stage. Expected credit loss coverage represents the expected credit loss reported for each segment and stage as a proportion of the gross loan balance for each segment and stage.

### Stage 1

Stage 1 gross loans and advances to customers increased by \$10 billion, or 4 per cent compared with 31 December 2019 and represent 89 per cent of loans and advances to customers (2019: 90 per cent). The stage 1 coverage ratio remained at 0.2 per cent compared with 31 December 2019.

In Corporate & Institutional Banking and Commercial Banking the proportion of stage 1 loans has reduced to 80 per cent (2019: 83 per cent), although the percentage of stage 1 loans rated as strong is higher at 58 per cent (2019: 56 per cent) as the Group continues to focus on the origination of investment grade lending. Stage 1 loans reduced by \$7 billion, primarily in the Energy, and Transport, Telecom and Utilities sector. The Central & Others segment increased by \$9 billion due to an increase in exposure to Governments.

Commercial Banking stage 1 loans and advances decreased by \$3.2 billion to \$20.4 billion due to a number of corporate repayments mainly in the Greater China & North Asia region.

Retail Banking stage 1 loans increased by \$9 billion primarily driven by new lending in mortgage products. The proportion rated as strong increased to 98 per cent (2019: 97 per cent). Stage 1 Private Banking assets reduced by \$1 billion mainly in secured wealth products.

### Stage 2

Stage 2 loans and advances to customers increased by \$2 billion compared with 31 December 2019, with the proportion of stage 2 loans remaining stable at 8 per cent. This was largely due to a \$3 billion increase in Corporate & Institutional Banking in the Transport, Telecoms and Utilities sector. Commercial Banking stage 2 balances decreased by \$0.4 billion.

Retail Banking stage 2 loans saw a decrease of \$0.6 billion primarily in mortgage products, mainly driven by repayments and a few downgrades to stage 3.

The overall stage 2 cover ratio almost doubled to 3.3 per cent primarily due to management overlays that were raised due to COVID-19 volatility and deterioration in macroeconomic forecasts during the year.

Stage 2 loans to customers classified as 'Higher risk' increased by \$0.9 billion, with the majority of the rise in Corporate & Institutional Banking and Commercial Banking following downgrades from early alerts in Africa & Middle East and ASEAN & South Asia.

### Stage 3

Stage 3 loans and advances to customers increased by 25 per cent to \$9.2 billion (31 December 2019: \$7.4 billion), with stage 3 provisions growing by \$0.3 billion to \$5.3 billion. As a result, the stage 3 cover ratio (excluding collateral) decreased by 10 percentage points to 58 per cent, largely driven by downgrades in Corporate & Institutional Banking and Commercial Banking with low levels of coverage and \$1.2 billion of write-offs, most of which were heavily provisioned.

In Corporate & Institutional Banking and Commercial Banking, gross stage 3 loans increased by \$1.5 billion compared with 31 December 2019, which included significant but unrelated downgrades in the ASEAN & South Asia and Africa & Middle East regions of \$0.8 billion. Provisions rose by \$0.1 billion from \$4.5 billion to \$4.6 billion as additional provisions of \$1.4 billion were raised, but this was offset by a \$1.2 billion reduction from exposures that were repaid or written off. The cover ratio dropped by 12 percentage points to 60 per cent, of which around 5 per cent of the decrease is due to write-offs and the remaining due to new downgrades with low level of coverage which are partially covered by credit insurance and guarantees, including export credit agencies.

Stage 3 loans in the Retail Banking portfolio increased by \$0.3 billion driven by the impact of COVID-19 on the portfolio, but remains at 1 per cent of total Retail loans.

Private Banking stage 3 loans remained stable at \$0.4 billion.

## Loans and advances by client segment (audited)

Amortised cost	2020								Undrawn commitments \$million	Financial guarantees \$million
	Banks \$million	Customers								
		Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Customer Total \$million			
Stage 1	44,015	90,559	113,162	20,434	13,132	19,150	256,437	143,703	49,489	
– Strong	34,961	58,031	110,903	6,246	8,863	18,889	202,932	122,792	30,879	
– Satisfactory	9,054	32,528	2,259	14,188	4,269	261	53,505	20,911	18,610	
Stage 2	349	16,408	2,459	3,596	198	–	22,661	9,698	3,573	
– Strong	95	2,538	1,328	218	194	–	4,278	3,537	386	
– Satisfactory	233	12,326	661	2,779	4	–	15,770	5,522	2,399	
– Higher risk	21	1,544	470	599	–	–	2,613	639	788	
Of which (stage 2):										
– Less than 30 days past due	–	168	661	34	2	–	865	–	–	
– More than 30 days past due	29	64	470	84	10	–	628	–	–	
Stage 3, credit-impaired financial assets	–	5,506	1,173	2,146	389	–	9,214	2	770	
Gross balance <sup>1</sup>	44,364	112,473	116,794	26,176	13,719	19,150	288,312	153,403	53,832	
Stage 1	(14)	(67)	(429)	(28)	(9)	(1)	(534)	(39)	(20)	
– Strong	(7)	(25)	(300)	(9)	(7)	–	(341)	(19)	(13)	
– Satisfactory	(7)	(42)	(129)	(19)	(2)	(1)	(193)	(20)	(7)	
Stage 2	(3)	(387)	(251)	(100)	–	–	(738)	(78)	(36)	
– Strong	–	(41)	(100)	(1)	–	–	(142)	(3)	(3)	
– Satisfactory	(3)	(223)	(85)	(68)	–	–	(376)	(44)	(19)	
– Higher risk	–	(123)	(66)	(31)	–	–	(220)	(31)	(14)	
Of which (stage 2):										
– Less than 30 days past due	–	(4)	(85)	(2)	–	–	(91)	–	–	
– More than 30 days past due	–	(3)	(66)	(3)	–	–	(72)	–	–	
Stage 3, credit-impaired financial assets	–	(3,065)	(569)	(1,545)	(162)	–	(5,341)	–	(194)	
Total credit impairment	(17)	(3,519)	(1,249)	(1,673)	(171)	(1)	(6,613)	(117)	(250)	
Net carrying value	44,347	108,954	115,545	24,503	13,548	19,149	281,699			
Stage 1	0.0%	0.1%	0.4%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%	
– Strong	0.0%	0.0%	0.3%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%	
– Satisfactory	0.1%	0.1%	5.7%	0.1%	0.0%	0.4%	0.4%	0.1%	0.0%	
Stage 2	0.9%	2.4%	10.2%	2.8%	0.0%	0.0%	3.3%	0.8%	1.0%	
– Strong	0.0%	1.6%	7.5%	0.5%	0.0%	0.0%	3.3%	0.1%	0.8%	
– Satisfactory	1.3%	1.8%	12.9%	2.4%	0.0%	0.0%	2.4%	0.8%	0.8%	
– Higher risk	0.0%	8.0%	14.0%	5.2%	0.0%	0.0%	8.4%	4.9%	1.8%	
Of which (stage 2):										
– Less than 30 days past due	0.0%	2.4%	12.9%	5.9%	0.0%	0.0%	10.5%	0.0%	0.0%	
– More than 30 days past due	0.0%	4.7%	14.0%	3.6%	0.0%	0.0%	11.5%	0.0%	0.0%	
Stage 3, credit-impaired financial assets	0.0%	55.7%	48.5%	72.0%	41.6%	0.0%	58.0%	0.0%	25.2%	
Cover ratio	0.0%	3.1%	1.1%	6.4%	1.2%	0.0%	2.3%	0.1%	0.5%	
Fair value through profit or loss										
Performing	22,082	51,549	135	2,835	–	12	54,531	–	–	
– Strong	18,100	27,323	133	2,204	–	8	29,668	–	–	
– Satisfactory	3,982	24,144	2	631	–	4	24,781	–	–	
– Higher risk	–	82	–	–	–	–	82	–	–	
Defaulted (CG13-14)	–	37	–	9	–	–	46	–	–	
Gross balance (FVTPL) <sup>2</sup>	22,082	51,586	135	2,844	–	12	54,577	–	–	
Net carrying value (incl FVTPL)	66,429	160,540	115,680	27,347	13,548	19,161	336,276			

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$2,919 million under Customers and of \$1,247 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$45,200 million under Customers and of \$18,205 million under Banks, held at fair value through profit or loss

2019

	Customers <sup>3</sup>							Undrawn commitments \$million	Financial guarantees \$million
	Banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Customer Total \$million		
<b>Amortised cost</b>									
Stage 1	52,634	94,226	103,899	23,683	14,249	10,092	246,149	132,242	42,597
– Strong	41,053	58,623	101,246	6,941	10,145	9,961	186,916	113,195	27,417
– Satisfactory	11,581	35,603	2,653	16,742	4,104	131	59,233	19,047	15,180
Stage 2	924	13,454	3,029	3,985	284	7	20,759	8,951	3,509
– Strong	225	2,711	2,231	208	280	–	5,430	3,988	1,049
– Satisfactory	476	9,652	462	3,493	4	–	13,611	4,601	2,248
– Higher risk	223	1,091	336	284	–	7	1,718	362	212
Of which (stage 2):									
– Less than 30 days past due	2	145	462	58	–	–	665	–	–
– More than 30 days past due	23	175	336	86	4	–	601	–	–
Stage 3, credit-impaired financial assets	–	4,173	846	2,013	366	–	7,398	1	608
<b>Gross balance<sup>1</sup></b>	53,558	111,853	107,774	29,681	14,899	10,099	274,306	141,194	46,714
Stage 1	(5)	(78)	(289)	(24)	(10)	(1)	(402)	(43)	(14)
– Strong	–	(29)	(182)	(1)	(8)	–	(220)	(22)	(8)
– Satisfactory	(5)	(49)	(107)	(23)	(2)	(1)	(182)	(21)	(6)
Stage 2	(4)	(143)	(173)	(60)	(1)	–	(377)	(38)	(16)
– Strong	(2)	(33)	(88)	(5)	(1)	–	(127)	(7)	(3)
– Satisfactory	(2)	(51)	(45)	(40)	–	–	(136)	(14)	(8)
– Higher risk	–	(59)	(40)	(15)	–	–	(114)	(17)	(5)
Of which (stage 2):									
– Less than 30 days past due	–	(3)	(45)	(2)	–	–	(50)	–	–
– More than 30 days past due	–	(4)	(40)	(5)	–	–	(49)	–	–
Stage 3, credit-impaired financial assets	–	(2,980)	(374)	(1,503)	(147)	–	(5,004)	–	(206)
<b>Total credit impairment</b>	(9)	(3,201)	(836)	(1,587)	(158)	(1)	(5,783)	(81)	(236)
<b>Net carrying value</b>	53,549	108,652	106,938	28,094	14,741	10,098	268,523	–	–
Stage 1	0.0%	0.1%	0.3%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%
– Strong	0.0%	0.0%	0.2%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
– Satisfactory	0.0%	0.1%	4.0%	0.1%	0.0%	0.8%	0.3%	0.1%	0.0%
Stage 2	0.4%	1.1%	5.7%	1.5%	0.4%	0.0%	1.8%	0.4%	0.5%
– Strong	0.9%	1.2%	3.9%	2.4%	0.4%	0.0%	2.3%	0.2%	0.3%
– Satisfactory	0.4%	0.5%	9.7%	1.1%	0.0%	0.0%	1.0%	0.3%	0.4%
– Higher risk	0.0%	5.4%	11.9%	5.3%	0.0%	0.0%	6.6%	4.8%	2.4%
Of which (stage 2):									
– Less than 30 days past due	0.0%	2.1%	9.7%	3.4%	0.0%	0.0%	7.5%	0.0%	0.0%
– More than 30 days past due	0.0%	2.3%	11.9%	5.8%	0.0%	0.0%	8.2%	0.0%	0.0%
Stage 3, credit-impaired financial assets	0.0%	71.4%	44.2%	74.7%	40.2%	0.0%	67.6%	0.0%	33.9%
<b>Cover ratio</b>	0.0%	2.9%	0.8%	5.3%	1.1%	0.0%	2.1%	0.1%	0.5%
<b>Fair value through profit or loss</b>									
Performing	21,797	45,104	238	845	–	2	46,189	–	–
– Strong	19,217	26,511	236	253	–	1	27,001	–	–
– Satisfactory	2,580	18,584	1	592	–	1	19,178	–	–
– Higher risk	–	9	1	–	–	–	10	–	–
Defaulted (CG13-14)	–	34	–	8	–	–	42	–	–
<b>Gross balance (FVTPL)<sup>2</sup></b>	21,797	45,138	238	853	–	2	46,231	–	–
<b>Net carrying value (incl FVTPL)</b>	75,346	153,790	107,176	28,947	14,741	10,100	314,754		

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$1,469 million under Customers and of \$1,341 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$39,335 million under Customers and of \$18,269 million under Banks, held at fair value through profit or loss

3 Corporate & Institutional Banking, Commercial Banking and Retail Banking Gross and ECL numbers have been restated to reflect client transfers between the segments. The changes are in stage 1 and stage 2 only. In the Fair value through profit or loss section, the swap is between Corporate & Institutional Banking and Commercial Banking

## Loans and advances by client segment credit quality analysis

			Corporate & Institutional Banking							
			2020							
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Gross				Credit impairment			
			Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>			<b>58,031</b>	<b>2,538</b>	<b>-</b>	<b>60,569</b>	<b>(25)</b>	<b>(41)</b>	<b>-</b>	<b>(66)</b>
1A-2B	0 – 0.045	AA- and above	9,748	295	-	10,043	-	(4)	-	(4)
3A-4A	0.046 – 0.110	A+ to A-	15,375	790	-	16,165	(2)	(11)	-	(13)
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	32,908	1,453	-	34,361	(23)	(26)	-	(49)
<b>Satisfactory</b>			<b>32,528</b>	<b>12,326</b>	<b>-</b>	<b>44,854</b>	<b>(42)</b>	<b>(223)</b>	<b>-</b>	<b>(265)</b>
6A-7B	0.426 – 1.350	BB+/BB to BB-	22,747	4,919	-	27,666	(27)	(65)	-	(92)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	6,619	4,178	-	10,797	(11)	(88)	-	(99)
10A-11C	4.001 – 15.75	B to B-/CCC	3,162	3,229	-	6,391	(4)	(70)	-	(74)
<b>Higher risk</b>			<b>-</b>	<b>1,544</b>	<b>-</b>	<b>1,544</b>	<b>-</b>	<b>(123)</b>	<b>-</b>	<b>(123)</b>
12	15.751 – 99.999	CCC/C	-	1,544	-	1,544	-	(123)	-	(123)
<b>Defaulted</b>			<b>-</b>	<b>-</b>	<b>5,506</b>	<b>5,506</b>	<b>-</b>	<b>-</b>	<b>(3,065)</b>	<b>(3,065)</b>
13-14	100	Defaulted	-	-	5,506	5,506	-	-	(3,065)	(3,065)
<b>Total</b>			<b>90,559</b>	<b>16,408</b>	<b>5,506</b>	<b>112,473</b>	<b>(67)</b>	<b>(387)</b>	<b>(3,065)</b>	<b>(3,519)</b>

			2019 <sup>1</sup>							
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Gross				Credit impairment			
			Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>			58,623	2,711	-	61,334	(29)	(33)	-	(62)
1A-2B	0 – 0.045	AA- and above	6,638	80	-	6,718	(2)	-	-	(2)
3A-4A	0.046 – 0.110	A+ to A-	18,659	912	-	19,571	(4)	(7)	-	(11)
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	33,326	1,719	-	35,045	(23)	(26)	-	(49)
<b>Satisfactory</b>			35,603	9,652	-	45,255	(49)	(51)	-	(100)
6A-7B	0.426 – 1.350	BB+/BB to BB-	24,000	5,955	-	29,955	(26)	(18)	-	(44)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	8,000	2,633	-	10,633	(15)	(21)	-	(36)
10A-11C	4.001 – 15.75	B to B-/CCC	3,603	1,064	-	4,667	(8)	(12)	-	(20)
<b>Higher risk</b>			<b>-</b>	<b>1,091</b>	<b>-</b>	<b>1,091</b>	<b>-</b>	<b>(59)</b>	<b>-</b>	<b>(59)</b>
12	15.751 – 99.999	CCC/C	-	1,091	-	1,091	-	(59)	-	(59)
<b>Defaulted</b>			<b>-</b>	<b>-</b>	<b>4,173</b>	<b>4,173</b>	<b>-</b>	<b>-</b>	<b>(2,980)</b>	<b>(2,980)</b>
13-14	100	Defaulted	-	-	4,173	4,173	-	-	(2,980)	(2,980)
<b>Total</b>			<b>94,226</b>	<b>13,454</b>	<b>4,173</b>	<b>111,853</b>	<b>(78)</b>	<b>(143)</b>	<b>(2,980)</b>	<b>(3,201)</b>

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Commercial Banking

			Commercial Banking							
			2020							
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Gross				Credit impairment			
			Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>			<b>6,246</b>	<b>218</b>	<b>–</b>	<b>6,464</b>	<b>(9)</b>	<b>(1)</b>	<b>–</b>	<b>(10)</b>
1A-2B	0 – 0.045	AA- and above	1,323	–	–	1,323	–	–	–	–
3A-4A	0.046 – 0.110	A+ to A-	1,378	25	–	1,403	–	–	–	–
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	3,545	193	–	3,738	(9)	(1)	–	(10)
<b>Satisfactory</b>			<b>14,188</b>	<b>2,779</b>	<b>–</b>	<b>16,967</b>	<b>(19)</b>	<b>(68)</b>	<b>–</b>	<b>(87)</b>
6A-7B	0.426 – 1.350	BB+/BB to BB-	6,170	477	–	6,647	(4)	(9)	–	(13)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	5,657	1,057	–	6,714	(9)	(20)	–	(29)
10A-11C	4.001 – 15.75	B to B-/CCC	2,361	1,245	–	3,606	(6)	(39)	–	(45)
<b>Higher risk</b>			<b>–</b>	<b>599</b>	<b>–</b>	<b>599</b>	<b>–</b>	<b>(31)</b>	<b>–</b>	<b>(31)</b>
12	15.751 – 99.999	CCC/C	–	599	–	599	–	(31)	–	(31)
<b>Defaulted</b>			<b>–</b>	<b>–</b>	<b>2,146</b>	<b>2,146</b>	<b>–</b>	<b>–</b>	<b>(1,545)</b>	<b>(1,545)</b>
13-14	100	Defaulted	–	–	2,146	2,146	–	–	(1,545)	(1,545)
<b>Total</b>			<b>20,434</b>	<b>3,596</b>	<b>2,146</b>	<b>26,176</b>	<b>(28)</b>	<b>(100)</b>	<b>(1,545)</b>	<b>(1,673)</b>

			2019 <sup>1</sup>							
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Gross				Credit impairment			
			Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>			<b>6,941</b>	<b>208</b>	<b>–</b>	<b>7,149</b>	<b>(1)</b>	<b>(5)</b>	<b>–</b>	<b>(6)</b>
1A-2B	0 – 0.045	AA- and above	285	–	–	285	–	–	–	–
3A-4A	0.046 – 0.110	A+ to A-	2,500	10	–	2,510	–	–	–	–
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	4,156	198	–	4,354	(1)	(5)	–	(6)
<b>Satisfactory</b>			<b>16,742</b>	<b>3,493</b>	<b>–</b>	<b>20,235</b>	<b>(23)</b>	<b>(40)</b>	<b>–</b>	<b>(63)</b>
6A-7B	0.426 – 1.350	BB+/BB to BB-	7,030	840	–	7,870	(5)	(1)	–	(6)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	7,032	1,355	–	8,387	(11)	(13)	–	(24)
10A-11C	4.001 – 15.75	B to B-/CCC	2,680	1,298	–	3,978	(7)	(26)	–	(33)
<b>Higher risk</b>			<b>–</b>	<b>284</b>	<b>–</b>	<b>284</b>	<b>–</b>	<b>(15)</b>	<b>–</b>	<b>(15)</b>
12	15.751 – 99.999	CCC/C	–	284	–	284	–	(15)	–	(15)
<b>Defaulted</b>			<b>–</b>	<b>–</b>	<b>2,013</b>	<b>2,013</b>	<b>–</b>	<b>–</b>	<b>(1,503)</b>	<b>(1,503)</b>
13-14	100	Defaulted	–	–	2,013	2,013	–	–	(1,503)	(1,503)
<b>Total</b>			<b>23,683</b>	<b>3,985</b>	<b>2,013</b>	<b>29,681</b>	<b>(24)</b>	<b>(60)</b>	<b>(1,503)</b>	<b>(1,587)</b>

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Corporate & Institutional Banking and to Retail Banking

Credit grade	Retail Banking							
	2020							
	Gross				Credit impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>	110,903	1,328	–	112,231	(300)	(100)	–	(400)
Secured	95,584	1,151	–	96,735	(51)	(30)	–	(81)
Unsecured	15,319	177	–	15,496	(249)	(70)	–	(319)
<b>Satisfactory</b>	2,259	661	–	2,920	(129)	(85)	–	(214)
Secured	754	216	–	970	(11)	(3)	–	(14)
Unsecured	1,505	445	–	1,950	(118)	(82)	–	(200)
<b>Higher risk</b>	–	470	–	470	–	(66)	–	(66)
Secured	–	316	–	316	–	(12)	–	(12)
Unsecured	–	154	–	154	–	(54)	–	(54)
<b>Defaulted</b>	–	–	1,173	1,173	–	–	(569)	(569)
Secured	–	–	672	672	–	–	(256)	(256)
Unsecured	–	–	501	501	–	–	(313)	(313)
<b>Total</b>	<b>113,162</b>	<b>2,459</b>	<b>1,173</b>	<b>116,794</b>	<b>(429)</b>	<b>(251)</b>	<b>(569)</b>	<b>(1,249)</b>

Credit grade	2019							
	Gross				Credit impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Strong</b>	101,246	2,231	–	103,477	(182)	(88)	–	(270)
Secured	85,301	1,923	–	87,224	(11)	(12)	–	(23)
Unsecured	15,945	308	–	16,253	(171)	(76)	–	(247)
<b>Satisfactory</b>	2,653	462	–	3,115	(107)	(45)	–	(152)
Secured	1,691	358	–	2,049	(1)	(3)	–	(4)
Unsecured	962	104	–	1,066	(106)	(42)	–	(148)
<b>Higher risk</b>	–	336	–	336	–	(40)	–	(40)
Secured	–	193	–	193	–	(3)	–	(3)
Unsecured	–	143	–	143	–	(37)	–	(37)
<b>Defaulted</b>	–	–	846	846	–	–	(374)	(374)
Secured	–	–	413	413	–	–	(143)	(143)
Unsecured	–	–	433	433	–	–	(231)	(231)
<b>Total</b>	<b>103,899</b>	<b>3,029</b>	<b>846</b>	<b>107,774</b>	<b>(289)</b>	<b>(173)</b>	<b>(374)</b>	<b>(836)</b>

### Credit quality by geographic region

The following table sets out the credit quality for gross loans and advances to customers and banks, held at amortised cost, by geographic region and stage.

#### Loans and advances to customers

	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Gross (stage 1)	136,107	75,561	21,144	23,625	256,437
Provision (stage 1)	(201)	(222)	(96)	(15)	(534)
Gross (stage 2)	7,609	6,162	6,251	2,639	22,661
Provision (stage 2)	(120)	(298)	(255)	(65)	(738)
Gross (stage 3) <sup>2</sup>	1,016	3,774	3,473	951	9,214
Provision (stage 3)	(402)	(2,081)	(2,313)	(545)	(5,341)
<b>Net loans<sup>1</sup></b>	<b>144,009</b>	<b>82,896</b>	<b>28,204</b>	<b>26,590</b>	<b>281,699</b>

	2019				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Gross (stage 1)	126,438	71,045	23,906	24,760	246,149
Provision (stage 1)	(165)	(146)	(79)	(12)	(402)
Gross (stage 2)	7,547	6,461	5,541	1,210	20,759
Provision (stage 2)	(115)	(127)	(117)	(18)	(377)
Gross (stage 3) <sup>2</sup>	716	3,084	2,585	1,013	7,398
Provision (stage 3)	(360)	(2,087)	(1,899)	(658)	(5,004)
<b>Net loans<sup>1</sup></b>	<b>134,061</b>	<b>78,230</b>	<b>29,937</b>	<b>26,295</b>	<b>268,523</b>

1 Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

#### Loans and advances to banks

	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Gross (stage 1)	17,981	13,467	5,539	7,028	44,015
Provision (stage 1)	(3)	(6)	(3)	(2)	(14)
Gross (stage 2)	33	74	207	35	349
Provision (stage 2)	-	(1)	(2)	-	(3)
Gross (stage 3)	-	-	-	-	-
Provision (stage 3)	-	-	-	-	-
<b>Net loans<sup>1</sup></b>	<b>18,011</b>	<b>13,534</b>	<b>5,741</b>	<b>7,061</b>	<b>44,347</b>

	2019				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Gross (stage 1)	19,181	15,458	5,039	12,956	52,634
Provision (stage 1)	(1)	(2)	(1)	(1)	(5)
Gross (stage 2)	136	300	312	176	924
Provision (stage 2)	(2)	(1)	(1)	-	(4)
Gross (stage 3)	-	-	-	-	-
Provision (stage 3)	-	-	-	-	-
<b>Net loans<sup>1</sup></b>	<b>19,314</b>	<b>15,755</b>	<b>5,349</b>	<b>13,131</b>	<b>53,549</b>

1 Includes reverse repurchase agreements and other similar secured lending

## Movement in gross exposures and credit impairment for loans and advances, debt securities, undrawn commitments and financial guarantees (audited)

The tables overleaf set out the movement in gross exposures and credit impairment by stage in respect of amortised cost loans to banks and customers, undrawn commitments, financial guarantees and debt securities classified at amortised cost and FVOCI. The tables are presented for the Group, debt securities and other eligible bills, the Corporate & Institutional Banking, Retail Banking and Commercial Banking segments.

### Methodology

The movement lines within the tables are an aggregation of monthly movements over the year and will therefore reflect the accumulation of multiple trades during the year. The credit impairment charge in the income statement comprises the amounts within the boxes in the table below less recoveries of amounts previously written off. Discount unwind is reported in net interest income and related to stage 3 financial instruments only.

The approach for determining the key line items in the tables is set out below.

- **Transfers** – transfers between stages are deemed to occur at the beginning of a month based on prior month closing balances
- **Net remeasurement from stage changes** – the remeasurement of credit impairment provisions arising from a change in stage is reported within the stage that the assets are transferred to. For example, assets transferred into stage 2 are remeasured from a 12-month to a lifetime expected credit loss, with the effect of remeasurement reported in stage 2. For stage 3, this represents the initial remeasurement from specific provisions recognised on individual assets transferred into stage 3 in the year
- **Net changes in exposures** – new business written less repayments in the year. Within stage 1, new business written will attract up to 12 months of expected credit loss charges. Repayments of non-amortising loans (primarily within Corporate & Institutional Banking and Commercial Banking) will have low amounts of expected credit loss provisions attributed to them, due to the release of provisions over the term to maturity. In stages 2 and 3, the amounts principally reflect repayments, although stage 2 may include new business written where clients are on non-purely precautionary early alert, are credit grade 12, or when non-investment grade debt securities are acquired.
- **Changes in risk parameters** – for stages 1 and 2, this reflects changes in the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of assets during the year, which includes the impact of releasing provisions over the term to maturity. It also includes the effect of changes in forecasts of macroeconomic variables during the year. In stage 3, this line represents additional specific provisions recognised on exposures held within stage 3
- **Interest due but not paid** – change in contractual amount of interest due in stage 3 financial instruments but not paid, being the net of accruals, repayments and write-offs, together with the corresponding change in credit impairment

Changes to ECL models, which incorporates changes to model approaches and methodologies, is not reported as a separate line item as it has an impact over a number of lines and stages.

## Movements during the period

Stage 1 gross exposures increased by \$31 billion to \$643 billion when compared with 31 December 2019. This was largely due to an increase of \$14.7 billion in Retail Banking, of which \$10 billion related to new mortgage lending and \$4.7 billion to credit cards and personal loans (CCPL) and other unsecured lending. Holdings of debt securities also increased, up by \$11 billion primarily due to sovereign exposures. These increases were partly offset by a reduction in Commercial Banking balances, down \$3.4 billion, from a number of corporate repayments mainly in the Greater China & North Asia region. The transfers in Corporate & Institutional Banking and Commercial Banking reflect net outflows to stage 2 as a result of the deteriorating economic conditions and an increase in customers placed on non-purely precautionary early alert and higher risk category.

Total stage 1 provisions increased by \$149 million, primarily in Retail Banking, in part due to a management overlay on the unsecured portfolio for the impact of COVID-19 payment reliefs and lockdowns in the ASEAN & South Asia and Africa & Middle East regions and provision increases from an uptick in delinquencies across these markets.

Stage 2 gross exposures rose by \$1 billion, primarily driven by net inflows into stage 2 in Corporate & Institutional Banking and Commercial Banking as clients were placed on non-purely precautionary early alert where they were impacted by COVID-19 and flows to higher risk accounts. In Corporate & Institutional Banking, stage 2 exposures increased by \$4 billion. Commercial Banking was \$0.8 billion lower as net inflows were offset by repayments. Retail Banking loans were \$1 billion lower from repayments and stage transfers in the secured mortgage portfolio. Stage 2 debt securities also fell \$1 billion as securities transferred back to stage 1 or were repaid.

Stage 2 provisions rose \$423 million compared with 31 December 2019, \$346 million of which was in Corporate & Institutional Banking and Commercial Banking as a result of net transfers into stage 2 as the macroeconomic environment deteriorated, increased non-purely precautionary balances and a net \$188 million management overlay that was recognised in 'Changes in risk parameters' in respect of COVID-19 related uncertainties. Retail Banking increased by \$78 million as a result of net transfers into stage 2 due to deteriorating macroeconomic conditions and a management overlay for the impact of COVID-19 payment-related reliefs in the ASEAN & South Asia and Africa & Middle East regions, particularly in the unsecured portfolios, which form 81 per cent of total Retail provisions.

Across all segments, the significant deterioration in macroeconomic forecasts across all markets increased provisions by \$81 million.

There was a net \$39 million release of provisions from model changes in the year to 31 December 2020, of which Corporate & Institutional Banking and Commercial Banking had a release of \$48 million and Retail Banking had a charge of \$9 million. Stage 3 exposures increased by \$2 billion from \$8.1 billion as at 31 December 2019 to \$10.1 billion as at 31 December 2020. This was driven by an increase of \$1.4 billion in Corporate & Institutional Banking clients from new downgrades during the year, which have low coverage as they are partially covered by credit insurance and guarantees, including export credit agencies. Stage 3 provisions at \$5.6 billion increased by \$338 million from 31 December 2019. Corporate & Institutional Banking and Commercial Banking provisions increased by \$115 million. Retail Banking provisions increased by \$195 million, mainly from the secured portfolio in the ASEAN & South Asia region. Across all segments, additional provisions of \$1.7 billion were offset by \$1.9 billion of write-offs.

## All segments (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2019</b>	592,481	(531)	591,950	42,324	(500)	41,824	9,382	(6,214)	3,168	644,187	(7,245)	636,942
Transfers to stage 1	28,552	(582)	27,970	(28,552)	582	(27,970)	–	–	–	–	–	–
Transfers to stage 2	(67,790)	157	(67,633)	67,983	(171)	67,812	(193)	14	(179)	–	–	–
Transfers to stage 3	(121)	–	(121)	(2,179)	314	(1,865)	2,300	(314)	1,986	–	–	–
Net change in exposures	60,374	(256)	60,118	(40,499)	24	(40,475)	(1,434)	307	(1,127)	18,441	75	18,516
Net remeasurement from stage changes	–	196	196	–	(171)	(171)	–	(406)	(406)	–	(381)	(381)
Changes in risk parameters	–	434	434	–	(489)	(489)	–	(787)	(787)	–	(842)	(842)
Write-offs	–	–	–	–	–	–	(1,795)	1,795	–	(1,795)	1,795	–
Interest due but unpaid	–	–	–	–	–	–	(365)	365	–	(365)	365	–
Discount unwind	–	–	–	–	–	–	–	82	82	–	82	82
Exchange translation differences and other movements <sup>1</sup>	(1,092)	68	(1,024)	(290)	(47)	(337)	187	(97)	90	(1,195)	(76)	(1,271)
<b>As at 31 December 2019<sup>2</sup></b>	612,404	(514)	611,890	38,787	(458)	38,329	8,082	(5,255)	2,827	659,273	(6,227)	653,046
Income statement ECL (charge)/release <sup>3</sup>		374			(636)			(886)			(1,148)	
Recoveries of amounts previously written off		–			–			248			248	
<b>Total credit impairment (charge)/release</b>		374			(636)			(638)			(900)	
<b>As at 1 January 2020</b>	<b>612,404</b>	<b>(514)</b>	<b>611,890</b>	<b>38,787</b>	<b>(458)</b>	<b>38,329</b>	<b>8,082</b>	<b>(5,255)</b>	<b>2,827</b>	<b>659,273</b>	<b>(6,227)</b>	<b>653,046</b>
Transfers to stage 1	46,437	(712)	45,725	(46,393)	712	(45,681)	(44)	–	(44)	–	–	–
Transfers to stage 2	(91,067)	430	(90,637)	91,176	(431)	90,745	(109)	1	(108)	–	–	–
Transfers to stage 3	(451)	1	(450)	(4,684)	266	(4,418)	5,135	(267)	4,868	–	–	–
Net change in exposures <sup>5</sup>	63,223	(119)	63,104	(39,610)	142	(39,468)	(1,544)	233	(1,311)	22,069	256	22,325
Net remeasurement from stage changes	–	88	88	–	(409)	(409)	–	(789)	(789)	–	(1,110)	(1,110)
Changes in risk parameters	–	17	17	–	(546)	(546)	–	(1,186)	(1,186)	–	(1,715)	(1,715)
Write-offs	–	–	–	–	–	–	(1,913)	1,913	–	(1,913)	1,913	–
Interest due but unpaid	–	–	–	–	–	–	231	(231)	–	231	(231)	–
Discount unwind	–	–	–	–	–	–	–	85	85	–	85	85
Exchange translation differences and other movements <sup>1</sup>	12,414	146	12,560	511	(157)	354	262	(97)	165	13,187	(108)	13,079
<b>As at 31 December 2020<sup>2</sup></b>	<b>642,960</b>	<b>(663)</b>	<b>642,297</b>	<b>39,787</b>	<b>(881)</b>	<b>38,906</b>	<b>10,100</b>	<b>(5,593)</b>	<b>4,507</b>	<b>692,847</b>	<b>(7,137)</b>	<b>685,710</b>
Income statement ECL (charge)/release <sup>3</sup>		(14)			(813)			(1,742)			(2,569)	
Recoveries of amounts previously written off		–			–			242			242	
<b>Total credit impairment (charge)/release<sup>4</sup></b>		(14)			(813)			(1,500)			(2,327)	

1 Includes fair value adjustments and amortisation on debt securities

2 Excludes Cash and balances at central banks, Accrued income, Assets held for sale and Other assets

3 Does not include \$2 million release (31 December 2019: \$8 million provision) relating to Other assets

4 Statutory basis

5 Stage 3 gross includes \$38 million originated credit-impaired debt securities

Of which – movement of debt securities, alternative tier one and other eligible bills (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2019</b>	118,713	(27)	118,686	6,909	(31)	6,878	498	(472)	26	126,120	(530)	125,590
Transfers to stage 1	2,747	(38)	2,709	(2,747)	38	(2,709)	–	–	–	–	–	–
Transfers to stage 2	(2,359)	16	(2,343)	2,359	(16)	2,343	–	–	–	–	–	–
Transfers to stage 3	–	–	–	(1)	–	(1)	1	–	1	–	–	–
Net change in exposures	19,314	(52)	19,262	(1,237)	(9)	(1,246)	–	–	–	18,077	(61)	18,016
Net remeasurement from stage changes	–	27	27	–	(4)	(4)	–	–	–	–	23	23
Changes in risk parameters	–	27	27	–	(5)	(5)	–	7	7	–	29	29
Write-offs	–	–	–	–	–	–	(170)	170	–	(170)	170	–
Interest due but unpaid	–	–	–	–	–	–	(247)	247	–	(247)	247	–
Exchange translation differences and other movements <sup>1</sup>	367	(3)	364	(639)	4	(635)	(7)	3	(4)	(279)	4	(275)
<b>As at 31 December 2019</b>	138,782	(50)	138,732	4,644	(23)	4,621	75	(45)	30	143,501	(118)	143,383
Income statement ECL (charge)/release		2			(18)			7			(9)	
Recoveries of amounts previously written off		–			–			–			–	
<b>Total credit impairment (charge)/release</b>		2			(18)			7			(9)	
<b>As at 1 January 2020</b>	138,782	(50)	138,732	4,644	(23)	4,621	75	(45)	30	143,501	(118)	143,383
Transfers to stage 1	1,732	(28)	1,704	(1,732)	28	(1,704)	–	–	–	–	–	–
Transfers to stage 2	(1,151)	18	(1,133)	1,151	(18)	1,133	–	–	–	–	–	–
Transfers to stage 3	–	–	–	–	–	–	–	–	–	–	–	–
Net change in exposures <sup>2</sup>	5,298	(35)	5,263	(470)	11	(459)	39	–	39	4,867	(24)	4,843
Net remeasurement from stage changes	–	16	16	–	(26)	(26)	–	–	–	–	(10)	(10)
Changes in risk parameters	–	15	15	–	(5)	(5)	–	(6)	(6)	–	4	4
Write-offs	–	–	–	–	–	–	–	–	–	–	–	–
Interest due but unpaid	–	–	–	–	–	–	–	–	–	–	–	–
Exchange translation differences and other movements <sup>1</sup>	4,655	8	4,663	(87)	7	(80)	–	(7)	(7)	4,568	8	4,576
<b>As at 31 December 2020</b>	149,316	(56)	149,260	3,506	(26)	3,480	114	(58)	56	152,936	(140)	152,796
Income statement ECL (charge)/release		4			(20)			(6)			(30)	
Recoveries of amounts previously written off		–			–			–			–	
<b>Total credit impairment (charge)/release</b>		4			(20)			(6)			(30)	

1 Includes fair value adjustments and amortisation on debt securities

2 Stage 3 gross includes \$38 million originated credit-impaired debt securities

## Corporate &amp; Institutional Banking (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2019<sup>1</sup></b>	269,648	(141)	269,507	18,431	(226)	18,205	5,385	(3,378)	2,007	293,464	(3,745)	289,719
Transfers to stage 1	16,555	(145)	16,410	(16,555)	145	(16,410)	–	–	–	–	–	–
Transfers to stage 2	(43,141)	39	(43,102)	43,326	(51)	43,275	(185)	12	(173)	–	–	–
Transfers to stage 3	–	–	–	(1,095)	122	(973)	1,095	(122)	973	–	–	–
Net change in exposures	18,368	(124)	18,244	(22,387)	25	(22,362)	(840)	205	(635)	(4,859)	106	(4,753)
Net remeasurement from stage changes	–	41	41	–	(70)	(70)	–	(219)	(219)	–	(248)	(248)
Changes in risk parameters	–	187	187	–	(145)	(145)	–	(368)	(368)	–	(326)	(326)
Write-offs	–	–	–	–	–	–	(658)	658	–	(658)	658	–
Interest due but unpaid	–	–	–	–	–	–	(48)	48	–	(48)	48	–
Discount unwind	–	–	–	–	–	–	–	38	38	–	38	38
Exchange translation differences and other movements <sup>1</sup>	115	23	138	764	14	778	(16)	(45)	(61)	863	(8)	855
<b>As at 31 December 2019</b>	261,545	(120)	261,425	22,484	(186)	22,298	4,733	(3,171)	1,562	288,762	(3,477)	285,285
Income statement ECL (charge)/release <sup>2</sup>		104			(190)			(382)			(468)	
Recoveries of amounts previously written off		–			–			–			–	
<b>Total credit impairment (charge)/release</b>		104			(190)			(382)			(468)	
<b>As at 1 January 2020</b>	261,545	(120)	261,425	22,484	(186)	22,298	4,733	(3,171)	1,562	288,762	(3,477)	285,285
Transfers to stage 1	29,811	(236)	29,575	(29,811)	236	(29,575)	–	–	–	–	–	–
Transfers to stage 2	(64,059)	161	(63,898)	64,091	(162)	63,929	(32)	1	(31)	–	–	–
Transfers to stage 3	(330)	–	(330)	(2,987)	59	(2,928)	3,317	(59)	3,258	–	–	–
Net change in exposures	31,954	(31)	31,923	(27,936)	33	(27,903)	(925)	172	(753)	3,093	174	3,267
Net remeasurement from stage changes	–	13	13	–	(146)	(146)	–	(559)	(559)	–	(692)	(692)
Changes in risk parameters	–	44	44	–	(234)	(234)	–	(540)	(540)	–	(730)	(730)
Write-offs	–	–	–	–	–	–	(907)	907	–	(907)	907	–
Interest due but unpaid	–	–	–	–	–	–	32	(32)	–	32	(32)	–
Discount unwind	–	–	–	–	–	–	–	40	40	–	40	40
Exchange translation differences and other movements	3,114	53	3,167	653	(82)	571	(52)	2	(50)	3,715	(27)	3,689
<b>As at 31 December 2020</b>	262,035	(116)	261,919	26,494	(482)	26,012	6,166	(3,239)	2,927	294,695	(3,837)	290,858
Income statement ECL (charge)/release <sup>2</sup>		26			(347)			(927)			(1,248)	
Recoveries of amounts previously written off		–			–			18			18	
<b>Total credit impairment (charge)/release</b>		26			(347)			(909)			(1,230)	

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Commercial Banking

2 Does not include \$2 million release (31 December 2019: \$8 million provision) relating to Other assets

## Retail Banking (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2019<sup>1</sup></b>	134,154	(313)	133,841	8,963	(132)	8,831	832	(394)	438	143,949	(839)	143,110
Transfers to stage 1	5,301	(355)	4,946	(5,301)	355	(4,946)	–	–	–	–	–	–
Transfers to stage 2	(8,279)	82	(8,197)	8,279	(82)	8,197	–	–	–	–	–	–
Transfers to stage 3	(117)	1	(116)	(517)	165	(352)	634	(166)	468	–	–	–
Net change in exposures	9,303	(15)	9,288	(6,020)	49	(5,971)	(290)	–	(290)	2,993	34	3,027
Net remeasurement from stage changes	–	122	122	–	(86)	(86)	–	(81)	(81)	–	(45)	(45)
Changes in risk parameters	–	153	153	–	(398)	(398)	–	(327)	(327)	–	(572)	(572)
Write-offs	–	–	–	–	–	–	(586)	586	–	(586)	586	–
Interest due but unpaid	–	–	–	–	–	–	–	–	–	–	–	–
Discount unwind	–	–	–	–	–	–	–	28	28	–	28	28
Exchange translation differences and other movements <sup>1</sup>	(566)	26	(540)	(79)	(50)	(129)	256	(20)	236	(389)	(44)	(433)
<b>As at 31 December 2019</b>	139,796	(299)	139,497	5,325	(179)	5,146	846	(374)	472	145,967	(852)	145,115
Income statement ECL (charge)/release		260			(435)			(408)			(583)	
Recoveries of amounts previously written off		–			–			247			247	
<b>Total credit impairment (charge)/release</b>		260			(435)			(161)			(336)	
<b>As at 1 January 2020</b>	<b>139,796</b>	<b>(299)</b>	<b>139,497</b>	<b>5,325</b>	<b>(179)</b>	<b>5,146</b>	<b>846</b>	<b>(374)</b>	<b>472</b>	<b>145,967</b>	<b>(852)</b>	<b>145,115</b>
Transfers to stage 1	7,421	(372)	7,049	(7,377)	372	(7,005)	(44)	–	(44)	–	–	–
Transfers to stage 2	(8,866)	206	(8,660)	8,940	(206)	8,734	(74)	–	(74)	–	–	–
Transfers to stage 3	(113)	1	(112)	(908)	184	(724)	1,021	(185)	836	–	–	–
Net change in exposures	12,409	(35)	12,374	(1,738)	71	(1,667)	(277)	–	(277)	10,394	36	10,430
Net remeasurement from stage changes	–	57	57	–	(194)	(194)	–	(89)	(89)	–	(226)	(226)
Changes in risk parameters	–	(67)	(67)	–	(246)	(246)	–	(432)	(432)	–	(745)	(745)
Write-offs	–	–	–	–	–	–	(696)	696	–	(696)	696	–
Interest due but unpaid	–	–	–	–	–	–	98	(98)	–	98	(98)	–
Discount unwind	–	–	–	–	–	–	–	25	25	–	25	25
Exchange translation differences and other movements	3,821	73	3,894	95	(59)	36	299	(112)	187	4,215	(98)	4,117
<b>As at 31 December 2020</b>	<b>154,468</b>	<b>(436)</b>	<b>154,032</b>	<b>4,337</b>	<b>(257)</b>	<b>4,080</b>	<b>1,173</b>	<b>(569)</b>	<b>604</b>	<b>159,978</b>	<b>(1,262)</b>	<b>158,716</b>
Income statement ECL (charge)/release		(45)			(369)			(521)			(935)	
Recoveries of amounts previously written off		–			–			220			220	
<b>Total credit impairment (charge)/release</b>		<b>(45)</b>			<b>(369)</b>			<b>(301)</b>			<b>(715)</b>	

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers from Commercial Banking

## Retail Banking – Secured (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2020</b>	89,861	(15)	89,846	4,242	(18)	4,224	413	(143)	270	94,516	(176)	94,340
Transfers to stage 1	5,462	(24)	5,438	(5,429)	24	(5,405)	(33)	–	(33)	–	–	–
Transfers to stage 2	(5,632)	10	(5,622)	5,695	(10)	5,685	(63)	–	(63)	–	–	–
Transfers to stage 3	(55)	–	(55)	(396)	6	(390)	451	(6)	445	–	–	–
Net change in exposures	7,993	(6)	7,987	(1,005)	1	(1,004)	(87)	–	(87)	6,901	(5)	6,896
Net remeasurement from stage changes	–	1	1	–	(7)	(7)	–	(11)	(11)	–	(17)	(17)
Changes in risk parameters	–	(1)	(1)	–	(54)	(54)	–	(97)	(97)	–	(152)	(152)
Write-offs	–	–	–	–	–	–	(104)	104	–	(104)	104	–
Interest due but unpaid	–	–	–	–	–	–	82	(82)	–	82	(82)	–
Discount unwind	–	–	–	–	–	–	–	4	4	–	4	4
Exchange translation differences and other movements	2,243	(28)	2,215	59	8	67	11	(26)	(15)	2,313	(46)	2,267
<b>As at 31 December 2020</b>	99,872	(63)	99,809	3,166	(50)	3,116	670	(257)	413	103,708	(370)	103,338
Income statement ECL (charge)/release		(6)			(60)			(108)			(174)	
Recoveries of amounts previously written off		–			–			50			50	
<b>Total credit impairment (charge)/release</b>		(6)			(60)			(58)			(124)	

## Retail Banking – Unsecured (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2020</b>	49,935	(284)	49,651	1,083	(161)	922	433	(231)	202	51,451	(676)	50,775
Transfers to stage 1	1,959	(348)	1,611	(1,948)	348	(1,600)	(11)	–	(11)	–	–	–
Transfers to stage 2	(3,234)	196	(3,038)	3,245	(196)	3,049	(11)	–	(11)	–	–	–
Transfers to stage 3	(58)	1	(57)	(512)	178	(334)	570	(179)	391	–	–	–
Net change in exposures	4,416	(29)	4,387	(733)	70	(663)	(190)	–	(190)	3,493	41	3,534
Net remeasurement from stage changes	–	56	56	–	(187)	(187)	–	(78)	(78)	–	(209)	(209)
Changes in risk parameters	–	(66)	(66)	–	(192)	(192)	–	(335)	(335)	–	(593)	(593)
Write-offs	–	–	–	–	–	–	(592)	592	–	(592)	592	–
Interest due but unpaid	–	–	–	–	–	–	16	(16)	–	16	(16)	–
Discount unwind	–	–	–	–	–	–	–	21	21	–	21	21
Exchange translation differences and other movements	1,578	101	1,679	36	(67)	(31)	288	(86)	202	1,092	(52)	1,850
<b>As at 31 December 2020</b>	54,596	(373)	54,223	1,171	(207)	964	503	(312)	191	56,270	(892)	55,378
Income statement ECL (charge)/release		(39)			(309)			(413)			(761)	
Recoveries of amounts previously written off		–			–			170			170	
<b>Total credit impairment (charge)/release</b>		(39)			(309)			(243)			(591)	

# Commercial Banking (audited)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million	Gross balance \$million	Total credit impairment \$million	Net \$million
<b>Amortised cost and FVOCI</b>												
<b>As at 1 January 2019<sup>1</sup></b>	34,338	(39)	34,299	7,255	(109)	7,146	2,368	(1,803)	565	43,961	(1,951)	42,010
Transfers to stage 1	3,082	(42)	3,040	(3,082)	42	(3,040)	–	–	–	–	–	–
Transfers to stage 2	(11,878)	20	(11,858)	11,886	(22)	11,864	(8)	2	(6)	–	–	–
Transfers to stage 3	(4)	–	(4)	(465)	26	(439)	469	(26)	443	–	–	–
Net change in exposures	9,186	(70)	9,116	(8,864)	(38)	(8,902)	(263)	96	(167)	59	(12)	47
Net remeasurement from stage changes	–	5	5	–	(11)	(11)	–	(107)	(107)	–	(113)	(113)
Changes in risk parameters	–	69	69	–	58	58	–	(124)	(124)	–	3	3
Write-offs	–	–	–	–	–	–	(380)	380	–	(380)	380	–
Interest due but unpaid	–	–	–	–	–	–	(87)	87	–	(87)	87	–
Discount unwind	–	–	–	–	–	–	–	13	13	–	13	13
Exchange translation differences and other movements <sup>1</sup>	(886)	19	(867)	(689)	(13)	(702)	(37)	(35)	(72)	(1,612)	(29)	(1,641)
<b>As at 31 December 2019</b>	33,838	(38)	33,800	6,041	(67)	5,974	2,062	(1,517)	545	41,941	(1,622)	40,319
Income statement ECL (charge)/release		4			9			(135)			(122)	
Recoveries of amounts previously written off		–			–			1			1	
<b>Total credit impairment (charge)/release</b>		4			9			(134)			(121)	
<b>As at 1 January 2020</b>	33,838	(38)	33,800	6,041	(67)	5,974	2,062	(1,517)	545	41,941	(1,622)	40,319
Transfers to stage 1	7,369	(74)	7,295	(7,369)	74	(7,295)	–	–	–	–	–	–
Transfers to stage 2	(15,823)	43	(15,780)	15,826	(43)	15,783	(3)	–	(3)	–	–	–
Transfers to stage 3	(7)	–	(7)	(678)	23	(655)	685	(23)	662	–	–	–
Net change in exposures	4,651	(20)	4,631	(8,427)	26	(8,401)	(276)	59	(217)	(4,052)	65	(3,987)
Net remeasurement from stage changes	–	2	2	–	(42)	(42)	–	(141)	(141)	–	(181)	(181)
Changes in risk parameters	–	25	25	–	(61)	(61)	–	(202)	(202)	–	(238)	(238)
Write-offs	–	–	–	–	–	–	(309)	309	–	(309)	309	–
Interest due but unpaid	–	–	–	–	–	–	83	(83)	–	83	(83)	–
Discount unwind	–	–	–	–	–	–	–	14	14	–	14	14
Exchange translation differences and other movements	390	24	414	(145)	(27)	(172)	14	20	34	259	17	276
<b>As at 31 December 2020</b>	30,418	(38)	30,380	5,248	(117)	5,131	2,256	(1,564)	692	37,922	(1,719)	36,203
Income statement ECL (charge)/release		7			(77)			(284)			(354)	
Recoveries of amounts previously written off		–			–			4			4	
<b>Total credit impairment (charge)/release</b>		7			(77)			(280)			(350)	

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Corporate & Institutional Banking and to Retail Banking

## Analysis of stage 2 balances

The table below analyses stage 2 gross exposures and associated expected credit provisions by the key significant increase in credit risk (SICR) driver that caused the exposures to be classified as stage 2 as at 31 December 2020. This may not be the same driver that caused the initial transfer into stage 2.

Where multiple drivers apply, the exposure is allocated based on the table order. For example, a loan may have breached the PD thresholds and could also be on non-purely precautionary early alert; in this instance, the exposure is reported under 'Increase in PD'.

	2020											
	Corporate & Institutional Banking		Retail Banking		Commercial Banking		Private Banking		Central & Other		Total	
	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %
Increase in PD	62%	84%	87%	84%	61%	71%	-	-	85%	47%	64%	80%
Non-purely precautionary early alert	21%	6%	-	-	26%	9%	-	-	-	-	18%	5%
Higher risk (CG12)	2%	7%	-	-	5%	19%	-	-	9%	44%	3%	8%
Sub-investment grade	1%	1%	-	-	1%	0%	-	-	-	-	1%	0%
30 days past due	-	-	8%	15%	-	-	1%	4%	-	-	1%	5%
Others	14%	2%	5%	1%	7%	1%	99%	96%	6%	9%	13%	2%
Total stage 2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	2019											
	Corporate & Institutional Banking		Retail Banking		Commercial Banking		Private Banking		Central & Other		Total	
	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %
Increase in PD	49%	52%	94%	76%	67%	57%	-	-	43%	31%	60%	62%
Non-purely precautionary early alert	22%	12%	-	-	9%	8%	-	-	-	-	14%	6%
Higher risk (CG12)	6%	28%	-	-	5%	26%	-	-	-	-	3%	15%
Sub-investment grade	1%	3%	-	-	4%	2%	-	-	53%	63%	5%	4%
30 days past due	-	-	4%	22%	-	-	-	-	-	-	1%	9%
Others	22%	5%	2%	2%	15%	7%	100%	100%	4%	6%	17%	4%
Total stage 2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The majority of exposures and the associated expected credit loss provisions continue to be in stage 2 due to increases in the probability of default.

Although the amount of exposures placed on non-purely precautionary early alert during the year increased in Corporate & Institutional Banking and Commercial Banking, a number of those exposures in Corporate & Institutional Banking had breached the SICR PD thresholds by the end of 2020 and have been classified into that category.

15 per cent of the provisions held against stage 2 Retail Banking exposures arise from the application of the 30 days past due backstop, although this represents only 8 per cent of exposures. The proportion of PD driven gross inflows into stage 2 has reduced compared with 2019, reflecting the impact of COVID-19 relief measures, which were in place for much of 2020.

Debt securities are largely held in the Group's Treasury business in Central & Others. Debt securities originated prior to 1 January 2018 that had a sub-investment grade rating were allocated into stage 2. For debt securities originated after 1 January 2018, SICR is assessed based on the relative and absolute increases in PD. Central & Others has seen a significant increase in the CG 12 category in 2020 primarily due to newly downgraded sovereign counterparties in the Africa & Middle East region.

'Others' primarily incorporates exposures where origination data is incomplete and the exposures are allocated into stage 2. Significant increase in credit risk for Private Banking clients is assessed by referencing the nature and level of collateral against which credit is extended.

### Credit impairment charge (audited)

The underlying credit impairment charge is \$2.3 billion, up \$1.4 billion compared with 2019. Stage 3 is \$823 million higher at \$1.5 billion, of which more than 60 per cent is from Corporate & Institutional Banking.

Stage 1 and stage 2 impairments have also increased by \$565 million to \$827 million (2019: \$262 million), of which more than half of the increase is due to management overlays of \$353 million, with the remainder due to deteriorating macroeconomic forecasts and stage downgrades as a result of COVID-19 related uncertainties.

Corporate & Institutional Banking stage 3 impairments were \$0.9 billion (2019: \$0.4 billion), mainly from three significant but unrelated downgrades in the first quarter of 2020. Commercial Banking stage 3 impairment was slightly higher at \$0.2 billion (2019: \$0.1 billion) due to a few new client downgrades, reflecting in part the impact of the pandemic.

Stage 1 and stage 2 Corporate & Institutional Banking and Commercial Banking segments were \$321 million and \$70 million respectively (2019: Corporate & Institutional Banking \$95 million and Commercial Banking \$13 million release), with increases due to the deterioration in macroeconomic forecasts and second order impact of stage downgrades. A judgemental overlay of \$197 million has also been taken, representing an estimate of the impact of further deterioration to the non-purely precautionary early alert portfolio.

Retail stage 3 impairments are higher, particularly in the ASEAN & South Asia region in unsecured products as volatility created by the pandemic resulted in a slowdown in field collections in key markets. Stage 1 and 2 impairment of

\$414 million was driven by higher flows into stage 2 and deterioration in macroeconomic forecasts, as well as a judgemental overlay of \$156 million to account for the expected increase in delinquencies following the expiry of government relief measures.

Private Banking stage 3 impairment charge is \$4 million, compared with a release in 2019 driven by an ASEAN & South Asia client. Stage 1 and 2 impairment saw a release of \$2 million (2019: \$1 million charge).

The Central & Others segment saw stage 1 and 2 impairment of \$24 million (2019: \$4 million) primarily due to stage downgrades of sovereign counterparties in the Africa & Middle East region.

	2020			2019		
	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million
<b>Ongoing business portfolio</b>						
Corporate & Institutional Banking	321	916	1,237	95	380	475
Retail Banking	414	301	715	175	161	336
Commercial Banking	70	246	316	(13)	135	122
Private Banking	(2)	4	2	1	(32)	(31)
Central & Others	24	–	24	4	–	4
<b>Credit impairment charge</b>	<b>827</b>	<b>1,467</b>	<b>2,294</b>	<b>262</b>	<b>644</b>	<b>906</b>
<b>Restructuring business portfolio</b>						
Others <sup>1</sup>	–	31	31	1	1	2
<b>Credit impairment charge</b>	<b>–</b>	<b>31</b>	<b>31</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Total credit impairment charge</b>	<b>827</b>	<b>1,498</b>	<b>2,325</b>	<b>263</b>	<b>645</b>	<b>908</b>

1 There was a net \$31 million impairment (31 December 2019: \$2 million) from the Group's discontinued businesses

### COVID-19 relief measures

COVID-19 payment-related relief measures are in place across most of our markets, particularly focused on Retail and Business Banking customers. These schemes are generally initiated by country regulators and governments. Measures include principal and/or interest moratoria and term extensions, and are generally available to eligible borrowers (those that are current or less than 30 days past due, unless local regulators have specified different criteria). Certain schemes may be restricted to those in industries significantly impacted by COVID-19, such as aviation or consumer services, but are not borrower-specific in nature.

Relief measures are generally mandated or supported by regulators and governments and are available to all eligible customers who request it. However, in a number of countries, particularly in ASEAN & South Asia and Africa & Middle East, compulsory (regulatory approved) moratoria reliefs are applied to all eligible loans unless a customer has specifically asked to opt out.

In most major Retail Banking markets, the period of relief provided is between 6 and 12 months. In some smaller markets, reliefs are in place for 3 months.

COVID-19 related tenor extensions have also been made available to Corporate & Institutional Banking and Commercial Banking clients, primarily for periods between 3 to 9 months, if they are expected to return to normal payments within 12 months.

### Assessment for expected credit losses

COVID-19 payment reliefs that are generally available to a market or industry as a whole and are not borrower-specific in nature have not, on their own, resulted in an automatic change in stage (that is, individual customers are not considered to have experienced a significant increase in credit risk or an improvement in credit risk) nor have they been considered to be forborne.

A customer's stage and past due status reflects their status immediately prior to the granting of the relief, with past due amounts assessed based on the new terms as set out in the temporary payment reliefs.

If a customer requires additional support after the expiry of the initial payment relief period, these will be considered at a borrower level, after taking into account their individual circumstances. Depending on the type of subsequent support provided, these customers may be classified within stage 2 or stage 3.

Where client-level government guarantees are in place, these do not affect staging but are taken into account when determining the level of credit impairment.

### Impact from temporary changes to loan contractual terms

\$3.6 billion of outstanding loan balances are subject to payment relief measures at 31 December 2020. This represents 1 per cent of the Group's gross loans and advances to banks and customers.

The granting of COVID-19 payment-related relief measures may cause a time value of money loss for the Group where interest is not permitted to be compounded (that is, interest charged on interest) or where interest is not permitted to be charged or accrued during the relief period. As set out above, such reliefs do not impact a customer's stage and are not considered to be forborne even though a time value of money loss arises. As the relief periods are relatively short-term in nature, and a small percentage of the total loans outstanding, this has not resulted in a material impact for the Group.

The table below sets out the extent to which payment reliefs are in place across the Group's loan portfolio based on the amount outstanding at 31 December 2020.

The total exposure of the Retail Banking portfolio under moratoria is \$2.4 billion, of which \$1.8 billion (74 per cent) is from residential mortgages, which is secured against properties with an average loan-to-value of less than 40 per cent. A large part of moratoria has ended and thus the portfolio under moratoria reduced from \$8.9 billion at its peak in the first half of the year (a significant portion of which was applied to all eligible loans and generally mandated or supported by regulators) to \$2.4 billion mainly

concentrated in Singapore and Hong Kong, which are largely secured. 16 per cent of the total amounts approved are to Business Banking customers, concentrated in industries that have been materially disrupted, of which over 45 per cent is collateralised by commercial immovable property.

In Corporate & Institutional Banking and Commercial Banking, around 54 per cent of the amounts outstanding have a remaining tenor of 90 days or less, and around 19 per cent of the amounts outstanding are to clients in vulnerable sectors.

## COVID-19 relief measures

Segment			Greater China & North Asia		ASEAN & South Asia		Africa & Middle East		Europe & Americas	
	Outstanding \$million	% of portfolio <sup>1</sup>	Outstanding \$million	% of portfolio <sup>1</sup>	Outstanding \$million	% of portfolio <sup>1</sup>	Outstanding \$million	% of portfolio <sup>1</sup>	Outstanding \$million	% of portfolio <sup>1</sup>
Credit card & Personal loans	241	2%	23	0%	90	0%	128	7%		
Residential mortgages	1,758	2%	526	1%	1,202	7%	30	1%		
Business banking	373	3%	103	2%	262	4%	8	1%		
<b>Total Retail Banking</b>	<b>2,372</b>	<b>2%</b>	<b>652</b>	<b>1%</b>	<b>1,554</b>	<b>5%</b>	<b>166</b>	<b>3%</b>		
<b>Corporate &amp; Institutional Banking</b>	727		51		320		336		20	
<b>Commercial Banking</b>	468		262		113		93		–	
<b>Total at 31 December 2020</b>	<b>3,567</b>	<b>1%</b>	<b>965</b>		<b>1,987</b>		<b>595</b>		<b>20</b>	

<sup>1</sup> Percentage of portfolio represents the outstanding amount at 31 December 2020 as a percentage of the gross loans and advances to banks and customers by product and segment and total loans and advances to banks and customers at 31 December 2020

## Problem credit management and provisioning (audited)

### Forborne and other modified loans by client segment

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

The table below presents loans with forbearance measures by segment.

	2020				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
<b>Amortised cost</b>					
All loans with forbearance measures	2,138	376	752	327	3,593
Credit impairment (stage 1 and 2)	(2)	–	(1)	(1)	(4)
Credit impairment (stage 3)	(829)	(179)	(551)	(2)	(1,561)
<b>Net carrying value</b>	<b>1,307</b>	<b>197</b>	<b>200</b>	<b>324</b>	<b>2,028</b>
Included within the above table					
<b>Gross performing forborne loans</b>	<b>650</b>	<b>41</b>	<b>48</b>	<b>310</b>	<b>1,049</b>
Modification of terms and conditions <sup>1</sup>	650	41	46	310	1,047
Refinancing <sup>2</sup>	–	–	2	–	2
<b>Impairment provisions</b>	<b>(2)</b>	<b>–</b>	<b>(1)</b>	<b>(1)</b>	<b>(4)</b>
Modification of terms and conditions <sup>1</sup>	(2)	–	(1)	(1)	(4)
Refinancing <sup>2</sup>	–	–	–	–	–
Net performing forborne loans	648	41	47	309	1,045
<b>Collateral</b>	<b>307</b>	<b>23</b>	<b>22</b>	<b>–</b>	<b>352</b>
<b>Gross non-performing forborne loans</b>	<b>1,488</b>	<b>335</b>	<b>704</b>	<b>17</b>	<b>2,544</b>
Modification of terms and conditions <sup>1</sup>	1,373	335	649	17	2,374
Refinancing <sup>2</sup>	115	–	55	–	170
<b>Impairment provisions</b>	<b>(829)</b>	<b>(179)</b>	<b>(551)</b>	<b>(2)</b>	<b>(1,561)</b>
Modification of terms and conditions <sup>1</sup>	(750)	(179)	(498)	(2)	(1,429)
Refinancing <sup>2</sup>	(79)	–	(53)	–	(132)
Net non-performing forborne loans	659	156	153	15	983
<b>Collateral</b>	<b>223</b>	<b>38</b>	<b>66</b>	<b>9</b>	<b>336</b>

	2019				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
<b>Amortised cost</b>					
All loans with forbearance measures	1,533	344	767	–	2,644
Credit impairment (stage 1 and 2)	(13)	–	(4)	–	(17)
Credit impairment (stage 3)	(748)	(169)	(558)	–	(1,475)
<b>Net carrying value</b>	772	175	205	–	1,152
Included within the above table					
<b>Gross performing forborne loans</b>	421	19	49	–	489
Modification of terms and conditions <sup>1</sup>	421	19	44	–	484
Refinancing <sup>2</sup>	–	–	5	–	5
<b>Impairment provisions</b>	(13)	–	(4)	–	(17)
Modification of terms and conditions <sup>1</sup>	(13)	–	(4)	–	(17)
Refinancing <sup>2</sup>	–	–	–	–	–
Net performing forborne loans	408	19	45	–	472
<b>Collateral</b>	62	19	22	–	103
<b>Gross non-performing forborne loans</b>	1,112	325	718	–	2,155
Modification of terms and conditions <sup>1</sup>	1,071	325	696	–	2,092
Refinancing <sup>2</sup>	41	–	22	–	63
<b>Impairment provisions</b>	(748)	(169)	(558)	–	(1,475)
Modification of terms and conditions <sup>1</sup>	(717)	(169)	(544)	–	(1,430)
Refinancing <sup>2</sup>	(31)	–	(14)	–	(45)
Net non-performing forborne loans	364	156	160	–	680
<b>Collateral</b>	190	156	99	–	445

1 Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers

2 Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

#### Forborne and other modified loans by region

	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Performing forborne loans	38	97	585	325	1,045
Stage 3 forborne loans	238	401	164	180	983
<b>Net forborne loans</b>	276	498	749	505	2,028

	2019				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Performing forborne loans	100	251	110	11	472
Stage 3 forborne loans	177	173	148	182	680
<b>Net forborne loans</b>	277	424	258	193	1,152

**Credit-impaired (stage 3) loans and advances by client segment (audited)**

Gross stage 3 loans for the Group have increased to \$9.2 billion (2019: \$7.4 billion), driven by inflows of \$3.6 billion from new downgrades particularly in the Corporate & Institutional Banking and Commercial Banking segments which were offset by repayments and write-offs during the year. Inflows in 2020 were mainly in the ASEAN & South Asia and Africa & Middle East regions, driven by significant clients across unrelated sectors downgraded in Corporate & Institutional Banking.

Stage 3 loans in the Retail Banking portfolio increased by \$0.3 billion driven by the impact of COVID-19 on the portfolio, but remains at 1 per cent of total Retail loans.

Gross stage 3 loans in Private Banking remained stable at \$0.4 billion.

**Stage 3 cover ratio (audited)**

The stage 3 cover ratio measures the proportion of stage 3 impairment provisions to gross stage 3 loans, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of stage 3 loans and should be used in conjunction with other Credit Risk information provided, including the level of collateral cover.

The balance of stage 3 loans not covered by stage 3 impairment provisions represents the adjusted value of collateral held and the net outcome of any workout or recovery strategies.

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

The Corporate & Institutional Banking cover ratio decreased by 15 percentage points to 56 per cent as a result of write-offs, debt sales and new downgrades that have low levels of coverage as they benefit from collateral. The tangible collateral cover ratio is 14 per cent lower than 2019 at 69 per cent, as new downgrades are partially covered by credit insurance and guarantees, including export credit agencies which are not included in collateral cover.

The Commercial Banking cover ratio reduced to 72 per cent from 75 per cent mainly due to write-offs of heavily impaired exposures.

The Retail Banking cover ratio increased to 49 per cent from 44 per cent.

The Private Banking cover ratio increased to 42 per cent. Private Banking clients remain highly collateralised and the cover ratio after collateral remained broadly stable at 99 per cent.

	2020				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
<b>Amortised cost</b>					
Gross credit-impaired	5,506	1,173	2,146	389	9,214
Credit impairment provisions	(3,065)	(569)	(1,545)	(162)	(5,341)
Net credit-impaired	2,441	604	601	227	3,873
<b>Cover ratio</b>	56%	49%	72%	42%	58%
Collateral (\$ million)	737	419	326	224	1,706
<b>Cover ratio (after collateral)</b>	69%	84%	87%	99%	76%

	2019				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
<b>Amortised cost</b>					
Gross credit-impaired	4,173	846	2,013	366	7,398
Credit impairment provisions	(2,980)	(374)	(1,503)	(147)	(5,004)
Net credit-impaired	1,193	472	510	219	2,394
<b>Cover ratio</b>	71%	44%	75%	40%	68%
Collateral (\$ million)	497	286	263	211	1,257
<b>Cover ratio (after collateral)</b>	83%	78%	88%	98%	85%

**Credit-impaired (stage 3) loans and advances by geographic region**

Stage 3 gross loans increased by \$1.8 billion or 25 per cent compared with 31 December 2019. The increase was primarily driven by a few clients in ASEAN & South Asia and Africa & Middle East.

	2020			
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million
<b>Amortised cost</b>				
Gross credit-impaired	1,016	3,774	3,473	951
Credit impairment provisions	(402)	(2,081)	(2,313)	(545)
Net credit-impaired	614	1,693	1,160	406
<b>Cover ratio</b>	40%	55%	67%	57%

	2019				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
Gross credit-impaired	716	3,084	2,585	1,013	7,398
Credit impairment provisions	(360)	(2,087)	(1,899)	(658)	(5,004)
Net credit-impaired	356	997	686	355	2,394
<b>Cover ratio</b>	50%	68%	73%	65%	68%

### Movement of credit-impaired (stage 3) loans and advances provisions by client segment (audited)

Credit impairment provisions as at 31 December 2020 was \$5.3 billion, compared with \$5.0 billion as at 31 December 2019, with more than half of the increase from Retail Banking due to the impact of COVID-19 and in Corporate & Institutional Banking due to new inflows offset by write-offs.

The following table shows the movement of credit-impaired (stage 3) provisions for each client segment.

	2020				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total <sup>2</sup> \$million
<b>Amortised cost</b>					
<b>Gross credit-impaired loans at 31 December</b>	<b>5,506</b>	<b>1,173</b>	<b>2,146</b>	<b>389</b>	<b>9,214</b>
<b>Credit impairment allowances at 1 January</b>	<b>2,980</b>	<b>374</b>	<b>1,503</b>	<b>147</b>	<b>5,004</b>
Net transfers into and out of stage 3	58	185	23	–	266
New provisions charge/(release) <sup>1</sup>	548	89	140	1	778
Changes due to risk parameters <sup>1</sup>	480	433	196	5	1,114
Net change in exposures <sup>1</sup>	(119)		(56)	(2)	(177)
Amounts written off <sup>3</sup>	(884)	(696)	(309)	(1)	(1,890)
Interest due but unpaid	32	98	83	17	230
Discount unwind	(40)	(25)	(14)	(7)	(86)
Exchange translation difference	10	111	(21)	2	102
<b>Credit impairment allowances at 31 December</b>	<b>3,065</b>	<b>569</b>	<b>1,545</b>	<b>162</b>	<b>5,341</b>
<b>Net credit impairment</b>	<b>2,441</b>	<b>604</b>	<b>601</b>	<b>227</b>	<b>3,873</b>
Income statement charge/(release) <sup>1</sup>	909	522	280	4	1,715
Recoveries of amounts previously written off	(18)	(221)	(5)	–	(244)
Total income statement charge	891	301	275	4	1,471

	2019				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total <sup>2</sup> \$million
<b>Amortised cost</b>					
<b>Gross credit-impaired loans at 31 December</b>	<b>4,173</b>	<b>846</b>	<b>2,013</b>	<b>366</b>	<b>7,398</b>
<b>Credit impairment allowances at 1 January</b>	<b>3,238</b>	<b>396</b>	<b>1,789</b>	<b>163</b>	<b>5,586</b>
Net transfers into and out of stage 3	111	166	24	–	301
New provisions charge/(release) <sup>1</sup>	177	81	107	–	365
Changes due to risk parameters <sup>1</sup>	335	327	122	(26)	758
Net change in exposures <sup>1</sup>	(170)		(96)	(6)	(272)
Amounts written off <sup>3</sup>	(658)	(585)	(380)	(2)	(1,625)
Interest due but unpaid	(48)		(87)	17	(118)
Discount unwind	(38)	(28)	(13)	(4)	(83)
Exchange translation difference	33	17	37	5	92
<b>Credit impairment allowances at 31 December</b>	<b>2,980</b>	<b>374</b>	<b>1,503</b>	<b>147</b>	<b>5,004</b>
<b>Net credit impairment</b>	<b>1,193</b>	<b>472</b>	<b>510</b>	<b>219</b>	<b>2,394</b>
Income statement charge/(release) <sup>1</sup>	342	408	133	(32)	851
Recoveries of amounts previously written off	–	(247)	(1)	–	(248)
Total income statement charge	342	161	132	(32)	603

1 Components of the income statement charge/(release)

2 Excludes credit impairment relating to loan commitments and financial guarantees

3 In Retail Banking \$589 million (2019: \$492 million) of the amounts written off remains subject to enforcement activity

## Credit Risk mitigation

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

The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

### Collateral (audited)

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

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was \$313 billion in 2020 (2019: \$280 billion).

The collateral values in the table below (which covers loans and advances to banks and customers, excluding those held at fair value through profit or loss) are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. The extent of over-collateralisation has been determined with reference to both the drawn and undrawn components of exposure as this best reflects the effect of collateral and other credit enhancements on the amounts arising from expected credit losses. The value of collateral reflects management's best estimate and is backtested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value. In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. Total collateral for Retail Banking has increased by \$9 billion to \$91 billion due to an increase in mortgages.

Private Banking collateral is \$9 billion, a slight decrease driven by reductions in the secured wealth portfolio.

Total collateral for Central & other items increased by \$1.3 billion compared with 2019 due to an increase in lending under reverse repurchase agreements.

### Collateral held on loans and advances

The table below details collateral held against exposures, separately disclosing stage 2 and stage 3 exposure and corresponding collateral.

	2020								
	Net amount outstanding			Collateral			Net exposure		
	Total \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million	Total <sup>2</sup> \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million	Total \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million
<b>Amortised cost</b>									
Corporate & Institutional Banking <sup>1</sup>	153,301	16,367	2,441	22,847	6,058	737	130,454	10,309	1,704
Retail Banking	115,545	2,208	604	91,158	1,556	419	24,387	652	185
Commercial Banking	24,503	3,496	601	6,155	1,315	326	18,348	2,181	275
Private Banking	13,548	198	227	9,234	121	224	4,314	77	3
Central & other items	19,149	–	–	2,053	–	–	17,096	–	–
<b>Total</b>	<b>326,046</b>	<b>22,269</b>	<b>3,873</b>	<b>131,447</b>	<b>9,050</b>	<b>1,706</b>	<b>194,599</b>	<b>13,219</b>	<b>2,167</b>

	2019 <sup>3</sup>								
	Net amount outstanding			Collateral			Net exposure		
	Total \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million	Total <sup>2</sup> \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million	Total \$million	Stage 2 financial assets \$million	Credit- impaired financial assets \$million
<b>Amortised cost</b>									
Corporate & Institutional Banking <sup>1</sup>	162,201	14,231	1,193	23,652	2,724	497	138,549	11,507	696
Retail Banking	106,938	2,856	472	81,700	2,355	286	25,238	501	186
Commercial Banking	28,094	3,925	510	6,996	1,801	263	21,098	2,124	247
Private Banking	14,741	283	219	10,306	188	211	4,435	95	8
Central & other items	10,098	7	–	802	–	–	9,296	7	–
<b>Total</b>	<b>322,072</b>	<b>21,302</b>	<b>2,394</b>	<b>123,456</b>	<b>7,068</b>	<b>1,257</b>	<b>198,616</b>	<b>14,234</b>	<b>1,137</b>

1 Includes loans and advances to banks

2 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

3 Corporate & Institutional Banking, Retail Banking and Commercial Banking net amount outstanding, collateral and net exposure numbers have been restated to reflect client transfers between the three segments

## Collateral – Corporate & Institutional Banking and Commercial Banking (audited)

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to \$29 billion.

Collateral taken for longer-term and sub-investment grade corporate loans remains high at 46 per cent. Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral.

82 per cent of tangible collateral held comprises physical assets or is property based, with the remainder largely in cash and investment securities.

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

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

### Corporate & Institutional Banking

Amortised cost	2020 \$million	2019 <sup>2</sup> \$million
<b>Maximum exposure</b>	<b>153,301</b>	162,201
Property	8,871	7,218
Plant, machinery and other stock	655	947
Cash	1,480	2,931
Reverse repos	2,165	2,000
A- to AA+	438	756
BBB- to BBB+	740	439
Unrated	987	805
Financial guarantees and insurance	5,042	7,374
Commodities	222	141
Ships and aircraft	4,412	3,041
<b>Total value of collateral<sup>1</sup></b>	<b>22,847</b>	23,652
<b>Net exposure</b>	<b>130,454</b>	138,549

### Commercial Banking

Amortised cost	2020 \$million	2019 <sup>2</sup> \$million
<b>Maximum exposure</b>	<b>24,503</b>	28,094
Property	4,001	4,225
Plant, machinery and other stock	930	1,281
Cash	586	654
Reverse repos	7	8
A- to AA+	–	–
BBB- to BBB+	2	1
Unrated	5	7
Financial guarantees and insurance	428	573
Commodities	–	21
Ships and aircraft	203	234
<b>Total value of collateral<sup>1</sup></b>	<b>6,155</b>	6,996
<b>Net exposure</b>	<b>18,348</b>	21,098

1 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

2 Maximum exposure, collateral and net exposure balances have been restated to reflect client transfers between Corporate & Institutional Banking and Commercial Banking

**Collateral – Retail Banking and Private Banking (audited)**

In Retail Banking and Private Banking, 86 per cent of the portfolio is fully secured as compared with 85 per cent in 2019, due to new mortgage lending during the year. The proportion of unsecured loans decreased to 13 per cent (2019: 14 per cent) and the remaining 1 per cent is partially secured.

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

	2020				2019 <sup>3</sup>			
	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total \$million	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total \$million
<b>Amortised cost</b>								
<b>Maximum exposure</b>	<b>111,112</b>	<b>760</b>	<b>17,221</b>	<b>129,093</b>	103,182	1,257	17,240	121,679
Loans to individuals								
Mortgages	85,597	–	–	85,597	78,560	109	5	78,674
CCPL	171	–	16,921	17,092	123	8	17,092	17,223
Auto	536	–	–	536	562	–	10	572
Secured wealth products	19,886	–	–	19,886	20,275	127	–	20,402
Other	4,922	760	300	5,982	3,662	1,013	133	4,808
<b>Total collateral<sup>1</sup></b>				<b>100,392</b>				92,006
Net exposure <sup>2</sup>				<b>28,701</b>				29,673
<b>Percentage of total loans</b>	<b>86%</b>	<b>1%</b>	<b>13%</b>		85%	1%	14%	

1 Collateral values are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation

2 Amounts net of ECL

3 Maximum exposure, collateral and net exposure balances have been restated to reflect client transfers from Commercial Banking to Retail Banking

**Mortgage loan-to-value ratios by geography (audited)**

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

In mortgages, the value of property held as security significantly exceeds the value of mortgage loans. The average LTV of the overall mortgage portfolio is low at 45 per cent. Hong Kong, which represents 33 per cent of the Retail Banking mortgage portfolio has an average LTV of 43.9 per cent. All of our other key markets continue to have low portfolio LTVs, (Korea, Singapore and Taiwan at 39.5 per cent, 54.5 per cent and 51.0 per cent respectively).

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

	2020				
	Greater China & North Asia % Gross	ASEAN & South Asia % Gross	Africa & Middle East % Gross	Europe & Americas % Gross	Total % Gross
<b>Amortised cost</b>					
Less than 50 per cent	67.8	41.5	22.1	16.4	59.7
50 per cent to 59 per cent	14.1	18.1	15.0	28.0	15.4
60 per cent to 69 per cent	7.8	21.0	19.6	29.0	11.5
70 per cent to 79 per cent	6.6	16.3	20.7	21.7	9.4
80 per cent to 89 per cent	2.7	2.2	7.4	3.7	2.7
90 per cent to 99 per cent	1.0	0.5	6.0	0.6	1.0
100 per cent and greater	–	0.4	9.2	0.6	0.3
Average portfolio loan-to-value	42.0	52.2	64.7	60.4	44.7
<b>Loans to individuals – mortgages (\$million)</b>	<b>62,683</b>	<b>18,887</b>	<b>1,871</b>	<b>2,156</b>	<b>85,597</b>

	2019				
	Greater China & North Asia % Gross	ASEAN & South Asia % Gross	Africa & Middle East % Gross	Europe & Americas % Gross	Total % Gross
<b>Amortised cost</b>					
Less than 50 per cent	67.8	43.4	21.6	10.8	59.3
50 per cent to 59 per cent	14.4	19.4	14.2	26.3	15.9
60 per cent to 69 per cent	9.2	22.5	21.0	29.4	13.2
70 per cent to 79 per cent	6.7	12.5	19.1	28.0	9.0
80 per cent to 89 per cent	1.6	1.7	11.5	4.5	2.0
90 per cent to 99 per cent	0.2	0.3	6.5	0.4	0.4
100 per cent and greater	0.1	0.2	6.2	0.6	0.3
Average portfolio loan-to-value	42.1	50.7	66.6	62.2	44.9
<b>Loans to individuals – mortgages (\$million)<sup>1</sup></b>	<b>56,067</b>	<b>18,301</b>	<b>2,047</b>	<b>2,259</b>	<b>78,674</b>

1 Greater China & North Asia number has been restated to reflect client transfers from Commercial Banking to Retail Banking

**Collateral and other credit enhancements possessed or called upon (audited)**

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

Certain equity securities acquired may be held by the Group for investment purposes and are classified as fair value through profit or loss, and the related loan written off. The carrying value of collateral possessed and held by the Group as at 31 December 2020 is \$23.2 million (2019: \$37.0 million).

	2020 \$million	2019 \$million
Property, plant and equipment	18.2	29.0
Guarantees	4.8	5.2
Cash	–	2.7
Other	0.2	0.1
Total	23.2	37.0

**Other Credit Risk mitigation (audited)**

Other forms of Credit Risk mitigation are set out below.

**Credit default swaps**

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$10.5 billion (2019: \$14.5 billion). These credit default swaps are accounted for as financial guarantees as per IFRS 9 as they will only reimburse the holder for an incurred loss on an underlying debt instrument. The Group continues to hold the underlying assets referenced in the credit default swaps and it continues to be exposed to related Credit and Foreign Exchange Risk on these assets.

**Credit linked notes**

The Group has issued credit linked notes for portfolio management purposes, referencing loan assets with a notional value of \$8.0 billion (2019: \$4.5 billion). The Group continues to hold the underlying assets for which the credit linked notes provide mitigation.

**Derivative financial instruments**

The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. These are set out in more detail under Derivative financial instruments Credit Risk mitigation (page 237).

**Off-balance sheet exposures**

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

**Other portfolio analysis**

This section provides maturity analysis by business segment, credit quality by industry, and industry and retail products analysis by region.

**Maturity analysis of loans and advances by client segment**

Loans and advances to the Corporate & Institutional Banking and Commercial Banking segments remain predominantly short-term, with 61 per cent (2019: 62 per cent) maturing in less than one year. 94 per cent (2019: 97 per cent) of loans to banks mature in less than one year, a decrease compared with 2019 as net exposures reduced by \$9 billion. Shorter maturities give us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or sectors that are facing increased pressure or uncertainty.

The Private Banking loan book is mostly short-term with around 93 per cent of lending maturing in one year or less, which is typical for loans that are secured on wealth management assets.

The Retail Banking loan book continues to be longer-term in nature with 69 per cent (2019: 69 per cent) of the loans maturing over five years, as mortgages constitute the majority of this portfolio.

	2020			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
<b>Amortised cost</b>				
Corporate & Institutional Banking	65,075	35,833	11,565	112,473
Retail Banking	20,265	15,580	80,949	116,794
Commercial Banking	19,479	5,300	1,397	26,176
Private Banking	12,772	422	525	13,719
Central & other items	18,704	443	3	19,150
<b>Gross loans and advances to customers</b>	<b>136,295</b>	<b>57,578</b>	<b>94,439</b>	<b>288,312</b>
Impairment provisions	(5,722)	(743)	(148)	(6,613)
<b>Net loans and advances to customers</b>	<b>130,573</b>	<b>56,835</b>	<b>94,291</b>	<b>281,699</b>
<b>Net loans and advances to banks</b>	<b>41,524</b>	<b>2,821</b>	<b>2</b>	<b>44,347</b>

	2019			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
<b>Amortised cost</b>				
Corporate & Institutional Banking <sup>1</sup>	64,439	36,400	11,014	111,853
Retail Banking <sup>1</sup>	18,196	15,419	74,159	107,774
Commercial Banking <sup>1</sup>	22,846	5,439	1,396	29,681
Private Banking	13,893	507	499	14,899
Central & other items	10,098	–	1	10,099
<b>Gross loans and advances to customers</b>	<b>129,472</b>	<b>57,765</b>	<b>87,069</b>	<b>274,306</b>
Impairment provisions	(4,887)	(439)	(457)	(5,783)
<b>Net loans and advances to customers</b>	<b>124,585</b>	<b>57,326</b>	<b>86,612</b>	<b>268,523</b>
<b>Net loans and advances to banks</b>	<b>51,871</b>	<b>1,678</b>	<b>–</b>	<b>53,549</b>

1 Gross numbers have been restated to reflect client transfers between Corporate & Institutional Banking, Commercial Banking and to Retail Banking

## Credit quality by industry

### Loans and advances

This section provides an analysis of the Group's amortised cost portfolio by industry on a gross, total credit impairment and net basis.

From an industry perspective, loans and advances increased by \$14 billion compared with 31 December 2019, of which \$6 billion is in Corporates and the Central & Others segment, and \$8 billion in Retail and Private Banking lending.

The increase in the corporate book is largely a \$9 billion increase in lending to Governments, mostly in the ASEAN & South Asia and Greater China & North Asia regions, offset by a \$2.8 billion decrease in the Energy sector. In Retail Banking, the increase is primarily from stage 1 mortgage originations in the Greater China & North Asia region.

Total wholesale stage 2 loans increased by \$2 billion largely due to an increase in loans placed on non-purely precautionary early alert, which particularly impacted the Transport, Telecom and Utilities sector. This was partly offset by reductions of \$0.7 billion in Retail Banking mainly due to repayments and few transfers to stage 3 in mortgages.

Amortised cost	2020											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million
<b>Industry:</b>												
Energy	10,047	(25)	10,022	1,889	(87)	1,802	1,036	(777)	259	12,972	(889)	12,083
Manufacturing	20,164	(13)	20,151	2,763	(65)	2,698	1,554	(1,042)	512	24,481	(1,120)	23,361
Financing, insurance and non-banking	23,416	(8)	23,408	834	(7)	827	310	(209)	101	24,560	(224)	24,336
Transport, telecom and utilities	11,771	(12)	11,759	5,071	(124)	4,947	1,041	(473)	568	17,883	(609)	17,274
Food and household products	8,625	(7)	8,618	752	(24)	728	529	(346)	183	9,906	(377)	9,529
Commercial real estate	15,847	(13)	15,834	3,068	(34)	3,034	408	(186)	222	19,323	(233)	19,090
Mining and quarrying	4,723	(6)	4,717	887	(19)	868	286	(182)	104	5,896	(207)	5,689
Consumer durables	4,689	(3)	4,686	967	(36)	931	601	(413)	188	6,257	(452)	5,805
Construction	2,571	(3)	2,568	849	(28)	821	1,067	(527)	540	4,487	(558)	3,929
Trading companies & distributors	877	(1)	876	314	(7)	307	284	(237)	47	1,475	(245)	1,230
Government	23,099	(1)	23,098	1,064	(3)	1,061	220	(11)	209	24,383	(15)	24,368
Other	4,314	(4)	4,310	1,546	(53)	1,493	316	(207)	109	6,176	(264)	5,912
<b>Retail Products:</b>												
Mortgage	83,760	(18)	83,742	1,507	(36)	1,471	593	(209)	384	85,860	(263)	85,597
CCPL and other unsecured lending	16,708	(363)	16,345	785	(205)	580	450	(283)	167	17,943	(851)	17,092
Auto	531	(1)	530	5	-	5	1	-	1	537	(1)	536
Secured wealth products	19,375	(52)	19,323	319	(9)	310	466	(213)	253	20,160	(274)	19,886
Other	5,920	(4)	5,916	41	(1)	40	52	(26)	26	6,013	(31)	5,982
<b>Total value (customers)<sup>1</sup></b>	<b>256,437</b>	<b>(534)</b>	<b>255,903</b>	<b>22,661</b>	<b>(738)</b>	<b>21,923</b>	<b>9,214</b>	<b>(5,341)</b>	<b>3,873</b>	<b>288,312</b>	<b>(6,613)</b>	<b>281,699</b>

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$2,919 million

2019<sup>2</sup>

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impairment \$million	Net carrying amount \$million
<b>Amortised cost</b>												
<b>Industry:</b>												
Energy	13,223	(17)	13,206	1,562	(22)	1,540	894	(758)	136	15,679	(797)	14,882
Manufacturing	20,070	(15)	20,055	3,498	(29)	3,469	970	(695)	275	24,538	(739)	23,799
Financing, insurance and non-banking	20,972	(8)	20,964	1,193	(17)	1,176	292	(183)	109	22,457	(208)	22,249
Transport, telecom and utilities	14,874	(10)	14,864	1,873	(35)	1,838	841	(599)	242	17,588	(644)	16,944
Food and household products	8,321	(8)	8,313	1,551	(18)	1,533	585	(429)	156	10,457	(455)	10,002
Commercial real estate	14,244	(18)	14,226	2,092	(33)	2,059	293	(102)	191	16,629	(153)	16,476
Mining and quarrying	6,134	(8)	6,126	1,067	(12)	1,055	320	(232)	88	7,521	(252)	7,269
Consumer durables	6,366	(5)	6,361	1,094	(15)	1,079	651	(443)	208	8,111	(463)	7,648
Construction	3,082	(5)	3,077	332	(8)	324	774	(607)	167	4,188	(620)	3,568
Trading companies & distributors	1,202	(1)	1,201	1,928	(1)	1,927	307	(218)	89	3,437	(220)	3,217
Government	14,698	(1)	14,697	702	(3)	699	–	–	–	15,400	(4)	15,396
Other	4,815	(8)	4,807	554	(10)	544	261	(218)	43	5,630	(236)	5,394
<b>Retail Products:</b>												
Mortgage	76,123	(10)	76,113	2,290	(12)	2,278	406	(123)	283	78,819	(145)	78,674
CCPL and other unsecured lending	16,834	(268)	16,566	620	(158)	462	404	(209)	195	17,858	(635)	17,223
Auto	570	(1)	569	2	–	2	1	–	1	573	(1)	572
Secured wealth products	19,895	(19)	19,876	336	(3)	333	354	(161)	193	20,585	(183)	20,402
Other	4,726	–	4,726	65	(1)	64	45	(27)	18	4,836	(28)	4,808
<b>Total value (customers)<sup>1</sup></b>	<b>246,149</b>	<b>(402)</b>	<b>245,747</b>	<b>20,759</b>	<b>(377)</b>	<b>20,382</b>	<b>7,398</b>	<b>(5,004)</b>	<b>2,394</b>	<b>274,306</b>	<b>(5,783)</b>	<b>268,523</b>

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$1,469 million

2 Stage 1 and stage 2 Gross and ECL balances have been restated to reflect client transfers from Commercial Banking to Retail Banking

## Industry and Retail Products analysis of loans and advances by geographic region

This section provides an analysis of the Group's amortised cost loan portfolio, net of provisions, by industry and region.

In the Corporate & Institutional Banking and Commercial Banking segments, our largest industry exposures are to Financing, insurance and non-banking, Government, and Manufacturing, with each constituting at least 15 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers.

Financing, insurance and non-banking industry clients are mostly investment grade institutions and this lending forms part of the liquidity management of the Group. The manufacturing sector group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 4,100 clients.

Loans and advances to the energy sector reduced to 8 per cent (2019: 10 per cent) of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The Energy sector lending is spread across five sub-sectors and over 230 clients.

The Group provides loans to commercial real estate counterparties of \$19 billion, which represent 7 per cent of total customer loans and advances. In total, \$8.8 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 commercial real estate loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of the commercial real estate portfolio has increased to 51 per cent, compared with 46 per cent in 2019. The proportion of loans with an LTV greater than 80 per cent has increased to 4 per cent in 2020, compared with 1 per cent in 2019.

The mortgages portfolio continues to be the largest portion of the Retail Products portfolio, at 66 per cent (2019: 65 per cent). CCPL and other unsecured lending has reduced to 13 per cent of total Retail Products loans and advances (2019: 14 per cent).

Amortised cost	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Industry:</b>					
Energy	946	3,933	2,717	4,487	12,083
Manufacturing	12,526	5,373	2,202	3,260	23,361
Financing, insurance and non-banking	11,072	4,206	1,018	8,040	24,336
Transport, telecom and utilities	6,442	3,935	5,218	1,679	17,274
Food and household products	2,726	3,196	2,418	1,189	9,529
Commercial real estate	11,374	4,571	1,755	1,390	19,090
Mining and quarrying	2,228	1,852	717	892	5,689
Consumer durables	3,452	1,797	335	221	5,805
Construction	1,320	1,288	940	381	3,929
Trading companies & distributors	578	330	192	130	1,230
Government	2,791	16,625	4,880	72	24,368
Other	2,021	1,749	928	1,214	5,912
<b>Retail Products:</b>					
Mortgages	62,683	18,887	1,871	2,156	85,597
CCPL and other unsecured lending	11,184	3,793	2,019	96	17,092
Auto	–	481	55	–	536
Secured wealth products	7,336	10,784	383	1,383	19,886
Other	5,330	96	556	–	5,982
<b>Net loans and advances to customers</b>	<b>144,009</b>	<b>82,896</b>	<b>28,204</b>	<b>26,590</b>	<b>281,699</b>
<b>Net loans and advances to banks</b>	<b>18,011</b>	<b>13,534</b>	<b>5,741</b>	<b>7,061</b>	<b>44,347</b>

Amortised cost	2019				
	Greater China & North Asia <sup>1</sup> \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Industry:</b>					
Energy	2,573	3,770	2,943	5,596	14,882
Manufacturing	11,320	6,127	3,211	3,141	23,799
Financing, insurance and non-banking	9,365	4,314	988	7,582	22,249
Transport, telecom and utilities	6,268	4,014	5,349	1,313	16,944
Food and household products	2,777	3,651	2,478	1,096	10,002
Commercial real estate	9,377	4,954	1,783	362	16,476
Mining and quarrying	2,142	2,469	965	1,693	7,269
Consumer durables	4,497	2,019	699	433	7,648
Construction	1,088	1,220	1,126	134	3,568
Trading companies & distributors	2,602	296	198	121	3,217
Government	1,490	9,907	3,926	73	15,396
Other	1,722	1,870	836	966	5,394
<b>Retail Products:</b>					
Mortgages	56,067	18,301	2,047	2,259	78,674
CCPL and other unsecured lending	10,633	4,239	2,258	93	17,223
Auto	–	485	87	–	572
Secured wealth products	8,159	10,473	338	1,432	20,402
Other	3,981	121	705	1	4,808
<b>Net loans and advances to customers</b>	<b>134,061</b>	<b>78,230</b>	<b>29,937</b>	<b>26,295</b>	<b>268,523</b>
<b>Net loans and advances to banks</b>	<b>19,313</b>	<b>15,756</b>	<b>5,350</b>	<b>13,130</b>	<b>53,549</b>

1 Greater China and North Asia numbers have been restated to reflect client transfers from Commercial Banking to Retail Banking

### Vulnerable sector tables

Vulnerable sectors are those that the Group considers to be most at risk from COVID-19 and lower oil prices, and we continue to monitor exposures to these sectors particularly carefully.

Total net exposure to vulnerable sectors reduced by \$6 billion compared with 31 December 2019 and represents 27 per cent (2019: 30 per cent) of the total net exposure in Corporate & Institutional Banking and Commercial Banking. The reductions were largely due to increased levels of collateral and reduced undrawn commitments, particularly in the Commodity traders, Metals & mining, and Commercial real estate sectors.

Stage 2 loans increased to 18 per cent (2019: 13 per cent) of loans to vulnerable sectors. This was primarily driven by an increase in loans placed on non-purely precautionary early alert in the Aviation and Commercial real estate sectors, offset by Commodity traders sector clients, some of which were transferred to stage 3.

Stage 3 loans increased by \$0.6 billion compared with 31 December 2019 primarily due to downgrades from stage 2 exposures in the Commodity traders and Aviation sectors due to COVID-19 related volatility.

### Maximum exposure

	2020						
	Maximum on-balance sheet exposure (net of credit impairment) \$million	Collateral \$million	Net on-balance sheet exposure \$million	Undrawn commitments (net of credit impairment) \$million	Financial guarantees (net of credit impairment) \$million	Net off-balance sheet exposure \$million	Total on & off-balance sheet net exposure \$million
<b>Amortised cost</b>							
<b>Industry:</b>							
Aviation <sup>1</sup>	3,839	2,106	1,733	1,321	531	1,852	3,585
Commodity traders	8,664	318	8,346	2,189	4,459	6,648	14,994
Metals & mining	3,882	513	3,369	2,850	886	3,736	7,105
Commercial real estate	19,090	8,004	11,086	5,283	313	5,596	16,682
Hotels & tourism	2,557	1,110	1,447	1,185	110	1,295	2,742
Oil & gas	7,199	1,032	6,167	8,332	5,587	13,919	20,086
<b>Total</b>	<b>45,231</b>	<b>13,083</b>	<b>32,148</b>	<b>21,160</b>	<b>11,886</b>	<b>33,046</b>	<b>65,194</b>
<b>Total Corporate &amp; Institutional Banking and Commercial Banking</b>	<b>133,457</b>	<b>27,561</b>	<b>105,896</b>	<b>92,001</b>	<b>46,725</b>	<b>138,726</b>	<b>244,622</b>
<b>Total Retail Banking, Private Banking and other segments</b>	<b>192,589</b>	<b>103,886</b>	<b>88,703</b>	<b>61,285</b>	<b>6,857</b>	<b>68,142</b>	<b>156,845</b>
<b>Total Group</b>	<b>326,046</b>	<b>131,447</b>	<b>194,599</b>	<b>153,286</b>	<b>53,582</b>	<b>206,868</b>	<b>401,467</b>
	2019						
	Maximum on-balance sheet exposure (net of credit impairment) \$million	Collateral \$million	Net on-balance sheet exposure \$million	Undrawn commitments (net of credit impairment) \$million	Financial guarantees (net of credit impairment) \$million	Net off-balance sheet exposure \$million	Total on & off-balance sheet net exposure \$million
<b>Amortised cost</b>							
<b>Industry:</b>							
Aviation <sup>1</sup>	3,659	1,186	2,473	1,131	556	1,687	4,160
Commodity traders	10,386	326	10,060	2,736	4,075	6,811	16,871
Metals & mining	5,436	381	5,055	2,774	602	3,376	8,431
Commercial real estate	16,476	5,892	10,584	6,771	390	7,161	17,745
Hotels & tourism	2,397	800	1,597	1,634	146	1,780	3,377
Oil & gas	8,041	1,241	6,800	8,118	5,943	14,061	20,861
<b>Total</b>	<b>46,395</b>	<b>9,826</b>	<b>36,569</b>	<b>23,164</b>	<b>11,712</b>	<b>34,876</b>	<b>71,445</b>
<b>Total Corporate &amp; Institutional Banking and Commercial Banking</b>	<b>136,746</b>	<b>27,065</b>	<b>109,681</b>	<b>86,058</b>	<b>40,873</b>	<b>126,931</b>	<b>236,612</b>
<b>Total Retail Banking, Private Banking and other segments</b>	<b>185,326</b>	<b>96,391</b>	<b>88,935</b>	<b>55,055</b>	<b>5,605</b>	<b>60,660</b>	<b>149,595</b>
<b>Total Group</b>	<b>322,072</b>	<b>123,456</b>	<b>198,616</b>	<b>141,113</b>	<b>46,478</b>	<b>187,591</b>	<b>386,207</b>

<sup>1</sup> In addition to the aviation sector loan exposures, the Group owns \$3.9 billion (31 December 2019: \$3.4 billion) of aircraft under operating leases. Refer to page 371 – Operating lease assets

## Loans and advances by stage

	2020											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million
<b>Amortised cost</b>												
<b>Industry:</b>												
Aviation	2,073	(1)	2,072	1,613	(26)	1,587	258	(78)	180	3,944	(105)	3,839
Commodity traders	8,067	(3)	8,064	473	(12)	461	799	(660)	139	9,339	(675)	8,664
Metals & mining	3,128	(3)	3,125	677	(18)	659	210	(112)	98	4,015	(133)	3,882
Commercial real estate	15,847	(13)	15,834	3,068	(34)	3,034	408	(186)	222	19,323	(233)	19,090
Hotels & tourism	1,318	(2)	1,316	1,168	(18)	1,150	138	(47)	91	2,624	(67)	2,557
Oil & gas	5,650	(7)	5,643	1,548	(69)	1,479	276	(199)	77	7,474	(275)	7,199
<b>Total</b>	<b>36,083</b>	<b>(29)</b>	<b>36,054</b>	<b>8,547</b>	<b>(177)</b>	<b>8,370</b>	<b>2,089</b>	<b>(1,282)</b>	<b>807</b>	<b>46,719</b>	<b>(1,488)</b>	<b>45,231</b>
<b>Total Corporate &amp; Institutional Banking and Commercial Banking</b>	<b>110,993</b>	<b>(95)</b>	<b>110,898</b>	<b>20,004</b>	<b>(487)</b>	<b>19,517</b>	<b>7,652</b>	<b>(4,610)</b>	<b>3,042</b>	<b>138,649</b>	<b>(5,192)</b>	<b>133,457</b>
<b>Total Retail Banking, Private Banking and other segments</b>	<b>189,459</b>	<b>(453)</b>	<b>189,006</b>	<b>3,006</b>	<b>(254)</b>	<b>2,752</b>	<b>1,562</b>	<b>(731)</b>	<b>831</b>	<b>194,027</b>	<b>(1,438)</b>	<b>192,589</b>
<b>Total Group</b>	<b>300,452</b>	<b>(548)</b>	<b>299,904</b>	<b>23,010</b>	<b>(741)</b>	<b>22,269</b>	<b>9,214</b>	<b>(5,341)</b>	<b>3,873</b>	<b>332,676</b>	<b>(6,630)</b>	<b>326,046</b>
2019												
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million	Gross balance \$million	Total credit impair- ment \$million	Net carrying amount \$million
<b>Amortised cost</b>												
<b>Industry:</b>												
Aviation	3,426	(1)	3,425	236	(8)	228	6	–	6	3,668	(9)	3,659
Commodity traders	8,693	(10)	8,683	1,663	(6)	1,657	401	(355)	46	10,757	(371)	10,386
Metals & mining	4,422	(5)	4,417	875	(10)	865	292	(138)	154	5,589	(153)	5,436
Commercial real estate	14,244	(18)	14,226	2,092	(33)	2,059	293	(102)	191	16,629	(153)	16,476
Hotels & tourism	2,012	(4)	2,008	384	(2)	382	35	(28)	7	2,431	(34)	2,397
Oil & gas	6,854	(10)	6,844	1,031	(15)	1,016	441	(260)	181	8,326	(285)	8,041
<b>Total</b>	<b>39,651</b>	<b>(48)</b>	<b>39,603</b>	<b>6,281</b>	<b>(74)</b>	<b>6,207</b>	<b>1,468</b>	<b>(883)</b>	<b>585</b>	<b>47,400</b>	<b>(1,005)</b>	<b>46,395</b>
<b>Total Corporate &amp; Institutional Banking and Commercial Banking</b>	<b>117,909</b>	<b>(102)</b>	<b>117,807</b>	<b>17,439</b>	<b>(203)</b>	<b>17,236</b>	<b>6,186</b>	<b>(4,483)</b>	<b>1,703</b>	<b>141,534</b>	<b>(4,788)</b>	<b>136,746</b>
<b>Total Retail Banking, Private Banking and other segments</b>	<b>180,874</b>	<b>(305)</b>	<b>180,569</b>	<b>4,244</b>	<b>(178)</b>	<b>4,066</b>	<b>1,212</b>	<b>(521)</b>	<b>691</b>	<b>186,330</b>	<b>(1,004)</b>	<b>185,326</b>
<b>Total Group</b>	<b>298,783</b>	<b>(407)</b>	<b>298,376</b>	<b>21,683</b>	<b>(381)</b>	<b>21,302</b>	<b>7,398</b>	<b>(5,004)</b>	<b>2,394</b>	<b>327,864</b>	<b>(5,792)</b>	<b>322,072</b>

## Loans and advances by region (net of credit impairment)

	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
<b>Industry:</b>					
Aviation	1,447	348	1,492	552	3,839
Commodity traders	1,870	2,747	780	3,267	8,664
Metals & mining	1,427	1,398	597	460	3,882
Commercial real estate	11,374	4,571	1,755	1,390	19,090
Hotel & tourism	640	1,052	512	353	2,557
Oil & gas	713	2,621	2,036	1,829	7,199
<b>Total</b>	<b>17,471</b>	<b>12,737</b>	<b>7,172</b>	<b>7,851</b>	<b>45,231</b>

	2019				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Amortised cost</b>					
<b>Industry:</b>					
Aviation	1,392	224	1,373	670	3,659
Commodity traders	2,082	3,513	1,276	3,515	10,386
Metals & mining	1,366	1,950	837	1,283	5,436
Commercial real estate	9,377	4,954	1,783	362	16,476
Hotel & tourism	543	1,092	547	215	2,397
Oil & gas	1,123	2,130	2,022	2,766	8,041
<b>Total</b>	<b>15,883</b>	<b>13,863</b>	<b>7,838</b>	<b>8,811</b>	<b>46,395</b>

## Credit quality – loans and advances

Amortised cost	2020						
	Aviation \$million	Commodity traders \$million	Metals & mining \$million	Commercial real estate \$million	Hotel & tourism \$million	Oil & gas \$million	Total \$million
<b>Credit Grade</b>							
Strong	1,406	4,968	1,055	7,795	696	3,177	19,097
Satisfactory	2,124	3,554	2,423	11,110	1,672	3,745	24,628
Higher risk	156	18	327	10	118	276	905
Defaulted	258	799	210	408	138	276	2,089
<b>Total gross balance</b>	<b>3,944</b>	<b>9,339</b>	<b>4,015</b>	<b>19,323</b>	<b>2,624</b>	<b>7,474</b>	<b>46,719</b>
Strong	(7)	(1)	(1)	(9)	–	(6)	(24)
Satisfactory	(7)	(12)	(16)	(37)	(19)	(53)	(144)
Higher risk	(13)	(2)	(4)	(1)	(1)	(17)	(38)
Defaulted	(78)	(660)	(112)	(186)	(47)	(199)	(1,282)
<b>Total credit impairment</b>	<b>(105)</b>	<b>(675)</b>	<b>(133)</b>	<b>(233)</b>	<b>(67)</b>	<b>(275)</b>	<b>(1,488)</b>
Strong	0.5%	0.0%	0.1%	0.1%	0.0%	0.2%	0.1%
Satisfactory	0.3%	0.3%	0.7%	0.3%	1.1%	1.4%	0.6%
Higher risk	8.3%	11.1%	1.2%	10.0%	0.8%	6.2%	4.2%
Defaulted	30.2%	82.6%	53.3%	45.6%	34.1%	72.1%	61.4%
<b>Cover ratio</b>	<b>2.7%</b>	<b>7.2%</b>	<b>3.3%</b>	<b>1.2%</b>	<b>2.6%</b>	<b>3.7%</b>	<b>3.2%</b>

Amortised cost	2019						
	Aviation \$million	Commodity traders \$million	Metals & mining \$million	Commercial real estate \$million	Hotel & tourism \$million	Oil & gas \$million	Total \$million
<b>Credit Grade</b>							
Strong	2,635	5,104	1,270	8,338	983	3,706	22,036
Satisfactory	967	5,217	3,853	7,929	1,411	4,040	23,417
Higher risk	60	35	174	121	2	139	531
Defaulted	6	401	292	241	35	441	1,416
<b>Total gross balance</b>	3,668	10,757	5,589	16,629	2,431	8,326	47,400
Strong	–	(6)		(47)	(1)	(2)	(56)
Satisfactory	(3)	(10)	(8)	(23)	(5)	(22)	(71)
Higher risk	(6)	–	(7)	(16)	–	(1)	(30)
Defaulted	–	(355)	(138)	(67)	(28)	(260)	(848)
<b>Total credit impairment</b>	(9)	(371)	(153)	(153)	(34)	(285)	(1,005)
Strong	0.0%	0.1%	0.0%	0.6%	0.1%	0.1%	0.3%
Satisfactory	0.3%	0.2%	0.2%	0.3%	0.4%	0.5%	0.3%
Higher risk	10.0%	0.0%	4.0%	13.2%	0.0%	0.7%	5.6%
Defaulted	0.0%	88.5%	47.3%	27.8%	80.0%	59.0%	59.9%
<b>Cover ratio</b>	0.2%	3.4%	2.7%	0.9%	1.4%	3.4%	2.1%

### Debt securities and other eligible bills (audited)

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

Amortised cost and FVOCI	2020 Debt securities and other eligible bills \$million	2019 Debt securities and other eligible bills \$million
12-month expected credit losses (stage 1)	149,316	138,782
AAA	64,209	63,799
AA- to AA+	40,377	36,840
A- to A+	26,551	19,625
BBB- to BBB+	12,588	9,466
Lower than BBB-	398	973
Unrated	5,193	8,079
Lifetime expected credit losses (stage 2)	3,506	4,644
AAA	24	248
AA- to AA+	–	41
A- to A+	50	–
BBB- to BBB+	2,693	3,909
Lower than BBB-	415	241
Unrated	324	205
Credit-impaired financial assets (stage 3) <sup>1</sup>	114	75
Lower than BBB-	–	–
Unrated	114	75
<b>Gross balance</b>	<b>152,936</b>	<b>143,501</b>

<sup>1</sup> Stage 3 includes \$38 million originated credit-impaired debt securities

The standard credit ratings used by the Group are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating, as described under the credit rating and measurement section (page 255).

Total debt securities and other eligible bills increased by \$9.4 billion as part of the Group's liquidity management to meet regulatory requirement and to support the Group's strategy to provide more credit solutions to customers.

As the total balance sheet increased, excess funding from customers was deployed in highly rated securities to boost holdings of high-quality liquid assets. This can be observed in the increase of stage 1 securities rated A- and above of \$10.9 billion. Investment in stage 1 unrated securities decreased by \$2.9 billion as matured securities were not rolled over and funding channelled to investment in rated securities. Stage 2 securities decreased by \$1.1 billion mainly due to balances transferred to stage 1 as a result of improved credit quality.

## IFRS 9 methodology (audited)

### Approach for determining expected credit losses

#### Credit loss terminology

Component	Definition
<b>Probability of default (PD)</b>	<p>The probability that a counterparty will default, over the next 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2), incorporating the impact of forward-looking economic assumptions that have an effect on Credit Risk, such as interest rates, unemployment rates and GDP forecasts.</p> <p>The PD estimates will fluctuate in line with the economic cycle. The lifetime (or term structure) PDs are based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.</p>
<b>Loss given default (LGD)</b>	<p>The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cashflows due and those that the bank expects to receive.</p> <p>The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.</p>
<b>Exposure at default (EAD)</b>	<p>The expected balance sheet exposure at the time of default, taking into account expected changes over the lifetime of the exposure. This incorporates the impact of drawdowns of facilities with limits, repayments of principal and interest, amortisation and prepayments.</p>

To determine the expected credit loss, these components are multiplied together: PD for the reference period (up to 12 months or lifetime) x LGD x EAD and discounted to the balance sheet date using the effective interest rate as the discount rate.

IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses on a global basis, in line with their respective portfolios. However, for some of the key countries, country-specific models have also been developed.

The calibration of forward-looking information is assessed at a country or region level to take into account local macroeconomic conditions.

Retail Banking expected credit loss models are country and product specific given the local nature of the Retail Banking business.

For less material Retail Banking portfolios, the Group has adopted less sophisticated approaches based on historical roll rates or loss rates:

- For medium-sized Retail Banking portfolios, a roll rate model is applied, which uses a matrix that gives the average loan migration rate between delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.
- For smaller Retail Banking portfolios, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.
- While these models do not incorporate forward-looking information, to the extent that there are significant changes in the macroeconomic forecasts an assessment will be completed on whether an adjustment to the modelled output is required.

For a limited number of exposures, proxy parameters or approaches are used where the data is not available to calculate the origination PDs for the purpose of applying the SICR criteria; or for some retail portfolios where a full history of LGD data is not available, estimates based on the loss experience from similar portfolios are used. The use of proxies is monitored and will reduce over time.

The following processes are in place to assess the ongoing performance of the models:

- Quarterly model monitoring that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds.
- Annual independent validations of the performance of material models by Group Model Validation (GMV); an abridged validation is completed for non-material models.

#### Application of lifetime

Expected credit loss is estimated based on the period over which the Group is exposed to Credit Risk. For the majority of exposures this equates to the maximum contractual period. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities however, the Group does not typically enforce the contractual period, which can be as short as one day. As a result, the period over which the Group is exposed to Credit Risk for these instruments reflects their behavioural life, which incorporates expectations of customer behaviour and the extent to which Credit Risk management actions curtail the period of that exposure. The average behavioural life for Retail Banking credit cards is between 3 and 6 years across our footprint markets.

In 2020, the behavioural life for corporate overdraft facilities was re-estimated using recent data, and a lifetime of 24 months is now being applied (2019: 32 months). The change in approach does not have a material impact on the income statement.

## Post model adjustments

Where a model's performance breaches the monitoring thresholds or validation standards, an assessment is completed to determine whether an ECL Post Model Adjustment (PMA) is required to correct for the identified model issue. PMAs will be removed when the models are updated to correct for the identified model issue or the estimates return to being within the monitoring thresholds.

The unprecedented volatility in the quarterly macroeconomic forecasts seen over 2020 has meant that a number of the Group's IFRS 9 ECL models are now operating outside the boundaries to which they were calibrated. Over the COVID-19 period we have commonly seen GDP decreases over a single quarter of around 10 to 20 per cent while a country is in lock down, followed by a recovery of 10 to 20 per cent the following quarter when the lock down is assumed to end. This can lead to the models in some instances either seeing a very large economic deterioration or a very optimistic GDP increase (i.e. if the model only uses the period in the scenario with the recovery). In these cases, this causes a sudden PD increase or

decrease, which will then return to more normal levels once the volatility in the quarterly forecasts returns to historical norms. As a result, at 31 December 2020 the Group has made adjustments to the modelled output to remove this volatility to ensure that the resulting ECL remains unbiased and appropriately reflects the Group's credit risks in the current environment. The adjustments are based on a combination of portfolio-level Credit Risk analysis (retail) and an evaluation of ECL coverage at an exposure level (wholesale). These adjustments will be removed once the quarterly macroeconomic forecasts and associated model estimates become less volatile in line with historical norms.

As at 31 December 2020, PMAs have been applied for 13 models out of the total of 186. In aggregate, the PMAs decrease the Group's impairment provisions by \$158 million (9 per cent of modelled provisions) compared with a \$13 million decrease at 31 December 2019. As set out on page 228, a separate management overlay that covers risk not captured by the models has been applied after taking into account these PMAs.

	2020 \$m	2019 \$m
<b>Volatility-related PMAs</b>		
Corporate & Institutional Banking, Commercial Banking and Central & Others	(49)	–
Retail Banking	(12)	–
	(61)	–
<b>Model performance PMAs</b>		
Corporate & Institutional Banking and Commercial Banking	(73)	–
Retail Banking	(24)	(13)
	(97)	(13)
<b>Total PMAs</b>	<b>(158)</b>	<b>(13)</b>

## Key assumptions and judgements in determining expected credit loss

### Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future Credit Risk losses should depend not just on the health of the economy today but should also take into account potential changes to the economic environment. For example, if a bank were to anticipate a sharp slowdown in the world economy over the coming year, it should hold more provisions today to absorb the credit losses likely to occur in the near future.

To capture the effect of changes to the economic environment, the PDs and LGDs used to calculate ECL incorporate forward-looking information in the form of forecasts of the values of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients.

The 'Base Forecast' of the economic variables and asset prices is based on management's view on the five-year outlook, supported by projections from the Group's in-house research team and outputs from a third-party model that project specific economic variables and asset prices. The research team takes consensus views into consideration and senior management review projections for some core country variables against consensus when forming their view of the outlook. For the period beyond five years, management utilises the in-house research view and third-party model outputs, which allow for a reversion to long-term growth rates or norms. All projections are updated on a quarterly basis.

### Forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity

The Base Forecast – management's view of the most likely outcome – is that the prospects for a path out of the COVID-19 crisis have improved with progress on vaccines and virus treatments. Early into the new year, this has raised confidence over the economic outlook and is expected to support the recovery of economic activity over the next two years. Global GDP is expected to grow by around 5 per cent in 2021, well above the average of 3.7 per cent for the ten years between 2010 to 2019. However, this follows a contraction of almost 4 per cent in 2020, the worst performance since the Great Depression of 1929–31.

Key to the outlook is the assumption that vaccines will be rolled out early in 2021 in major markets, and reach the majority of the population by the third quarter of the year. In addition, renewed virus outbreaks in many countries are expected to be contained. The global economic recovery will strengthen in the second half of 2021 as investment picks up around the world.

With the global recovery under way, many countries are expected to be close to their forward-looking long-term – or future potential – growth levels by the end of the next two years. However, the outlook remains highly uncertain. A faster distribution of vaccines will likely support stronger growth, while delays and disruptions will hold it back. The current (and any future) resurgence of the virus in many countries could also force governments to tighten restrictions on economic activity for longer than anticipated.

While the quarterly base forecasts inform the Group's strategic plan, one key requirement of IFRS 9 is that the assessment of provisions should consider multiple future economic environments. For example, the global economy may grow more quickly or more slowly than the Base Forecast, and these variations would have different implications for the provisions that the Group should hold today. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group sets provisions only on the ECL under the Base Forecast it might maintain a level of provisions that does not appropriately capture the range of potential outcomes. To address this property of skewness (or non-linearity), IFRS 9 requires reported ECL to be a probability-weighted ECL calculated over a range of possible outcomes.

To assess the range of possible outcomes, the Group simulates a set of 50 scenarios around the Base Forecast, calculates the ECL under each of them and assigns an equal weight of 2 per cent to each scenario outcome. These scenarios are generated by a Monte Carlo simulation, which addresses the challenges of crafting many realistic alternative scenarios in the many countries in which the Group operates by means of a model, which produces these alternative scenarios while considering the degree of historical uncertainty (or volatility) observed over 1Q'90 to 3Q'20 around economic outcomes and how these outcomes have tended to move in relation to one another (or correlation). This naturally means that each of the 50 scenarios do not have a specific narrative, although collectively they explore a range of hypothetical alternative outcomes for the global economy, including scenarios that turn out better than expected and scenarios that amplify anticipated stresses.

The table on page 227 provides a summary of the Group's Base Forecast for key footprint markets, alongside the corresponding range seen across the multiple scenarios. The peak/trough amounts in the table show the highest and lowest points within the Base Forecast, and the GDP graphs below illustrate the shape of the Base Forecast in relation to prior periods' actuals and the long-term growth rates.

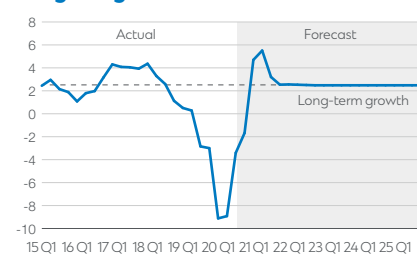
The global economic recovery in the near term is expected to be uneven. While the US and Europe are likely to recover this year, Asia – particularly China and India – is expected to lead the global economic rebound. China is likely to continue its strong recovery and is expected to grow by 8 per cent in 2021, having already exceeded end-2019 GDP levels in 2020. Among Asian economies, India has faced the sharpest negative shock, with an expected GDP contraction of around 8 per cent in FY21 (year ending in March 2021). The expected pick-up in FY22 is around 10 per cent. Open economies that are reliant on trade such as Singapore will be lifted by the global economic recovery. Its GDP is expected to grow by around 5 per cent after a 6 per cent contraction in 2020. Similarly, Hong Kong's economy is expected to expand by 4 per cent this year from a 6 per cent contraction previously. Korea was one of the first countries to be affected by the pandemic, but the effective strategies employed by the government helped contain the spread of the virus and limited the economic fallout compared with other advanced economies. Korea's GDP is expected to grow by 3.3 per cent in 2021 after contracting by less than 1 per cent in 2020.

Gains in commodity prices are also likely to be uneven. Metal prices such as copper are expected to benefit from the improved outlook for Asia, particularly China. However, global oil demand is not expected to recover all of its 2020 losses this year and this will limit any price gains. Oil prices are expected to average \$44 in 2021, showing only a marginal gain from the \$41 average in 2020. However, there are upside risks to oil prices should the economic recovery be stronger than expected.

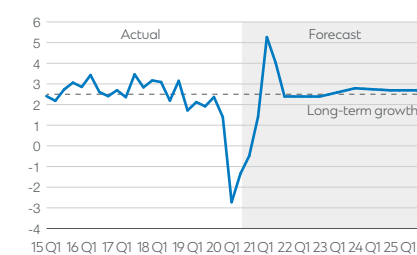
China GDP YoY%



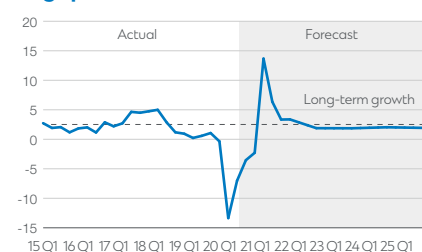
Hong Kong GDP YoY%



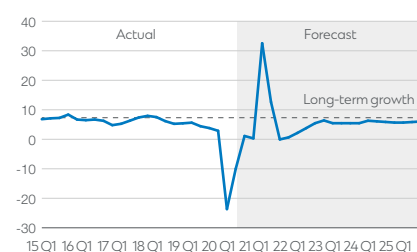
Korea GDP YoY%



Singapore GDP YoY%



India GDP YoY%



Long-term growth = forward-looking future GDP growth potential

	China			Hong Kong			Korea			Singapore			India <sup>1</sup>		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
GDP growth (YoY%)	2.1	8.0	5.6	-5.8	4.0	2.5	-0.8	3.3	2.4	-6.0	5.0	2.6	-8.0	10.0	4.5
Unemployment (%)	3.8	3.5	3.4	5.4	5.9	4.3	3.8	3.7	3.5	4.1	4.0	3.6	N/A	N/A	N/A
3-month interest rates (%)	2.0	2.2	2.3	1.0	0.8	0.7	0.8	0.5	0.8	0.6	0.5	0.6	3.3	3.4	3.7
House prices (YoY%)	5.3	4.8	5.8	-2.2	1.1	6.2	3.1	1.6	1.4	1.1	2.7	4.2	4.5	5.8	6.8

1 India GDP follows the fiscal year beginning in Q2. All other variables are on a calendar year basis

## 2020<sup>5</sup>

	China				Hong Kong				Korea				Singapore				India			
	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>
GDP growth (YoY%)	6.0	19.4/3.2	1.9	20.4	2.8	5.5/2.5	(1.9)	7.3	2.8	5.3/1.4	(1.4)	7.9	2.8	13.7/(2.3)	(5.4)	17.5	6.4	32.6/0.0	(2.1)	34.9
Unemployment (%)	3.4	3.7/3.4	3.3	3.7	3.9	6.3/3.1	2.3	7.2	3.3	3.7/3.0	2.6	4.5	3.5	4.3/3.1	2.0	5.5	N/A <sup>1</sup>	N/A	N/A	N/A
3-month interest rates (%)	2.3	2.4/2.2	0.9	4.5	0.9	1.3/0.7	(0.3)	3.2	1.2	2.3/0.5	(0.1)	3.5	0.7	1.2/0.5	0.0	2.2	4.3	5.4/3.3	2.0	6.9
House prices (YoY%)	5.8	6.2/4.7	1.2	8.7	3.7	7.5/(4.3)	(12.8)	23.0	2.3	3.2/0.4	(2.3)	7.6	4.0	4.3/1.5	(4.4)	16.9	6.7	7.2/4.8	(4.1)	21.8

## 2019

	China				Hong Kong				Korea				Singapore				India			
	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>
GDP growth (YoY%)	5.8	6.3/5.5	4.4	7.4	1.6	2.5/(4.8)	(2.7) <sup>4</sup>	4.4	2.6	2.9/2.1	0.6	4.8	2.1	2.5/0.9	(1.4)	5.9	6.9	7.2/6.1	5.0	9.0
Unemployment (%)	3.6	3.6/3.6	3.6	3.7	3.5	3.6/3.1	2.7	4.3	3.6	4.0/3.2	3.0	4.2	3.0	3.2/3.0	2.3	3.8	N/A <sup>1</sup>	N/A	N/A	N/A
3-month interest rates (%)	2.6	2.8/2.3	1.8	3.6	2.4	3.5/1.2	0.9	4.3	1.7	2.5/1.2	0.8	2.9	2.0	2.9/1.3	1.1	3.1	5.2	5.6/4.8	4.3	6.1
House prices (YoY%)	6.3	7.6/4.2	4.2	8.3	3.6	5.7/(5.1)	(6.5)	14.6	2.6	2.8/0.7	0.5	4.8	3.4	4.4/0.4	(2.7)	9.7	7.8	8.1/6.9	2.4	13.2

	2020 <sup>5</sup>				2019			
	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>	5-year average base forecast	Base forecast peak/trough	Low <sup>2</sup>	High <sup>3</sup>
Crude price Brent, \$ pb	54	61/39	22	116	71	76/66	42	102

1 N/A – Not available

2 Represents the 10th percentile in the range of economic scenarios used to determine non-linearity

3 Represents the 90th percentile in the range of economic scenarios used to determine non-linearity

4 This value is higher than the trough in the base case forecast because it is measured over the 5-year range; if the 10th percentile had been read off the first half of 2020, it would have been -5.7

5 Base forecasts are evaluated from 1Q'21 to 4Q'25. The forward-looking simulation starts from 1Q'21

The final probability-weighted ECL reported by the Group is a simple average of the ECL for each of the 50 scenarios, together with the ECL from the base forecast. The impact of these scenarios and the management overlay (together referred to as non-linearity) is set out in the table below.

	Including non-linearity \$million	Base forecast \$million	Difference %
<b>Total expected credit loss at 31 December 2020<sup>1</sup></b>	<b>1,731</b>	<b>1,380</b>	<b>25.4</b>
Total expected credit loss at 31 December 2019 <sup>1</sup>	1,108	1,079	2.7

1 Total modelled ECL comprises stage 1 and stage 2 balances of \$1,549 million (31 December 2019: \$975 million) and \$182 million (31 December 2019: \$133 million) of modelled ECL on stage 3 loans

The average expected credit loss under multiple scenarios (which incorporates the management overlay below) is 25.4 per cent higher than the expected credit loss calculated using only the most likely scenario (the Base Forecast). Portfolios that are more sensitive to non-linearity include those with greater leverage and/or a longer tenor, such as Project and Shipping Finance and credit card portfolios. Other portfolios display minimal non-linearity owing to limited responsiveness to macroeconomic impacts for structural reasons such as significant collateralisation as with the Retail Banking mortgage portfolios.

### Management overlay – COVID-19

As at 31 December 2020, the Group held a \$359 million management overlay relating to uncertainties as a result of the COVID-19 pandemic that are not captured by the models, \$197 million of which relates to Corporate & Institutional Banking and Commercial Banking and \$162 million to Retail Banking. The overlay has been determined after taking account of the PMAs reported on page 225 and is re-assessed quarterly. It is reviewed and approved by the IFRS9 Impairment Committee.

**Corporate & Institutional Banking and Commercial Banking** The amount of loans placed on non-purely precautionary early alert increased significantly over 2020 as the impact of COVID-19 was evaluated on the Group's portfolio. However, the impact of the rapid deterioration in the economic environment in 2020 has not yet been fully observed in customers' financial performance. In part this has been due to ongoing government support measures across the Group's markets and we have not yet seen a significant increase in the level of stage 3 loans relating to COVID-19 as at 31 December 2020. To take account of the heightened Credit Risk and the continuing uncertainties in the pace and timing of economic recovery, a judgemental overlay has been taken by estimating the impact of further deterioration to the non-purely precautionary early alert portfolio. The overlay is held in stage 2. The basis of determining the overlay remained unchanged during 2020. The overlay increased to \$227 million at 30 September 2020 compared with \$198 million at 30 June 2020, and reduced to \$197 million at 31 December 2020 as the level of non-purely precautionary early alerts reduced relative to previous quarters.

**Retail Banking** A number of components contribute to the judgemental overlay for Retail Banking. Within Business Banking, the Group has evaluated those sectors that have been adversely impacted by COVID-19, both through internal credit processes as well as through a 'Voice of Customer' survey to understand how customers have been affected. The Group has also considered the extent to which lockdowns have impacted collections and recoveries, and the extent to which payment reliefs may mask underlying credit risks, particularly in those markets in ASEAN & South Asia where compulsory moratoria schemes were in place. For those markets, the Group has estimated the impact of increased delinquencies and flows to defaults when the moratoria are lifted as well as the extent to which customers in stage 1 may have experienced a significant increase in credit risk if not for the moratoria. The Group assessment also considered employee banking relationships with high-impact sectors, such as airlines, and the impact on mortgages in Africa & Middle East which generally have high LTVs. \$78 million of the overlay is held in stage 1, \$78 million in stage 2 and \$6 million in stage 3. The basis of determining the overlay remained unchanged during 2020. The overlay increased to \$166 million at 30 September compared with \$118m at 30 June 2020 and reduced to \$162 million at 31 December 2020, as general moratoria schemes ended in a number of markets and the increased delinquency flows were captured by the ECL models.

### Stage 3

Credit-impaired assets managed by Group Special Assets Management (GSAM) incorporate forward-looking economic assumptions in respect of the recovery outcomes identified, and are assigned individual probability weightings. These assumptions are not based on a Monte Carlo simulation but are informed by the Base Forecast.

### Sensitivity of expected credit loss calculation to macroeconomic variables

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, which implies that no single analysis can fully demonstrate the sensitivity of the ECL to changes in the macroeconomic variables.

The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables that might have the greatest impact on overall ECL. These encompassed single variable and multi-variable exercises, using simple up/down variation and extracts from actual calculation data, as well as bespoke scenario design and assessments.

The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential. The Group believes this is plausible as the number of variables used in the ECL calculation is large. This does not mean that macroeconomic variables are uninfluential; rather, that the Group believes that consideration of macroeconomics should involve whole scenarios, as this aligns with the multi-variable nature of the calculation.

The Group faces downside risks in the operating environment related to the uncertainties surrounding the effect of COVID-19 on the macroeconomic outlook. To explore this, a sensitivity analysis of ECL was undertaken to explore the effect of slower economic recoveries across the Group's footprint markets. Two downside scenarios were considered, with both assuming a second wave of COVID-19 early in 2021 across all Standard Chartered markets. The shock is assumed to be 50 per cent as severe as the first wave as governments have learnt lessons on how to tackle the spread of the virus from the prior years' experience. In the moderate scenario, a reasonable recovery takes hold in the second half of 2021. In the severe scenario measures to contain the spread of COVID-19 and stimulate activity prove insufficient and the economies are stuck in a prolonged slowdown with a recovery not materialising until 2022.

	Baseline		Moderate scenario		Severe scenario	
	5-year average	Peak/Trough	5-year average	Peak/Trough	5-year average	Peak/Trough
China GDP	6.0	19.4/3.2	5.3	13.0/(1.3)	4.7	13.0/(4.0)
China unemployment	3.4	3.7/3.4	3.7	5.1/3.4	4.2	5.8/3.4
China property prices	5.8	6.2/4.7	5.0	6.0/(0.9)	4.2	6.2/(4.2)
Hong Kong GDP	2.8	5.5/2.5	2.1	3.4/(0.8)	1.7	2.5/(2.8)
Hong Kong unemployment	3.9	6.3/3.1	5.2	7.5/3.1	5.8	8.1/3.1
Hong Kong property prices	3.7	7.5/(4.3)	2.2	5.6/(6.6)	(0.6)	4.8/(13.2)
US GDP	2.1	8.1/(4.7)	0.8	6.2/(9.2)	(0.3)	2.5/(11.5)
Singapore GDP	2.8	13.7/(2.3)	2.3	10.0/(3.1)	0.7	4.3/(7.0)
India GDP	6.4	32.6/0.0	5.2	17.0/(0.6)	3.8	17.0/(11.8)
World GDP	3.8	9.1/3.3	2.9	7.7/(2.1)	1.7	3.7/(6.5)
Crude Oil	53.8	60.9/39.0	48.6	60.9/19.3	44.4	60.9/19.3

The modelled ECL provisions would be approximately \$242 million higher under the moderate scenario and \$1.3 billion higher under the severe scenario than the baseline ECL provisions (which excluded the impact of multiple economic scenarios and management overlays which may already capture some of the risks in these scenarios). The proportion of stage 2 assets would increase from 5.7 per cent to 13.5 per cent under the severe downside scenario. This includes the impact of exposures transferring to stage 2 from stage 1 but does not consider an increase in stage 3 defaults. There was no material change in modelled stage 3 provisions as these primarily relate to unsecured Retail Banking exposures, for which the LGD is not sensitive

to changes in the macroeconomic forecasts. Under the severe scenario, the majority of the increase was in Corporate & Institutional Banking and Commercial Banking with the main corporate portfolios in the UK, Singapore and UAE impacted. Around 13 per cent of the increase was in Retail Banking, with the main portfolios impacted being the Group's credit card portfolios in Hong Kong, Malaysia and Singapore. Note that these scenarios are not incorporated into the Group's determination of ECL provisions and the actual outcome of any scenario may be materially different due to, amongst other factors, the effect of management actions to mitigate potential increases in risk and changes in the underlying portfolio.

#### Modelled provisions

	Moderate downside increase \$m	Severe downside increase \$m
Corporate & Institutional Banking	75	890
Retail Banking	79	175
Commercial Banking	50	237
Private Banking	1	1
Central & other items	37	45
Total	242	1,348

#### Proportion of assets in stage 2<sup>1</sup>

	Base Forecast scenario %	Moderate downside scenario %	Severe downside scenario %
Corporate & Institutional Banking	10.9%	11.6%	25.9%
Retail Banking	2.1%	2.5%	2.9%
Commercial Banking	17.2%	23.4%	45.5%
Private Banking	7.2%	7.2%	7.2%
Central & other items	0.6%	0.9%	2.7%
Total	5.7%	6.5%	13.5%

<sup>1</sup> Excludes Cash and balances at central banks, Accrued income, Assets held for sale and Other assets

## Significant increase in credit risk (SICR)

### Quantitative criteria

SICR is assessed by comparing the risk of default at the reporting date to the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business and where meaningful are consistently applied across business lines.

Assets are considered to have experienced SICR if they have breached both relative and absolute thresholds for the change in the average annualised lifetime probability of default over the residual term of the exposure.

The absolute measure of increase in credit risk is used to capture instances where the PDs on exposures are relatively low at initial recognition as these may increase by several multiples without representing a significant increase in credit risk. Where PDs are relatively high at initial recognition, a relative measure is more appropriate in assessing whether there is a significant increase in credit risk, as the PDs increase more quickly.

The SICR thresholds have been calibrated based on the following principles:

- **Stability** – The thresholds are set to achieve a stable stage 2 population at a portfolio level, trying to minimise the number of accounts moving back and forth between stage 1 and stage 2 in a short period of time
- **Accuracy** – The thresholds are set such that there is a materially higher propensity for stage 2 exposures to eventually default than is the case for stage 1 exposures
- **Dependency from backstops** – The thresholds are stringent enough such that a high proportion of accounts transfer to stage 2 due to movements in forward-looking PD rather than relying on backward-looking backstops such as arrears
- **Relationship with business and product risk profiles** – The thresholds reflect the relative risk differences between different products, and are aligned to business processes

For Corporate & Institutional Banking and Commercial Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 and 100 bps.

For Retail Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 100 and 350 bps depending on the product. Certain countries have a higher absolute threshold reflecting the lower default rate within their personal loan portfolios compared with the Group's other personal loan portfolios.

Private Banking clients are assessed qualitatively, based on a delinquency measure relating to collateral top-ups or sell-downs.

Debt securities originated before 1 January 2018, with an internal credit rating mapped to an investment grade equivalent, are allocated to stage 1 and all other debt securities to stage 2. Debt securities originated after 1 January 2018 apply the same approach and thresholds as for Corporate & Institutional Banking and Commercial Banking clients.

### Qualitative criteria

Qualitative factors that indicate there has been a significant increase in credit risk include processes linked to current risk management, such as placing loans on non-purely precautionary early alert.

### Backstop

Across all portfolios, accounts that are 30 or more days past due (DPD) on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

Expert credit judgement may be applied in assessing significant increase in credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events and material uncertainties arising close to the reporting date.

## Corporate & Institutional Banking and Commercial Banking clients

### Quantitative criteria

Exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date as described above.

To account for the fact that the mapping between internal credit grades (used in the origination process) and PDs is non-linear (e.g. a one-notch downgrade in the investment grade universe results in a much smaller PD increase than in the sub-investment grade universe), the absolute thresholds have been differentiated by credit quality at origination, as measured by internal credit grades being investment grade or sub-investment grade.

### Qualitative criteria

All assets of clients that have been placed on early alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk.

An account is placed on non-purely precautionary early alert if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances, among other factors.

All client assets that have been assigned a CG12 rating, equivalent to 'Higher risk', are deemed to have experienced a significant increase in credit risk. Accounts rated CG12 are managed by the GSAM unit. All Corporate & Institutional Banking and Commercial Banking clients are placed on CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

## Retail Banking clients

### Quantitative criteria

Material portfolios (defined as a combination of country and product, for example Hong Kong mortgages, Taiwan credit cards) for which a statistical model has been built, are assessed based on both the absolute and relative movement in the PD from origination to the reporting date as described above. For these portfolios, the original lifetime PD term structure is determined based on the original application score or risk segment of the client.

### Qualitative criteria

Accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, SICR is primarily assessed through the 30 DPD trigger.

### Private Banking clients

For Private Banking clients, SICR is assessed by referencing the nature and the level of collateral against which credit is extended (known as 'Classes of Risk').

### Qualitative criteria

For all Private Banking classes, in line with risk management practice, an increase in credit risk is deemed to have occurred where margining or loan-to-value covenants have been breached.

For Class I assets (lending against diversified liquid collateral), if these margining requirements have not been met within 30 days of a trigger, a significant increase in credit risk is assumed to have occurred.

For Class I and Class III assets (real-estate lending), a significant increase in credit risk is assumed to have occurred where the bank is unable to 'sell down' the applicable assets to meet revised collateral requirements within five days of a trigger.

Class II assets are typically unsecured or partially secured, or secured against illiquid collateral such as shares in private companies. Significant credit deterioration of these assets is deemed to have occurred when any early alert trigger has been breached.

### Debt securities

#### Quantitative criteria

For debt securities originated before 1 January 2018, the bank is utilising the low Credit Risk simplified approach, where debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities are allocated to stage 2. Debt securities originated after 1 January 2018 are assessed based on the absolute and relative movements in PD from origination to the reporting date.

#### Qualitative criteria

Debt securities utilise the same qualitative criteria as the Corporate & Institutional Banking and Commercial Banking client segments, including being placed on early alert or being classified as CG12.

### Assessment of credit-impaired financial assets

#### Retail Banking clients

The core components in determining credit-impaired expected credit loss provisions are the value of gross charge-off and recoveries. Gross charge-off and/or loss provisions are recognised when it is established that the account is unlikely to pay through the normal process. Recovery of unsecured debt post credit impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision).

### Corporate & Institutional Banking, Commercial Banking and Private Banking clients

Credit-impaired accounts are managed by the Group's specialist recovery unit, Group Special Assets Management (GSAM), which is independent from its main businesses. Where any amount is considered irrecoverable, a stage 3 credit impairment provision is raised. This stage 3 provision is the difference between the loan-carrying amount and the probability-weighted present value of estimated future cashflows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cashflows include realisable collateral, the values used will incorporate the impact of forward-looking economic information.

The individual circumstances of each client are considered when GSAM estimates future cashflows and the timing of future recoveries which involves significant judgement. All available sources, such as cashflow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

### Write-offs

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

### Governance and application of expert credit judgement in respect of expected credit losses

The Group's Credit Policy and Standards framework details the requirements for continuous monitoring to identify any changes in credit quality and resultant ratings, as well as ensuring a consistent approach to monitoring, managing and mitigating credit risks. The framework aligns with the governance of ECL estimation through the early recognition of significant deteriorations in ratings which drive stage 2 and 3 ECL.

The models used in determining expected credit losses are reviewed and approved by the Group Credit Model Assessment Committee (CMAC) which is appointed by the Model Risk Committee. CMAC has the responsibility to assess and approve the use of models and to review all IFRS 9 interpretations related to models. CMAC also provides oversight on operational matters related to model development, performance monitoring and model validation activities including standards, regulatory and Group Internal Audit matters.

Prior to submission to CMAC for approval, the models are validated by Group Model Validation (GMV), a function which is independent of the business and the model developers. GMV's analysis comprises review of model documentation, model design and methodology, data validation, review of the model development and calibration process, out-of-sample performance testing, and assessment of compliance review against IFRS 9 rules and internal standards.

A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds, an assessment of whether a PMA is required to correct for the identified model issue is completed.

Key inputs into the calculation and resulting expected credit loss provisions are subject to review and approval by the IFRS 9 Impairment Committee (IIC), which is appointed by the Group Risk Committee. The IIC consists of senior representatives from Risk, Finance, and Group Economic Research. It meets at least twice every quarter, once before the models are run to approve key inputs into the calculation, and once after the models are run to approve the expected credit loss provisions and any judgemental overrides that may be necessary.

The IFRS 9 Impairment Committee:

- Oversees the appropriateness of all Business Model Assessment and Solely Payments of Principal and Interest (SPPI) tests
- Reviews and approves expected credit loss for financial assets classified as stages 1, 2 and 3 for each financial reporting period
- Reviews and approves stage allocation rules and thresholds
- Approves material adjustments in relation to expected credit loss for fair value through other comprehensive income (FVOCI) and amortised cost financial assets
- Reviews, challenges and approves base macroeconomic forecasts and the multiple macroeconomic scenarios approach that are utilised in the forward-looking expected credit loss calculations

The IFRS 9 Impairment Committee is supported by an Expert Panel which also reviews and challenges the base case projections and multiple macroeconomic scenarios. The Expert Panel consists of members of Enterprise Risk Management (which includes the Scenario Design team), Finance, Group Economic Research and country representatives of major jurisdictions.

PMAs may be applied to account for identified weaknesses in model estimates. The processes for identifying the need for, calculating the level of, and approving PMAs are prescribed in the Credit Risk IFRS 9 ECL Model Family Standards which are approved by the Global Head, Model Risk Management. PMA calculation methodologies are reviewed by GMV and submitted to CMAC as the model approver or the IIC. All PMAs have a remediation plan to fix the identified model weakness, and these plans are reported to and tracked at CMAC.

In addition, Risk Event Overlays account for events that are sudden and therefore not captured in the Base Case forecast or the resulting ECL calculated by the models. All Risk Event Overlays must be approved by the IIC having considered the nature of the event, why the risk is not captured in the model, and the basis on which the quantum of the overlay has been calculated. Risk Event Overlays are subject to quarterly review and re-approval by the IIC.

## Country Risk

The Group monitors Gross Country Risk (GCR), which is an aggregate of two distinct risk types:

- Transfer and Convertibility Risk (TCR), which is the potential for losses on cross-border or foreign currency obligations arising from the possibility that a government is unable or unwilling to make foreign currency available for remittance out of the country; and
- Local Currency Risk (LCR), which is the potential for losses on local currency obligations arising from operating in a volatile domestic, economic and political environment.

The profile of the Group's largest Gross Country Risk exposures as at 31 December 2020 is consistent with its strategic focus on core franchise countries. Changes in the pace of economic activity and portfolio management activity had an impact on the growth of Country Risk exposure for certain markets.

There has been an increase in exposure to the United States, driven by increased nostros balances kept with the Federal Reserve and growth in domestic short-term lending, particularly to non-financial corporations.

There has been a slight increase in exposure to Hong Kong, primarily due to increased nostros balances kept with the Hong Kong Monetary Authority. This was partially offset by reduced domestic treasury market activities.

Exposure to South Korea increased due to growth in the retail portfolio combined with increased domestic treasury market activity.

Exposure to China increased due to growth in cross-border treasury market volumes and higher nostros balances. This was partially offset by a reduction in cross-border trade finance activity.

The increase in exposure to Singapore is due to higher nostros balances kept with the Monetary Authority of Singapore and increased cross-border lending to financial institutions.

United Kingdom exposure increased due to higher nostros balances kept with the Bank of England. This was partially offset by reduced cross-border trade finance activity.

Exposure to India increased slightly, with increased domestic treasury market activities offsetting the reductions in the retail and private banking portfolios.

The increase in exposure to Taiwan is driven by higher nostros balances and increased cross-border lending, particularly to non-financial corporations.

Exposure to Germany increased due to increased term loans and higher nostros balances. This was partially offset by a reduction in government bond holdings.

Exposure to the UAE decreased due to lower domestic treasury market activity and a reduction in the retail portfolio.

The table below, which is based on the Group's internal Country Risk reporting requirements shows the 10 largest country/market exposures across the Group.

Country/Market	2020			2019		
	TCR \$million	LCR \$million	GCR \$million	TCR \$million	LCR \$million	GCR \$million
United States	32,677	63,355	96,032	25,966	58,930	84,896
Hong Kong	19,113	67,655	86,768	21,361	63,214	84,575
South Korea	15,526	59,089	74,615	17,809	49,351	67,160
China	42,661	21,838	64,499	36,469	20,977	57,446
Singapore	20,113	39,145	59,258	18,304	34,046	52,350
United Kingdom	20,887	26,207	47,094	27,563	16,782	44,345
India	13,713	21,388	35,101	14,008	20,305	34,313
Taiwan	6,732	17,292	24,024	2,733	14,827	17,560
Germany	14,323	7,910	22,233	11,890	4,546	16,436
United Arab Emirates	15,807	5,714	21,521	16,461	6,145	22,606

## Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the Group in financial markets. Under the Enterprise Risk Management Framework, the Traded Risk Framework brings together Market Risk, Counterparty Credit Risk, Issuer Risk, XVA, Algorithmic Trading and Pension Risk. Traded Risk Management is the core risk management function supporting market-facing businesses, predominantly Financial Markets and Treasury Markets.

### Market Risk (audited)

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

#### • Trading book:

- The Group provides clients access to financial markets, facilitation of which entails the Group taking moderate Market Risk positions. All trading teams support client activity. There are no proprietary trading teams. Hence, income earned from Market Risk-related activities is primarily driven by the volume of client activity rather than risk-taking

#### • Non-trading book:

- The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities
- The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to Structural Foreign Exchange Risk which is reflected in reserves

A summary of our current policies and practices regarding Market Risk management is provided in the Principal Risks section (page 257).

The primary categories of Market Risk for the Group are:

- Interest Rate Risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Foreign Exchange Rate Risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options
- Commodity Risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture as well as commodity baskets
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

#### Market Risk changes (audited)

The average level of total trading and non-trading value at risk (VaR) in 2020 was \$108.0 million, 258 per cent higher than in 2019 (\$30.2 million). The actual level of total trading and non-trading VaR as at the end of 2020 was \$137.6 million, 300 per cent higher than in 2019 (\$34.4 million). The increase in total average VaR was driven by the extreme market volatility in interest rates and credit spreads following the outbreak of COVID-19 and the collapse in oil prices, with the largest increase observed in the non-trading book from high-quality marketable securities held in the Treasury Markets liquid assets buffer. The credit bonds that are included in the buffer are almost exclusively of investment grade. The historical scenarios driving the total VaR are all from March 2020, hence VaR is expected to remain elevated until at least March 2021.

For the trading book, the average level of VaR in 2020 was \$17.0 million, 55 per cent higher than in 2019 (\$11.0 million). Trading activities have remained relatively unchanged and client-driven.

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

	2020				2019			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
<b>Trading and non-trading</b>								
Interest Rate Risk <sup>3</sup>	93.9	121.6	29.0	115.7	28.9	35.2	24.1	34.2
Foreign Exchange Risk	6.4	15.1	3.0	15.1	4.3	8.5	2.3	5.1
Commodity Risk	2.5	5.5	0.7	4.9	1.3	2.2	0.8	1.4
Equity Risk	2.6	5.4	1.5	1.5	3.5	4.6	2.5	2.5
<b>Total<sup>4</sup></b>	<b>108.0</b>	<b>158.0</b>	<b>28.8</b>	<b>137.6</b>	<b>30.2</b>	<b>37.1</b>	<b>24.1</b>	<b>34.4</b>
	2020				2019			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
<b>Trading<sup>5</sup></b>								
Interest Rate Risk <sup>3</sup>	10.6	15.4	6.5	9.9	8.0	11.8	6.3	7.0
Foreign Exchange Risk	6.4	15.1	3.0	15.1	4.3	8.5	2.3	5.1
Commodity Risk	2.5	5.5	0.7	4.9	1.3	2.2	0.8	1.4
Equity Risk	0.0	0.0	0.0	0.0	–	0.1	–	–
<b>Total<sup>4</sup></b>	<b>17.0</b>	<b>26.3</b>	<b>8.3</b>	<b>24.6</b>	<b>11.0</b>	<b>14.0</b>	<b>8.8</b>	<b>10.0</b>
	2020				2019			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
<b>Non-trading</b>								
Interest Rate Risk <sup>3</sup>	83.0	110.2	27.3	103.5	26.2	33.3	21.2	33.3
Equity Risk <sup>6</sup>	2.6	5.4	1.4	1.5	3.5	4.6	2.5	2.5
<b>Total<sup>4</sup></b>	<b>84.8</b>	<b>113.7</b>	<b>27.7</b>	<b>104.7</b>	<b>26.7</b>	<b>33.4</b>	<b>20.6</b>	<b>32.0</b>

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days

2 Actual one-day VaR at year-end date

3 Interest Rate Risk VaR includes Credit Spread Risk arising from securities accounted for as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI)

4 The total VaR shown in the tables above is not equal to the sum of the component risks due to offsets between them

5 Trading book for Market Risk is defined in accordance with the EU Capital Requirements Regulation (CRD/CRR) Part 3 Title I Chapter 3, which restricts the positions permitted in the trading book

6 Non-trading Equity Risk VaR includes only listed equities

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

	2020				2019			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
<b>Trading and non-trading</b>	<b>108.0</b>	<b>158.0</b>	<b>28.8</b>	<b>137.6</b>	30.2	37.1	24.1	34.4
<b>Trading<sup>4</sup></b>								
Rates	7.6	11.1	4.5	8.5	5.4	7.6	4.0	5.1
Global Foreign Exchange	6.4	15.1	3.0	15.1	4.3	8.5	2.3	5.1
Credit Trading & Capital Markets	7.8	14.6	3.3	8.4	4.2	7.9	1.9	4.6
Commodities	2.5	5.5	0.7	4.9	1.3	2.2	0.8	1.4
Equities	–	–	–	–	–	0.1	–	–
XVA	9.0	13.7	2.7	11.2	4.0	6.8	1.8	2.8
Total <sup>3</sup>	17.0	26.3	8.3	24.6	11.0	14.0	8.8	10.0
<b>Non-trading</b>								
Treasury Markets	83.0	110.2	27.3	103.5	26.2	33.3	21.2	33.3
Listed private equity	2.6	5.4	1.4	1.5	3.5	4.6	2.5	2.5
Total <sup>3</sup>	84.8	113.7	27.7	104.7	26.7	33.4	20.6	32.0

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days

2 Actual one-day VaR at year end date

3 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

4 Trading book for Market Risk is defined in accordance with the EU Capital Requirements Regulation (CRD/CRR) Part 3 Title I Chapter 3, which restricts the positions permitted in the trading book

### Risks not in VaR

In 2020, the main Market Risk not reflected in VaR was the potential depeg risk from currencies currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. The other material Market Risk not reflected in VaR was associated with basis risks where historical market price data for VaR is sometimes more limited and therefore proxied, generating a potential basis risk. Additional capital is set aside to cover such 'risks not in VaR'. For further details on Market Risk capital, see the Market Risk section in the Standard Chartered PLC Pillar 3 Disclosures for 31 December 2020.

### Backtesting

In 2020, there were three regulatory backtesting negative exceptions at Group level (in 2019, there were five regulatory backtesting negative exceptions at Group level). These exceptions occurred on:

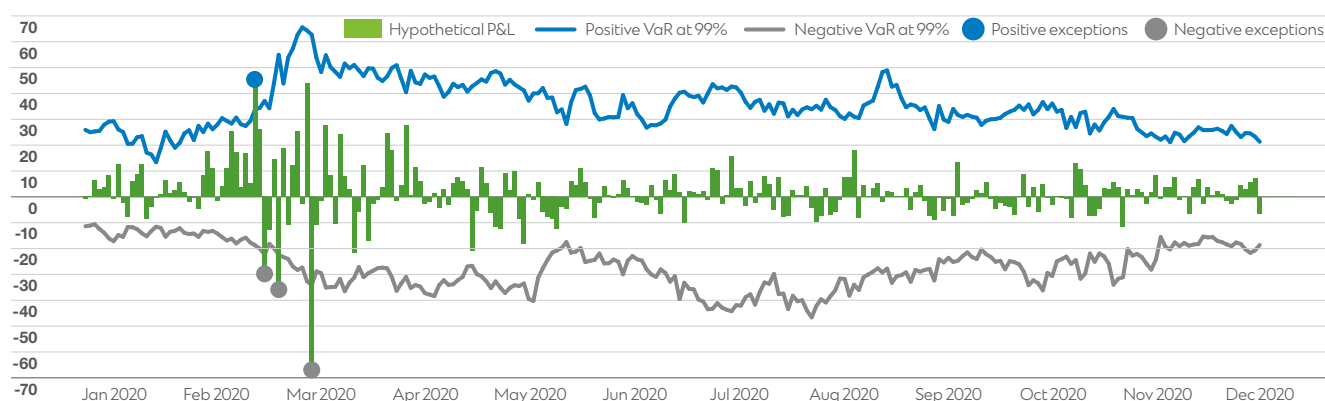
- 10 March: When markets rallied following the announcement of measures to stimulate the US economy
- 13 March: When markets rallied as the Federal Reserve provided details of US Treasury purchases, and cut interest rates
- 24 March: When markets rallied as US Congress finalised a \$2 trillion package to stimulate the economy, also impacting gold prices

In total, there have been three Group exceptions in the previous 250 business days which is within the 'amber zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision, Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements, January 1996).

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

### 2020 Backtesting chart

#### Internal model approach regulatory trading book at Group level Hypothetical profit and loss (P&L) versus VaR (99 per cent, one day)



### Financial Markets loss days

	2020	2019
Number of loss days reported for Financial Markets trading book total product income <sup>1</sup>	15	1

<sup>1</sup> Reflects total product income for Financial Markets:

- Including credit valuation adjustment (CVA) and funding valuation adjustment (FVA)
- Excluding Treasury Markets business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and overnight indexed swap (OIS) discounting

### Average daily income earned from Market Risk-related activities<sup>1</sup>

The average level of total trading daily income in 2020 was \$11.1 million, 28 per cent higher than in 2019 (\$8.7 million), driven by extreme market volatility following the outbreak of COVID-19 and the resulting increase in trading activity and wider spreads.

	2020 \$million	2019 \$million
<b>Trading</b>		
Interest Rate Risk	5.1	3.6
Foreign Exchange Risk	5.1	4.5
Commodity Risk	0.9	0.6
Equity Risk	–	–
Total	11.1	8.7
<b>Non-trading</b>		
Interest Rate Risk	1.7	1.7
Equity Risk	–	0.3
Total	1.7	2.0

<sup>1</sup> Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from Market Risk-related activities. XVA income is included under Interest Rate Risk

## Structural foreign exchange exposures

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

	2020 \$million	2019 \$million
Hong Kong dollar	8,739	8,432
Indian rupee	4,222	3,930
Renminbi	4,071	3,344
Singapore dollar	2,543	2,531
Korean won	2,856	2,393
Taiwanese dollar	1,556	1,418
UAE dirham	1,863	1,994
Malaysian ringgit	1,575	1,557
Thai baht	892	929
Indonesian rupiah	332	1,139
Pakistani rupee	471	441
Other	4,422	4,558
	33,542	32,666

As at 31 December 2020, the Group had taken net investment hedges using derivative financial investments of \$1,984 million (31 December 2019: \$1,997 million) to partly cover its exposure to the Korean won, \$834 million (31 December 2019: \$789 million) to partly cover its exposure to the Taiwanese dollar, \$1,527 million (31 December 2019: \$1,565 million) to partly cover its exposure to the renminbi and \$652 million (31 December 2019: \$713 million) to partly cover its exposure to the Indian rupee. An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the US dollar exchange rates, adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of \$381 million (31 December 2019: \$358 million). Changes in the valuation of these positions are taken to reserves. For analysis of the Group's capital position and requirements, refer to the Capital Review (page 277).

### Counterparty Credit Risk

Counterparty Credit Risk is the potential for loss in the event of the default of a derivative counterparty, after taking into account the value of eligible collaterals and risk mitigation techniques. The Group's counterparty credit exposures are included in the Credit Risk section.

### Derivative financial instruments Credit Risk mitigation

The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. The value of exposure under master netting agreements is \$47,097 million (2019: \$28,659 million).

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

## Liquidity and Funding Risk

Liquidity and Funding Risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

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

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

### Primary sources of funding (audited)

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

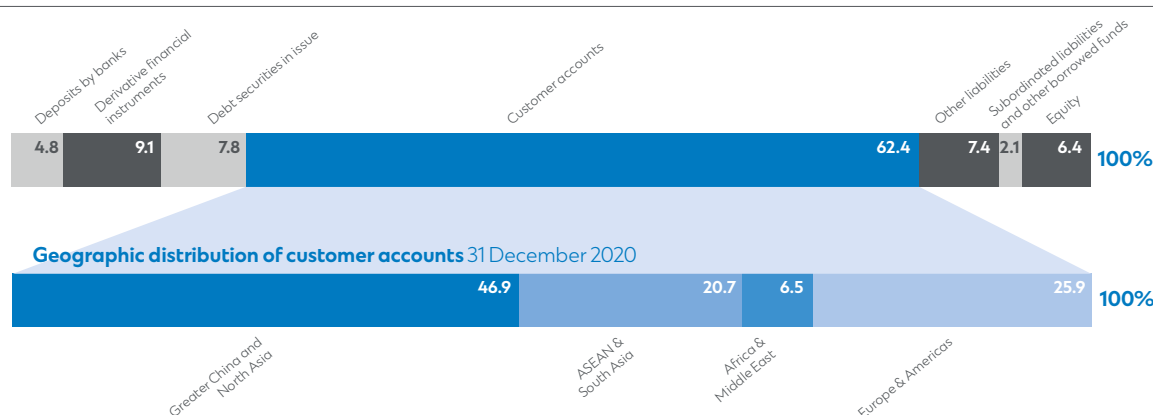
A substantial portion of our assets are funded by customer deposits aligned with our policy to fund customer assets predominantly using customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

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

In 2020, the Group issued approximately \$6.8 billion of senior debt securities, \$2.4 billion of subordinated debt securities and \$1 billion of Additional Tier 1 securities from its holding company (HoldCo) Standard Chartered PLC. (2019: \$6.1 billion of term senior debt, \$1 billion of subordinated securities and \$0.5 billion of Additional Tier 1).

Debt refinancing levels are low. In the next 12 months approximately \$6.1 billion of the Group's senior debt and subordinated debt securities in total are falling due for repayment either contractually or callable by the Group.

#### Group's composition of liabilities 31 December 2020



#### Liquidity and Funding Risk metrics

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

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

#### Liquidity coverage ratio (LCR)

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

The Group monitors and reports its liquidity position under European Commission Delegated Regulation 2015/61 and has maintained its liquidity position above the prudential requirement. The Group maintained strong liquidity ratios despite the impacts of the COVID-19 stress. For further detail see the Liquidity section in the Standard Chartered PLC Pillar 3 Disclosures for FY 2020.

At the reporting date, the Group LCR was 143 per cent (2019: 144 per cent) with a prudent surplus to both Board-approved Risk Appetite and regulatory requirements. Both the liquidity buffer and cash outflows grew during the year in line with the overall balance sheet growth.

We also held adequate liquidity across our footprint to meet all local prudential LCR requirements where applicable.

	2020 \$million	2019 \$million
Liquidity buffer	175,948	158,415
Total net cash outflows	122,664	110,269
Liquidity coverage ratio	143%	144%

### Stressed coverage

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

Our approach to managing liquidity and funding is reflected in the following Board-level Risk Appetite Statement:

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

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

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

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, Off-Balance Sheet Funding Risk, Cross Currency Funding Risk, Intraday Risk, Franchise Risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2020, i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2020 showed the Group maintained liquidity resources to survive greater than 60 days, as per our Board Risk Appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

Standard Chartered Bank's credit ratings as at 31 December 2020 were A+ with negative outlook (Fitch), A with stable outlook (S&P) and A1 with stable outlook (Moody's). A downgrade in the Group's long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. At 31 December 2020, the estimated contractual outflow of a three-notch long-term ratings downgrade is \$1.4 billion.

### External wholesale borrowing

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. External Wholesale Borrowing includes Certificates of Deposit, Commercial Paper, Deposits from Banks and Medium Term Notes. Limits are applied to all branches and operating subsidiaries in the Group and as at the reporting date the Group remained within Board Risk Appetite.

### Advances-to-deposits ratio

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

The advances-to-deposits ratio has declined by 3.1 per cent to 61.1 per cent as customer deposit growth of 9 per cent outpaced customer loan growth of 3 per cent. Strong customer deposit growth was driven by TB CASA and Retail CASA partly offset by a reduction in Corporate and Retail term deposits, resulting in an overall improvement in the quality of the Group's customer deposit base. Customer loan growth was mainly in Retail mortgages in Hong Kong and Korea partly offset by lower volumes in corporate lending and transaction banking due to lower activity levels and demand, in part due to the impacts of COVID-19.

	2020 \$million	2019 \$million
Total loans and advances to customers <sup>1,2</sup>	273,861	264,841
Total customer accounts <sup>3</sup>	448,236	412,303
Advances-to-deposits ratio	61.1%	64.2%

1 Excludes reverse repurchase agreement and other similar secured lending of \$2,919 million and includes loans and advances to customers held at fair value through profit and loss of \$9,377 million

2 Loans and advances to customers for the purpose of the advances-to-deposits ratio excludes \$14,296 million of approved balances held with central banks, confirmed as repayable at the point of stress (31 December 2019: \$9,109 million)

3 Includes customer accounts held at fair value through profit or loss of \$8,897 million (31 December 2019: \$6,947 million)

### Net stable funding ratio (NSFR)

On 23 November 2016, the European Commission, as part of a package of risk-reducing measures, proposed a regulatory requirement for stable funding (net stable funding ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295). The NSFR is due to become a regulatory requirement in January 2022 with a minimum of 100 per cent. Pending implementation of the final rules, the Group continues to monitor NSFR in line with the BCBS' final recommendation (BCBS295).

The NSFR is a balance sheet metric which requires institutions to maintain a stable funding profile in relation to the characteristics of their assets and off-balance sheet activities over a one-year horizon. It is the ratio between the amount of available stable funding (ASF) and the amount of required

stable funding (RSF). ASF factors are applied to balance sheet liabilities and capital, based on their perceived stability and the amount of stable funding they provide. Likewise, RSF factors are applied to assets and off-balance sheet exposures according to the amount of stable funding they require. At the last reporting date, the Group NSFR remained above 100 per cent.

### Liquidity pool

The liquidity value of the Group's LCR eligible liquidity pool at the reporting date was \$176 billion. The figures in the below table account for haircuts, currency convertibility and portability constraints, and therefore are not directly comparable with the consolidated balance sheet. The pool is held to offset stress outflows as defined in European Commission Delegated Regulation 2015/61.

	2020				
	Greater China & North East Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Level 1 securities</b>					
Cash and balances at central banks	10,104	16,622	1,421	42,502	70,649
Central banks, governments /public sector entities	32,580	8,434	1,569	33,652	76,235
Multilateral development banks and international organisations	4,919	453	236	6,818	12,426
Other	–	–	14	1,645	1,659
<b>Total Level 1 securities</b>	<b>47,603</b>	<b>25,509</b>	<b>3,240</b>	<b>84,617</b>	<b>160,969</b>
Level 2A securities	9,637	1,878	79	2,891	14,485
Level 2B securities	–	207	–	287	494
<b>Total LCR eligible assets</b>	<b>57,240</b>	<b>27,594</b>	<b>3,319</b>	<b>87,795</b>	<b>175,948</b>

	2019				
	Greater China & North East Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Level 1 securities</b>					
Cash and balances at central banks	15,109	11,535	1,265	24,326	52,235
Central banks, governments /public sector entities	31,735	7,952	2,201	39,136	81,024
Multilateral development banks and international organisations	2,761	1,183	160	7,448	11,552
Other	–	–	14	1,104	1,118
<b>Total Level 1 securities</b>	<b>49,605</b>	<b>20,670</b>	<b>3,640</b>	<b>72,014</b>	<b>145,929</b>
Level 2A securities	4,824	1,928	63	3,217	10,032
Level 2B securities	–	343	–	2,111	2,454
<b>Total LCR eligible assets</b>	<b>54,429</b>	<b>22,941</b>	<b>3,703</b>	<b>77,342</b>	<b>158,415</b>

### Encumbrance

#### Encumbered assets

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

#### Unencumbered – readily available for encumbrance

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

#### Unencumbered – other assets capable of being encumbered

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

#### Unencumbered – cannot be encumbered

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

## Derivatives, reverse repurchase assets and stock lending

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

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

	2020									
	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
	Assets \$million	As a result of securitisations \$million	Other \$million	Total \$million	Assets positioned at the central bank (ie pre-positioned plus encumbered) \$million	Assets not positioned at the central bank				Total \$million
						Readily available for encumbrance \$million	Other assets that are capable of being encumbered \$million	Derivatives and reverse repo/stock lending \$million	Cannot be encumbered \$million	
Cash and balances at central banks	66,712	-	-	-	7,341	59,371	-	-	-	66,712
Derivative financial instruments	69,467	-	-	-	-	-	-	69,467	-	69,467
Loans and advances to banks <sup>1</sup>	66,429	-	-	-	-	38,023	8,091	19,452	863	66,429
Loans and advances to customers <sup>1</sup>	336,276	-	3,826	3,826	-	-	268,930	48,118	15,402	332,450
Investment securities <sup>2</sup>	183,443	-	11,282	11,282	-	131,304	36,097	-	4,760	172,161
Other assets	48,688	-	19,054	19,054	-	-	18,741	-	10,893	29,634
Current tax assets	808	-	-	-	-	-	-	-	808	808
Prepayments and accrued income	2,122	-	-	-	-	-	980	-	1,142	2,122
Interests in associates and joint ventures	2,162	-	-	-	-	-	-	-	2,162	2,162
Goodwill and intangible assets	5,063	-	-	-	-	-	-	-	5,063	5,063
Property, plant and equipment	6,515	-	-	-	-	-	448	-	6,067	6,515
Deferred tax assets	919	-	-	-	-	-	-	-	919	919
Assets classified as held for sale	446	-	-	-	-	-	-	-	446	446
<b>Total</b>	<b>789,050</b>	<b>-</b>	<b>34,162</b>	<b>34,162</b>	<b>7,341</b>	<b>228,698</b>	<b>333,287</b>	<b>137,037</b>	<b>48,525</b>	<b>754,888</b>

1 Includes held at fair value through profit or loss and amortised cost balances

2 Includes held at fair value through profit or loss, fair value through other comprehensive income and amortised cost balances

2019

	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
	Assets \$million	As a result of securitisations \$million	Other \$million	Total \$million	Assets positioned at the central bank (ie pre-positioned plus encumbered) \$million	Assets not positioned at the central bank				Total \$million
						Readily available for encumbrance \$million	Other assets that are capable of being encumbered \$million	Derivatives and reverse repo/stock lending \$million	Cannot be encumbered \$million	
Cash and balances at central banks	52,728	–	–	–	9,843	42,885	–	–	–	52,728
Derivative financial instruments	47,212	–	–	–	–	–	–	47,212	–	47,212
Loans and advances to banks <sup>1</sup>	75,346	326	73	399	–	40,600	13,341	19,610	1,396	74,947
Loans and advances to customers <sup>1</sup>	314,754	298	1,082	1,380	–	–	259,061	40,804	13,509	313,374
Investment securities <sup>2</sup>	168,521	–	7,919	7,919	1,284	108,209	47,399	–	3,710	160,602
Other assets	42,022	–	16,080	16,080	–	–	14,516	–	11,426	25,942
Current tax assets	539	–	–	–	–	–	–	–	539	539
Prepayments and accrued income	2,700	–	–	–	–	–	1,530	–	1,170	2,700
Interests in associates and joint ventures	1,908	–	–	–	–	–	–	–	1,908	1,908
Goodwill and intangible assets	5,290	–	–	–	–	–	–	–	5,290	5,290
Property, plant and equipment	6,220	–	–	–	–	–	444	–	5,776	6,220
Deferred tax assets	1,105	–	–	–	–	–	–	–	1,105	1,105
Assets classified as held for sale	2,053	–	–	–	–	–	–	–	2,053	2,053
Total	720,398	624	25,154	25,778	11,127	191,694	336,291	107,626	47,882	694,620

<sup>1</sup> Includes held at fair value through profit or loss and amortised cost balances

<sup>2</sup> Includes held at fair value through profit or loss, fair value through other comprehensive income and amortised cost balances

The Group received \$99,238 million (31 December 2019: \$85,415 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold or repledged \$46,209 million (31 December 2019: \$44,530 million) under repurchase agreements.

## Liquidity analysis of the Group's balance sheet (audited)

### Contractual maturity of assets and liabilities

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

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are fair value through other comprehensive income are used by the Group principally for liquidity management purposes.

As at the reporting date, assets remain predominantly short-dated, with 59 per cent maturing in under one year. Our less than three-month cumulative net funding gap increased from the previous year, largely due to an increase in customer accounts as the Group focused on improving the quality of its deposit base. In practice, these deposits are recognised as stable and have behavioural profiles that extend beyond their contractual maturities.

	2020								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	59,371	–	–	–	–	–	–	7,341	66,712
Derivative financial instruments	14,091	13,952	9,630	6,210	3,840	5,555	9,492	6,697	69,467
Loans and advances to banks <sup>1,2</sup>	29,325	17,120	8,375	4,455	2,876	1,091	2,910	277	66,429
Loans and advances to customers <sup>1,2</sup>	84,657	48,152	26,205	11,740	11,635	21,454	38,009	94,424	336,276
Investment securities	11,191	20,426	11,960	13,260	13,792	30,783	45,718	36,313	183,443
Other assets	22,440	18,753	1,314	191	120	43	37	23,825	66,723
Total assets	221,075	118,403	57,484	35,856	32,263	58,926	96,166	168,877	789,050
Liabilities									
Deposits by banks <sup>1,3</sup>	33,082	1,288	2,563	216	545	221	194	42	38,151
Customer accounts <sup>1,4</sup>	389,896	52,604	20,345	9,126	11,364	5,313	1,647	1,859	492,154
Derivative financial instruments	15,247	13,633	10,449	6,739	4,221	5,976	11,223	4,045	71,533
Senior debt	1,215	2,138	2,181	515	168	3,253	13,090	12,482	35,042
Other debt securities in issue <sup>1</sup>	1,275	7,619	10,441	2,863	2,424	61	1,132	504	26,319
Other liabilities	18,795	19,958	3,089	669	914	485	314	14,244	58,468
Subordinated liabilities and other borrowed funds	–	17	–	–	–	1,956	3,766	10,915	16,654
Total liabilities	459,510	97,257	49,068	20,128	19,636	17,265	31,366	44,091	738,321
Net liquidity gap	(238,435)	21,146	8,416	15,728	12,627	41,661	64,800	124,786	50,729

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see Note 13 Financial instruments pages 327 to 352

2 Loans and advances include reverse repurchase agreements and other similar secured lending of \$67.6 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of \$6.6 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of \$43.9 billion

	2019								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Cash and balances at central banks	42,885	–	–	–	–	–	–	9,843	52,728
Derivative financial instruments	6,643	5,751	3,835	2,714	1,860	3,955	9,439	13,015	47,212
Loans and advances to banks <sup>1,2</sup>	33,133	19,030	11,069	5,150	3,464	1,701	1,366	433	75,346
Loans and advances to customers <sup>1,2</sup>	86,927	37,322	20,849	10,088	12,640	21,517	38,624	86,787	314,754
Investment securities	11,968	11,837	17,180	11,789	7,070	34,859	44,488	29,330	168,521
Other assets	20,689	18,223	1,433	105	75	264	133	20,915	61,837
Total assets	202,245	92,163	54,366	29,846	25,109	62,296	94,050	160,323	720,398
<b>Liabilities</b>									
Deposits by banks <sup>1,3</sup>	31,873	2,931	1,079	361	528	174	486	–	37,432
Customer accounts <sup>1,4</sup>	349,992	50,546	25,552	10,270	9,545	2,622	1,553	2,653	452,733
Derivative financial instruments	7,086	5,922	4,249	2,990	2,031	5,007	10,069	11,130	48,484
Senior debt	325	1,373	2,870	607	495	3,083	11,248	11,318	31,319
Other debt securities in issue <sup>1</sup>	5,612	12,234	8,766	895	1,449	280	56	924	30,216
Other liabilities	17,701	17,206	3,039	600	908	1,866	835	11,191	53,346
Subordinated liabilities and other borrowed funds	–	17	754	–	–	–	5,523	9,913	16,207
Total liabilities	412,589	90,229	46,309	15,723	14,956	13,032	29,770	47,129	669,737
Net liquidity gap	(210,344)	1,934	8,057	14,123	10,153	49,264	64,280	113,194	50,661

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see Note 13 Financial instruments pages 327 to 352

2 Loans and advances include reverse repurchase agreements and other similar secured lending of \$60.4 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of \$7.8 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of \$40.4 billion

### Behavioural maturity of financial assets and liabilities

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

### Maturity of financial liabilities on an undiscounted basis

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

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

	2020								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Deposits by banks	33,107	1,297	2,574	227	576	225	195	54	38,255
Customer accounts	390,203	52,749	20,446	9,188	11,507	5,362	1,679	2,144	493,278
Derivative financial instruments <sup>1</sup>	70,216	48	219	160	60	199	510	121	71,533
Debt securities in issue	2,494	9,596	12,924	3,401	2,921	3,945	15,556	14,456	65,293
Subordinated liabilities and other borrowed funds	–	–	251	–	371	2,591	5,202	15,466	23,881
Other liabilities	17,002	19,754	2,996	657	904	483	317	9,914	52,027
Total liabilities	513,022	83,444	39,410	13,633	16,339	12,805	23,459	42,155	744,267

	2019								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Deposits by banks	33,034	2,977	1,112	381	588	189	502	–	38,783
Customer accounts	350,679	50,908	26,552	10,415	9,839	2,694	1,625	3,127	455,839
Derivative financial instruments <sup>1</sup>	47,000	5	18	170	314	355	512	110	48,484
Debt securities in issue	5,951	13,615	11,886	1,559	2,210	3,882	12,431	13,557	65,091
Subordinated liabilities and other borrowed funds	–	–	1,009	26	395	641	7,140	15,124	24,335
Other liabilities	15,341	16,870	3,046	601	865	1,876	885	12,376	51,860
Total liabilities	452,005	84,375	43,623	13,152	14,211	9,637	23,095	44,294	684,392

1 Derivatives are on a discounted basis

### Interest Rate Risk in the Banking Book

The following table provides the estimated impact to a hypothetical base case projection of the Group's earnings under the following scenarios:

- A 50 basis point parallel interest rate shock (up and down) to the current market-implied path of rates, across all yield curves.
- A 100 basis point parallel interest rate shock (up) to the current market-implied path of rates, across all yield curves.

These interest rate shock scenarios assume all other economic variables remain constant. The sensitivities shown represent the estimated change to a hypothetical base case projected net interest income (NII), plus the change in interest rate implied income and expense from FX swaps used to manage banking book currency positions, under the different interest rate shock scenarios.

The interest rate sensitivities are indicative and based on simplified scenarios, estimating the aggregate impact of an instantaneous parallel shock across all yield curves over a one-year horizon, including the time taken to implement

changes to pricing before becoming effective. The assessment assumes that non-interest rate sensitive aspects of the size and mix of the balance sheet remain constant and that there are no specific management actions in response to the change in rates. Furthermore, revenue associated with trading book income positions is recognised in trading book income and is therefore excluded from the reported sensitivities. No assumptions are made in relation to the impact on credit spreads in a changing rate environment.

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

Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:

	2020			
	USD bloc \$million	HKD, SGD & KRW bloc \$million	Other currency bloc \$million	Total \$million
+ 50 basis points	60	170	70	300
- 50 basis points	(140)	(150)	(90)	(380)
+ 100 basis points	120	220	140	480

Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:

	2019			
	USD bloc \$million	HKD, SGD & KRW bloc \$million	Other currency bloc \$million	Total \$million
+ 50 basis points	(10)	60	90	140
- 50 basis points	10	(40)	(90)	(120)
+ 100 basis points	(20)	120	170	270

As at 31 December 2020, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points to increase projected NII by \$300 million. The equivalent impact from a parallel decrease of 50 basis points would result in a reduction in projected NII of \$380 million. The Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 100 basis points to increase projected NII by \$480 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets re-pricing faster and to a greater extent than deposits. Overall NII sensitivity in all scenarios has increased versus 31 December 2019, driven by Treasury Markets risk management activity as rates fell during March 2020, and changes in the composition of the balance sheet and modelling assumptions.

The asymmetry between the up and down 50 basis point shock has widened primarily due to the low level of interest rates, which may constrain the Group's ability to reprice liabilities should rates fall by a further 50 basis points, as well as differing behavioural assumptions, which are scenario specific. The decision to pass on changes in interest rates is highly speculative and depends on a range of factors including market environment and competitor behaviour.

The US dollar sensitivity is dampened further by the exclusion of trading book revenue. The reported sensitivities include the cost of banking book liabilities used to fund the trading book, however the income associated with the corresponding trading book assets is excluded and recognised in trading book income. Further information on the impact of changes in interest rates on trading book is set out in the Market Risk section (pages 233 to 237).

## Operational Risk

Operational Risk is defined as the “Potential for loss from inadequate or failed internal processes, technology, human error, or from the impact of external events (including legal risks)” and it is inherent in the Group carrying out business.

### Operational Risk profile

In 2020, the Group has implemented a refreshed Framework to continue to enhance the management of Operational Risk, ensuring risk is managed within Risk Appetite and we continue to deliver services to our clients.

The Group has continued to provide a stable level of service to clients during the period of COVID-19 and adapted swiftly to changes in operations brought by the pandemic. As a result of the changes in internal and external operating environment due to COVID-19, the following risk areas are heightened – Fraud, Information & Cyber Security, Privacy, Conduct and Resilience.

### Operational Risk events and losses

Operational losses are one indicator of the effectiveness and robustness of the non-financial risk control environment. As at 31 December 2020, recorded operational losses for 2020 are lower than 2019 (excluding monetary penalties to the US authorities and the Financial Conduct Authority (FCA) for legacy conduct and control issues). The largest loss recorded for 2020 relates to Execution Delivery and Process Management for \$25 million under the Corporate Items Basel business line; while the largest loss recorded for 2019 as at 31 December 2020 relates to Execution Delivery and Process Management for \$31 million under Corporate Items.

The Group's profile of operational loss events in 2020 and 2019 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

Distribution of operational losses by Basel business line	% Loss	
	2020	2019 <sup>1</sup>
Agency Services	1.4%	0.2%
Asset Management	–	–
Commercial Banking	21.6%	6.6%
Corporate Finance	–	21.6%
Corporate Items	27.5%	35.8%
Payment and Settlements	2.4%	2.6%
Retail Banking	33.2%	27.7%
Retail Brokerage	0.3%	0.1%
Trading and Sales	13.6%	5.6%

<sup>1</sup> Losses in 2019 include incremental events that were recognised in 2020 and exclude monetary penalties to the US authorities and the FCA

The Group's profile of operational loss events in 2020 and 2019 is also summarised by Basel event type in the table below. It shows the percentage distribution of gross operational losses by Basel event type.

Distribution of operational losses by Basel event type	% Loss	
	2020	2019 <sup>1</sup>
Business disruption and system failures	3.3%	1.0%
Clients products and business practices	5.0%	3.2%
Damage to physical assets	0.1%	0.0%
Employment practices and workplace safety	0.6%	0.1%
Execution delivery and process management	66.0%	56.5%
External fraud	23.2%	38.7%
Internal fraud	1.8%	0.4%

<sup>1</sup> Losses in 2019 include incremental events that were recognised in 2020 and exclude monetary penalties to the US authorities and the FCA

### Other principal risks

Losses arising from operational failures for other principal risks (for example: Compliance, Conduct, Reputational, Information and Cyber Security, Financial Crime, and Model Risk) are reported as operational losses. Operational losses do not include Operational Risk-related credit impairments.

# Enterprise Risk Management Framework

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

The Enterprise Risk Management Framework (ERMF) enables the Group to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. The ERMF has been designed with the explicit goal of improving the Group's risk management, and since its launch in January 2018, it has been embedded across the Group and rolled out to its branches and subsidiaries.

In 2020, we completed a comprehensive review of the ERMF, and the following changes were approved by the Board:

- Given its overarching nature, Conduct Risk management has been incorporated as an integral component of the overall ERMF rather than viewed as a standalone risk. This change allows the Group to view Conduct Risk through the lens of delivering positive outcomes for our clients, markets, and internal and external stakeholders
- Given the Group's diverse footprint, Country Risk management has also been incorporated as an integral component of the overall ERMF, as part of Group strategy and strategic risk management
- Reputational Risk has been expanded to include Sustainability Risk. There is increasing focus on issues relating to environment, social and governance risk, from both regulators and investors, and the Group's commitments to be a leader in sustainable and responsible banking make this a core tenet of our franchise
- Technology Risk has been made more prominent within the Operational Risk Principal Risk Type, in order to meet the needs of the digital agenda of the Group and further strengthen Technology Risk management capabilities

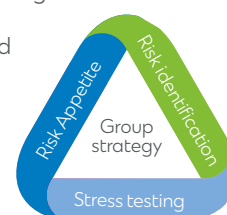
The revised ERMF was approved on 10 December 2020 and became effective on 1 January 2021.

## Risk culture

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

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

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



## Strategic risk management

The Group approaches strategic risk management as follows:

- By conducting an impact analysis on the risk profile from growth plans, strategic initiatives and business model vulnerabilities, with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised as part of the strategy review process
- By confirming that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration as part of the strategy review process
- By validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five-year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned with the ERMF and the Group Risk Appetite Statement where projections allow
- Country Risk management approach and Country Risk reviews are used to ensure the country limits and exposures are reasonable and in line with Group strategy, country strategy, and the operating environment, considering the identified risks.

## Roles and responsibilities

### Senior Managers Regime

Roles and responsibilities under the ERMF are aligned to the objectives of the Senior Managers Regime. The Group Chief Risk Officer is responsible for the overall development and maintenance of the Group's ERMF and for identifying material risk types to which the Group may be potentially exposed. The Group Chief Risk Officer delegates effective implementation of the Risk Type Frameworks (RTFs) to Risk Framework Owners who provide second line of defence oversight for the Principal Risk Types (PRTs). In addition, the Group Chief Risk Officer has been formally identified as the relevant senior manager responsible for Climate Risk management as it relates to financial and non-financial risks to the Group arising from climate change. This does not include elements of corporate social responsibility, the Group's contribution to climate change and the Sustainable Finance strategy supporting a low-carbon transition, which are the responsibility of other relevant senior managers.

## The Risk function

The Risk function is responsible for the sustainability of our business through good management of risk across the Group by providing oversight and challenge, thereby ensuring that business is conducted in line with regulatory expectations.

The Group Chief Risk Officer directly manages the Risk function, which is separate and independent from the origination, trading and sales functions of the businesses. The Risk function is responsible for:

- Maintaining the ERMF, ensuring that it remains relevant and appropriate to the Group's business activities, and is effectively communicated and implemented across the Group, and administering related governance and reporting processes
- Upholding the overall integrity of the Group's risk and return decisions to ensure that risks are properly assessed, that these decisions are made transparently on the basis of proper assessments and that risks are controlled in accordance with the Group's standards and Risk Appetite
- Overseeing and challenging the management of Principal Risk Types under the ERMF

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

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

The Risk function supports the Group's commitment to be 'Here for good' by building a sustainable framework that places regulatory and compliance standards and a culture of appropriate conduct at the forefront of the Group's agenda, in a manner proportionate to the nature, scale and complexity of the Group's business.

Conduct, Financial Crime and Compliance (CFCC), under the Management Team leadership of the Group Head, Corporate Affairs, Brand & Marketing and CFCC, works alongside the Risk function within the framework of the ERMF to deliver a unified second line of defence.

### Three lines of defence model

Roles and responsibilities for risk management are defined under a three lines of defence model. Each line of defence has a specific set of responsibilities for risk management and control as shown in the table below.

Lines of defence	Definition	Key responsibilities include
1 <sup>st</sup>	The businesses and functions engaged in or supporting revenue-generating activities that own and manage the risks	<ul style="list-style-type: none"> <li>• Propose the risks required to undertake revenue-generating activities</li> <li>• Identify, assess, monitor and escalate risks and issues to the second line and senior management<sup>1</sup> and promote a healthy risk culture and good conduct</li> <li>• Validate and self-assess compliance to RTFs and policies, confirm the quality of validation, and provide evidence-based affirmation to the second line</li> <li>• Manage risks within Risk Appetite, set and execute remediation plans and ensure laws and regulations are being complied with</li> <li>• Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the second line</li> </ul>
2 <sup>nd</sup>	The control functions independent of the first line that provide oversight and challenge of risk management to provide confidence to the Group Chief Risk Officer, senior management and the Board	<ul style="list-style-type: none"> <li>• Identify, monitor and escalate risks and issues to the Group Chief Risk Officer, senior management and the Board and promote a healthy risk culture and good conduct</li> <li>• Oversee and challenge first-line risk-taking activities and review first-line risk proposals</li> <li>• Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite and intervene to curtail business if it is not in line with existing or adjusted Risk Appetite, there is material non-compliance with policy requirements or when operational controls do not effectively manage risk</li> <li>• Set risk data aggregation, risk reporting and data quality requirements</li> <li>• Ensure that there are appropriate controls to comply with applicable laws and regulations, and escalate significant non-compliance matters to senior management and the appropriate committees</li> </ul>
3 <sup>rd</sup>	The Internal Audit function provides independent assurance on the effectiveness of controls that support the first line's risk management of business activities, and the processes maintained by the second line	<ul style="list-style-type: none"> <li>• Independently assess whether management has identified the key risks in the businesses and whether these are reported and governed in line with the established risk management processes</li> <li>• Independently assess the adequacy of the design of controls and their operating effectiveness</li> </ul>

<sup>1</sup> Senior management in this table refers to individuals designated as senior management functions under the FCA and PRA Senior Managers Regime (SMR)

## Risk Appetite and profile

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

- **Risk capacity** is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies
- **Risk Appetite** is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity

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

The Group Risk Appetite is reviewed at least on an annual basis to ensure that it is fit for purpose and aligned with strategy, and focus is given to emerging or new risks. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite principles.

### Risk Appetite principles

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

### Risk Appetite Statement

The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. The Group Risk Appetite is supplemented by risk control tools such as granular level limits, policies, standards and other operational control parameters that are used to keep the Group's risk profile within Risk Appetite. The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the Board, Board Risk Committee and the Group Risk Committee, including the status of breaches and remediation plans where applicable. To keep the Group's risk profile within Risk Appetite (and therefore also risk capacity), we have cascaded critical Group Risk Appetite metrics across our Principal Risk Types to our footprint markets with significant business operations.

Country Risk Appetite is managed at a country or local level with Group and regional oversight. In addition to Risk Appetite Statements for the Principal Risk Types, the Group also has a Risk Appetite Statement for Climate Risk which is a material cross-cutting risk that can manifest through other risk types. The Group Risk Committee, the Group Financial Crime Risk Committee, the Group Non-Financial Risk Committee and the Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee and the Board Financial Crime Risk Committee (for Financial Crime Compliance) advise the Board on the Risk Appetite Statement and monitor the Group's compliance with it.



The individual Principal Risk Types' Risk Appetite Statements approved by the Board are set out in the **Principal risks** section (pages 254 to 269)

## Risk identification and assessment

Identification and assessment of potentially adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication we use Principal Risk Types to classify our risk exposures. Nevertheless, we also recognise the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another. There are also sources of risk that arise beyond our own operations such as the Group's dependency on suppliers for the provision of services and technology. As the Group remains accountable for risks arising from the actions of such third parties, failure to adequately monitor and manage these relationships could materially impact the Group's ability to operate and could have an impact on our ability to continue to provide services that are material to the Group.

To facilitate risk identification and assessment, the Group maintains a dynamic risk-scanning process with inputs from the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives. The Group maintains an inventory of the Principal Risk Types and risk sub-types that are inherent to the strategy and business model; and emerging risks that include near-term as well as longer-term uncertainties. Near-term risks are those that are on the horizon and can be measured and mitigated to some extent, while uncertainties are longer-term matters that should be on the radar but are not yet fully measurable.

The Group Chief Risk Officer and the Group Risk Committee review regular reports on the risk profile for the Principal Risk Types, adherence to the approved Risk Appetite and the Group risk inventory including emerging risks. They use this information to escalate material developments in each risk event and make recommendations to the Board annually on any potential changes to our Corporate Plan.

## Stress testing

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

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

Enterprise stress tests include Capital and Liquidity Adequacy Stress Tests, including in the context of capital adequacy, recovery and resolution, and stress tests that assess scenarios where our business model becomes challenged, such as the BoE Biennial Exploratory Scenario, or unviable, such as reverse stress tests.

Stress tests are performed at Group, country, business and portfolio level. Bespoke scenarios are applied to our traded and liquidity positions as described in the sections on Traded Risk (page 257), and Capital and Liquidity Risk (page 259).

In addition to these, our stress tests also focus on the potential impact of macroeconomic, geopolitical and physical events on relevant regions, client segments and risk types.

The Board delegates approval of stress test submissions to the Bank of England to the Board Risk Committee, which reviews the recommendations from the Group Risk Committee.

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

## Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's ERMF. These risks are managed through distinct RTFs which are approved by the Group Chief Risk Officer. The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

The Group currently recognises Climate Risk as a material cross-cutting risk. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it.

In future reviews, we will continue to consider if existing Principal Risk Types or incremental risks should be treated as cross-cutting risks. The table below shows the Group's current Principal Risk Types.

Principal Risk Types	Definition
<b>Credit Risk</b>	• Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group
<b>Traded Risk</b>	• Potential for loss resulting from activities undertaken by the Group in financial markets
<b>Capital and Liquidity Risk</b>	<ul style="list-style-type: none"> <li>• Capital: potential for insufficient level, composition or distribution of capital to support our normal activities</li> <li>• Liquidity: risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due</li> </ul>
<b>Operational and Technology Risk</b>	• Potential for loss resulting from inadequate or failed internal processes, technology events, human error, or from the impact of external events (including legal risks)
<b>Information and Cyber Security Risk</b>	• Risk to the Group's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems
<b>Compliance Risk</b>	• Potential for penalties or loss to the Group or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws or regulations
<b>Financial Crime Risk</b>	• Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to international sanctions, anti-money laundering, anti-bribery and corruption, and fraud
<b>Model Risk</b>	• Potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models, due to errors in the development, implementation or use of such models
<b>Reputational and Sustainability Risk</b>	• Potential for damage to the franchise (such as loss of trust, earnings or market capitalisation), because of stakeholders taking a negative view of the Group through actual or perceived actions or inactions, including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client, third-party relationships, or our own operations

→ Further details of our principal risks and how these are being managed are set out in the [Principal risks](#) section (pages 254 to 269)

## ERMF effectiveness reviews

The Group Chief Risk Officer is responsible for annually affirming the effectiveness of the ERMF to the Board Risk Committee. To facilitate this, an ERMF effectiveness review was established in 2018, which follows the principle of evidence-based self-assessments for all the Risk Type Frameworks and relevant policies.

The annual ERMF effectiveness review, first introduced in 2018, was conducted in 2019 and 2020, and enables measurement of progress against the 2018 baseline. The 2020 effectiveness review has shown that:

- Since the launch of the ERMF in 2018, the focus in 2020 has been on effective embedding of the framework across the organisation and we continue to make progress on overall effectiveness

- In 2020, effectiveness has improved year-on-year, with a substantial focus on development of non-financial risk management practices. Financial risks continue to be managed more effectively on a relative basis as compared with the non-financial risks. This reflects the maturity of these Risk Type Frameworks and the underlying risk management practices.
- Self-assessments performed in our footprint markets reflect the use of the ERMF and PRTs, with reinforced first-line ownership of risks. Country and regional risk committees continue to play an active role in managing and overseeing material issues arising in countries. Automation opportunities for manual risk oversight processes and effective change management will continue to be explored in 2021. Ongoing structured ERMF effectiveness reviews enable us to identify improvement opportunities and proactively build plans to address them. Over the course of 2021, the Group aims to further strengthen its risk management practices and target improvements in the management of non-financial risk types.

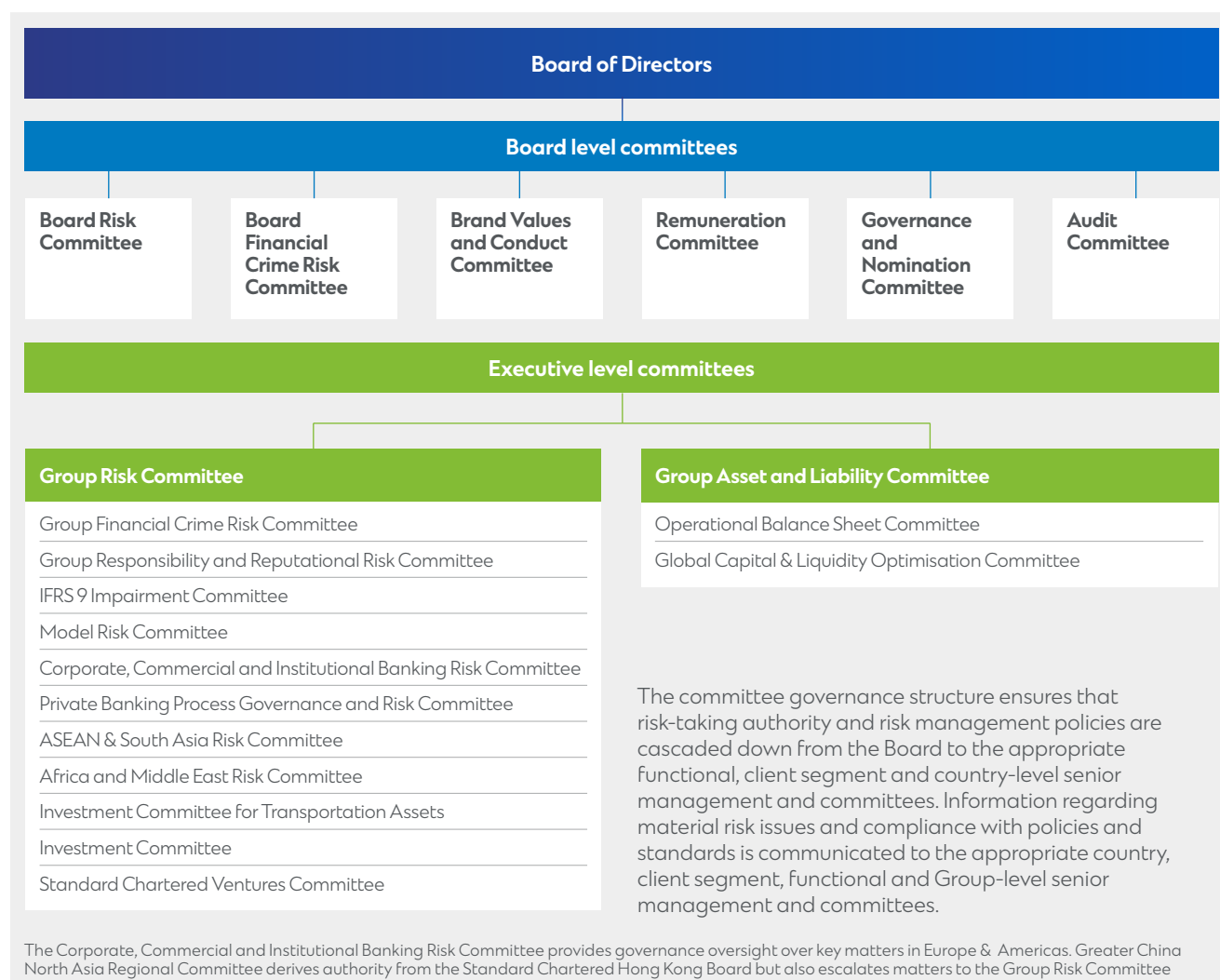
## Executive and Board Risk oversight

### Overview

The Board has ultimate responsibility for risk management and is supported by six Board-level committees. The Board approves the ERMF based on the recommendation from the Board Risk Committee, which also recommends the Group Risk Appetite Statement for all Principal Risk Types other than Financial Crime Risk. Financial Crime Risk Appetite is reviewed and recommended to the Board by the Board Financial Crime Risk Committee. In addition, the Brand Values and Conduct Committee oversees the brand, valued behaviours, reputation and conduct of the Group, and manages Reputational Risk in line with the Reputational and Sustainability Risk Type Framework.

## Board and executive level risk committee governance structure

The Committee governance structure below presents the view as of 2020. Our business and regional committees have been amended to reflect the new organisational structure, with changes effective 1 January 2021. Two new risk committees have been appointed by the Group Risk Committee. The Asia Risk Committee oversees the effective management of risk across the ASEAN & South Asia (ASA) and Greater China & North Asia (GCNA) regions, and replaces the ASA risk committee and GCNA risk committee. The Consumer, Private and Business Banking (CPBB) risk committee ensures the effective management of risk throughout CPBB, in support of the Group's strategy. The revised structure will be provided in the 2021 Annual Report.



## Group Risk Committee

The Group Risk Committee, which derives its authority from the Group Chief Risk Officer, is responsible for ensuring the effective management of risk throughout the Group in support of the Group's strategy. The Group Chief Risk Officer chairs the Group Risk Committee, whose members are drawn from the Group's Management Team. The Committee determines the ERMF and oversees its effective implementation across the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

### Group Risk Committee sub-committees

The Group Non-Financial Risk Committee, chaired by the Global Head of Risk, Functions and Operational Risk, governs the non-financial risks across clients, businesses, products and functions. The non-financial risk types in scope are Operational and Technology Risk, Compliance Risk, Information and Cyber Security Risk, Fraud and Reputational Risk that is consequential in nature arising from potential failures of Principal Risk Types. The Committee also reviews the adequacy of the internal control systems across all Principal Risk Types.

The Group Financial Crime Risk Committee, chaired by the Group Head, Corporate Affairs, Brand & Marketing and CFCC, as the Compliance and Money Laundering Reporting Officer, governs the Financial Crime Risk Type Framework across the Group. The Committee ensures that the Financial Crime risk profile is managed within approved Risk Appetite and policies. The Committee is also responsible for recommending the Financial Crime Risk Appetite Statement and Risk Appetite metrics to the Board Financial Crime Risk Committee.

The Group Responsibility and Reputational Risk Committee, chaired by the Group Head, Corporate Affairs, Brand & Marketing and CFCC, ensures the effective management of Reputational Risk across the Group. This includes providing oversight of matters arising from clients, products, transactions and strategic coverage-related decisions and matters escalated by the respective Risk Framework Owners.

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

The Model Risk Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective measurement and management of Model Risk in line with internal policies and Model Risk Appetite.

The Corporate, Commercial and Institutional Banking Risk Committee, chaired by the Chief Risk Officer, Business, ensures the effective management of risk throughout Corporate & Institutional Banking and Commercial Banking, in support of the Group's strategy. The Committee also provides governance oversight over key matters in Europe & Americas.

The two regional risk committees are chaired by the Chief Risk Officer for the respective region. These ensure the effective management of risk in the regions in support of the Group's strategy.

The Investment Committee for Transportation Assets, chaired by the Chief Risk Officer, Business, ensures the optimisation of the Group's investment in aviation and shipping operating lease assets, with the aim of delivering better returns through the cycle.

The Investment Committee ensures the optimised wind-down of the Group's existing direct investment activities in equities, quasi-equities (excluding mezzanine), funds and other alternative investments (excluding debt/debt-like instruments). The Committee is chaired by a representative of the Risk function (which includes the Group Chief Risk Officer, Global Head, Enterprise Risk Management and Chief Risk Officer, Business).

The Standard Chartered Ventures (SCV) Committee, chaired by the Chief Risk Officer, SCV, receives authority directly from the Group Chief Risk Officer and ensures the effective management of risk throughout SCV and individual entities operating under SCV.

### Group Asset and Liability Committee

The Group Asset and Liability Committee is chaired by the Group Chief Financial Officer. Its members are drawn principally from the Management Team. The Committee is responsible for determining the Group's approach to balance sheet strategy and recovery planning. The Committee is also responsible for ensuring that, in executing the Group's strategy, the Group operates within internally approved Risk Appetite and external requirements relating to capital, loss-absorbing capacity, liquidity, leverage, Interest Rate Risk in the Banking Book, Banking Book Basis Risk and Structural Foreign Exchange Risk, and meets internal and external recovery planning requirements.

# Principal risks

We manage and control our Principal Risk Types through distinct Risk Type Frameworks, policies and Board-approved Risk Appetite.

## Credit Risk

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

### Risk Appetite Statement

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

### Roles and responsibilities

The Credit Risk Type Frameworks for the Group are set and owned by the Chief Risk Officers for the business segments. The Credit Risk function is the second line control function responsible for independent challenge, monitoring and oversight of the Credit Risk management practices of the business and functions engaged in or supporting revenue-generating activities which constitute the first line of defence. In addition, they ensure that credit risks are properly assessed and transparent; and that credit decisions are controlled in accordance with the Group's Risk Appetite, credit policies and standards.

### Mitigation

Segment-specific policies are in place for the management of Credit Risk.

The Credit Policy for Corporate, Commercial and Institutional Banking Client Coverage sets the principles that must be followed for the end-to-end credit process including credit initiation, credit grading, credit assessment, product structuring, Credit Risk mitigation, monitoring and control, and documentation.

The Retail Credit Risk Management Policy sets the principles for the management of retail and business banking lending, account and portfolio monitoring, collections management and forbearance programmes. In addition, there are other Group-wide policies integral to Credit Risk management such as those relating to Risk Appetite, Model Risk, stress testing, and impairment provisioning.

The Group also set out standards for the eligibility, enforceability and effectiveness of Credit Risk mitigation arrangements. Potential credit losses from a given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

Risk mitigants are also carefully assessed for their market value, legal enforceability, correlation and counterparty risk of the protection provider.

Collateral must be valued prior to drawdown and regularly thereafter as required to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance, standby letters of credit or credit derivatives are used as Credit Risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor.

### Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Credit Risk.

At the executive level, the Group Risk Committee (GRC) oversees and appoints sub-committees for the management of Credit Risk – in particular the Corporate, Commercial and Institutional Banking Risk Committee (CCIBRC), the Private Banking Process Governance and Risk Committee, and the regional risk committees for ASEAN & South Asia, and Africa & Middle East. The GRC also receives reports from other key Group Committees such as the Greater China & North Asia Executive Risk Committee and SC Bank Risk Committee. These committees are responsible for overseeing the Credit Risk profile of the Group within the respective business areas and regions. Meetings are held regularly, and the committees monitor all material Credit Risk exposures, as well as key internal developments and external trends, and ensure that appropriate action is taken.

### Decision-making authorities and delegation

The Credit Risk Type Frameworks are the formal mechanism which delegate Credit Risk authorities cascading from the Group Chief Risk Officer, as the Senior Manager of the Credit Risk Type, to individuals such as the business segments' Chief Risk Officers. Named individuals further delegate credit authorities to individual credit officers by applying delegated credit authority matrices, which determine the maximum limits based on risk-adjusted scales by customer type or portfolio.

Credit Risk authorities are reviewed at least annually to ensure that they remain appropriate. In Corporate, Commercial and Institutional Banking Client Coverage and Private Banking, the individuals delegating the Credit Risk authorities perform oversight by reviewing a sample of the limit applications approved by the delegated credit officers on a monthly basis. In Retail Banking, credit decision systems and tools (e.g. application scorecards) are used for credit decisioning. Where manual credit decisions are applied, these are subject to periodic quality control assessment and assurance checks.

## Monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes. Internal risk management reports that are presented to risk committees contain information on key political and economic trends across major portfolios and countries, portfolio delinquency and loan impairment performance.

The Industry Portfolio Mandate, developed jointly by the Corporate, Commercial and Institutional Banking Client Coverage business and the Risk function, provides a forward-looking assessment of risk using a platform from which business strategy, risk considerations and client planning are performed with one consensus view of the external industry outlook, portfolio overviews, Risk Appetite, underwriting principles and stress test insights.

In Corporate, Commercial and Institutional Banking Client Coverage, clients and portfolios are subjected to additional review when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, or non-performance of an obligation within the stipulated period. Such accounts are subjected to a dedicated process overseen by the Credit Issues Committees in the relevant countries where client account strategies and credit grades are re-evaluated. In addition, remedial actions, including exposure reduction, security enhancement or exiting the account, could be undertaken, and certain accounts could also be transferred into the control of Group Special Assets Management (GSAM), which is our specialist recovery unit for Corporate, Commercial and Institutional Banking Client Coverage and Private Banking that operates independently from our main business.

For Retail Banking exposures, portfolio delinquency trends are monitored on an ongoing basis. Account monitoring is based on behavioural scores and bureau performance (where available). Accounts that are past due (or perceived as high risk but not yet past due) are subject to a collections or recovery process managed by a specialist function independent from the origination function. In some countries, aspects of collections and recovery activities are outsourced.

In addition, an independent Credit Risk Review team as part of Enterprise Risk Management, performs judgment-based assessments of the Credit Risk profiles at various portfolio levels, with focus on selected countries and segments through deep dives, comparative analysis, and review and challenge of the basis of credit approvals. The review ensures that the evolving Credit Risk profiles of Corporate, Commercial and Institutional Banking and Retail Banking are well managed within our Risk Appetite and policies through prompt and forward-looking mitigating actions.

## Credit rating and measurement

All credit proposals are subject to a robust Credit Risk assessment. It includes a comprehensive evaluation of the client's credit quality, including willingness, ability and capacity to repay. The primary lending consideration is based on the client's credit quality and the repayment capacity from operating cashflows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to the client's liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the Credit Risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client's credit quality leading to default.

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions. Since 1 January 2008, we have used the advanced internal ratings-based approach under the Basel regulatory framework to calculate Credit Risk capital requirements. The Group has also established a global programme to undertake a comprehensive assessment of capital requirements necessary to be implemented to meet the latest revised Basel III finalisation (Basel IV) regulations.

A standard alphanumeric Credit Risk grade system is used for Corporate, Commercial and Institutional Banking Client Coverage. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numeric credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

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

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

## Credit Concentration Risk

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

## Credit impairment

Expected credit losses (ECL) are determined for all financial assets that are classified as amortised cost or fair value through other comprehensive income. ECL is computed as an unbiased, probability-weighted provision determined by evaluating a range of plausible outcomes, the time value of money, and forward-looking information such as critical global or country-specific macroeconomic variables. For more detailed information on macroeconomic data feeding into IFRS 9 ECL calculations, please refer to page 224.

At the time of origination or purchase of a non-credit-impaired financial asset (stage 1), ECL represent cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. ECL continue to be determined on this basis until there is a significant increase in the Credit Risk of the asset (stage 2), in which case an ECL is recognised for default events that may occur over the lifetime of the asset. If there is observed objective evidence of credit impairment or default (stage 3), ECL continue to be measured on a lifetime basis. To provide the Board with oversight and assurance that the quality of assets originated are aligned to the Group's strategy, there is a Risk Appetite metric to monitor the stage 1 and stage 2 expected credit losses from assets originated in the last 12 months.

In Corporate, Commercial and Institutional Banking Client Coverage and Private Banking, a loan is considered credit-impaired where analysis and review indicate that full payment of either interest or principal, including the timeliness of such payment, is questionable, or as soon as payment of interest or principal is 90 days overdue. These credit-impaired accounts are managed by our specialist recovery unit (GSAM). Where appropriate, non-material credit-impaired accounts are co-managed with the business under the supervision of GSAM.

In Retail Banking, a loan is considered credit-impaired as soon as payment of interest or principal is 90 days overdue or meets other objective evidence of impairment such as bankruptcy, debt restructuring, fraud or death. Financial assets are written off when there is no realistic prospect of recovery and the amount of loss has been determined. For Retail Banking assets, a financial asset is written off when it meets certain threshold conditions which are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations, or a loss of principal is expected.

Estimating the amount and timing of future recoveries involves significant judgement and considers the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. The total amount of the Group's impairment provision is inherently uncertain, being sensitive to changes in economic and credit conditions across the regions in which the Group operates. For further details on sensitivity analysis of expected credit losses under IFRS 9, please refer to page 224.

## Stress testing

Stress testing is a forward-looking risk management tool that constitutes a key input into the identification, monitoring and mitigation of Credit Risk, as well as contributing to Risk Appetite calibration. Periodic stress tests are performed on credit portfolios/segments to anticipate vulnerabilities from stressed conditions and initiate timely right-sizing and mitigation plans. Additionally, multiple enterprise-wide and country-level stress tests are mandated by regulators to assess the ability of the Group and its subsidiaries to continue to meet their capital requirements during a plausible, adverse shock to the business. These regulatory stress tests are conducted in line with the principles stated in the Enterprise Stress Testing Policy. Stress tests for key portfolios are reviewed by the Credit Risk Type Framework Owners (or delegates) as part of portfolio oversight; and matters considered material to the Group are escalated to the Group Chief Risk Officer and respective regional risk committee.

## Traded Risk

The Group defines Traded Risk as the potential for loss resulting from activities undertaken by the Group in financial markets

### Risk Appetite Statement

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

The Traded Risk Type Framework (TRTF) brings together all risk sub-types exhibiting risk features common to Traded Risk. These risk sub-types include Market Risk, Counterparty Credit Risk, Issuer Risk, XVA, Algorithmic Trading and Pension Risk. Traded Risk Management (TRM) is the core risk management function supporting market-facing businesses, specifically Financial Markets and Treasury.

### Roles and responsibilities

The TRTF, which sets the roles and responsibilities in respect of Traded Risk for the Group, is owned by the Global Head, Traded Risk Management. The business, acting as first line of defence, is responsible for the effective management of risks within the scope of its direct organisational responsibilities set by the Board. The TRM function is the second line control function that performs independent challenge, monitoring and oversight of the Traded Risk management practices of the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and authorities delegated by Traded Risk control owners.

### Mitigation

The Group controls its trading portfolio and activities within Risk Appetite by assessing the various Traded Risk factors. These are captured and analysed using proprietary analytical tools, in addition to risk managers' specialist market and product knowledge.

The Group's Traded Risk exposure is aligned with its Risk Appetite for Traded Risk, and assessment of potential losses that might be incurred by the Group as a consequence of extreme but plausible events.

All businesses incurring Traded Risk must be in compliance with the TRTF. The TRTF requires that Traded Risk limits are defined at a level appropriate to ensure that the Group remains within Traded Risk Appetite.

The TRTF, and underlying policies and standards ensure that these Traded Risk limits are implemented. All Traded Risk exposures throughout the Group aggregate up to TRM's Group-level reporting. This aggregation approach ensures that the limits structure across the Group is consistent with the Group's Risk Appetite.

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

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

### Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Traded Risk. At the executive level, the Group Risk Committee delegates responsibilities to the CCIBRC to act as the primary risk governance for Traded Risk. Where Traded Risk limits are set at a country level, committee governance is:

- Subsidiary authority for setting Traded Risk limits, where applicable, is delegated from the local board to the local risk committee, Country Chief Risk Officer and Traded Risk managers.
- Branch authority for setting Traded Risk limits remains with TRM which retains responsibility for monitoring and reporting excesses.

### Decision-making authorities and delegation

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

Subject to the Group's Risk Appetite for Traded Risk, the Group Risk Committee sets Group-level Traded Risk limits, via delegation to the Group Chief Risk Officer. The Group Chief Risk Officer delegates authority for all Traded Risk limits to the TRTF Owner (Global Head, TRM) who in turn delegates approval authorities to individual Traded Risk managers.

Additional limits are placed on specific instruments, positions, and portfolio concentrations where appropriate. Authorities are reviewed at least annually to ensure that they remain appropriate and to assess the quality of decisions taken by the authorised person. Key risk-taking decisions are made only by certain individuals with the skills, judgement and perspective to ensure that the Group's control standards and risk-return objectives are met. Authority delegators are responsible for monitoring the quality of the risk decisions taken by their delegates and the ongoing suitability of their authorities.

### Market Risk

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

For day-to-day risk management, VaR is calculated as at the close of business, generally at UK time for expected market movements over one business day and to a confidence level of 97.5 per cent. Intra-day risk levels may vary from those reported at the end of the day.

The Group applies two VaR methodologies:

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

A one-year historical observation period is applied in both methods.

As an input to regulatory capital, trading book VaR is calculated for expected movements over 10 business days and to a confidence level of 99 per cent. Some types of Market Risk are not captured in the regulatory VaR measure, and these Risks-not-in-VaR (RNIVs) are subject to capital add-ons.

An analysis of VaR and backtesting results in 2020 is available in the Risk profile section (pages 185 to 247).

## Counterparty Credit Risk

The Counterparty Credit Risk arising from activities in financial markets is in scope of the Risk Appetite set by the Group for Traded Risk.

The Group uses a Potential Future Exposure (PFE) model to measure the credit exposure arising from the positive mark to market of traded products and future potential movements in market rates, prices and volatilities. PFE is a quantitative measure of Counterparty Credit Risk that applies recent historical market conditions to estimate the potential future credit exposure that will not be exceeded in a set time period at confidence level of 97.5 per cent.

PFE is calculated for expected market movements over different time horizons, based on the tenor of the transactions.

The Group applies two PFE methodologies, predominantly simulation-based, as well as by way of add-ons.

## Underwriting

The underwriting of securities and loans is in scope of the Risk Appetite set by the Group for Traded Risk. Additional limits approved by the Group Chief Risk Officer are set on the underwriting portfolio stress loss, and the maximum holding period. The Underwriting Committee, under the authority of the Group Chief Risk Officer, approves individual proposals to underwrite new security issues and loans for our clients.

## Monitoring

TRM monitors the overall portfolio risk and ensures that it is within specified limits and therefore Risk Appetite. Limits are typically reviewed twice a year.

Most of the Traded Risk exposures are monitored daily against approved limits. Traded Risk limits apply at all times, unless separate intra-day limits have been set. Limit excess approval decisions are based on an assessment of the circumstances driving the excess and of the proposed remediation plan. Limits and excesses can only be approved by a Traded Risk manager with the appropriate delegated authority.

TRM reports and monitors limits applied to stressed exposures. Stress scenario analysis is performed on all Traded Risk exposures in financial markets and in portfolios outside financial markets such as syndicated loans and principal finance. Stress loss excesses are discussed with the business and approved where appropriate, based on delegated authority levels.

## Stress testing

The VaR and PFE measurements are complemented by weekly stress testing of Market Risk and Counterparty Credit Risk to highlight the potential risk that may arise from severe but plausible market events.

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

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

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

Where required, Group and business-wide stress testing will be supplemented by entity stress testing at a country level. This stress testing is coordinated at the country level and subject to the relevant local governance.

# Capital and Liquidity Risk

The Group defines Capital Risk as the potential for insufficient level, composition or distribution of capital to support our normal activities, and Liquidity Risk as the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due

## Risk Appetite Statement

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

## Roles and responsibilities

The Treasurer is responsible for the Risk Type Framework for Capital and Liquidity Risk and for complying with regulatory requirements at a Group level. The Treasury and Finance functions, as the second line of defence, provide independent challenge and oversight of the first-line risk management activities relating to Capital and Liquidity Risk. In country, the Treasurer is supported by Treasury and Finance in implementing the Capital and Liquidity Risk Type Framework.

## Mitigation

The Group develops policies to address material Capital and Liquidity risks and aims to maintain its risk profile within Risk Appetite. In order to do this, metrics are set against Capital Risk, Liquidity and Funding Risk and Interest Rate Risk in the Banking Book. Where appropriate, Risk Appetite metrics are cascaded down to regions and countries in the form of limits and management action triggers.

## Capital Risk

In order to manage Capital Risk, strategic business and capital plans are drawn up covering a five-year horizon and are approved by the Board annually. The capital plan ensures that adequate levels of capital, including loss-absorbing capacity, and an efficient mix of the different components of capital are maintained to support our strategy and business plans. Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

Capital planning takes the following into account:

- Current regulatory capital requirements and our assessment of future standards and how these might change
- Demand for capital due to the business and loan impairment outlook and potential market shocks or stresses
- Available supply of capital and capital raising options, including ongoing capital accretion from the business

Additionally, Risk Appetite metrics including capital, leverage, minimum requirement for own funds and eligible liability (MREL) and double leverage are assessed within the Corporate Plan to ensure that our business plan can be achieved within risk tolerances.

## Structural FX Risk

The Group's structural position results from the Group's non-US dollar investment in the share capital and reserves of subsidiaries and branches. The FX translation gains or losses are recorded in the Group's translation reserves with a direct impact on the Group's Common Equity Tier 1 ratio.

The Group contracts hedges to manage its structural FX position in accordance with the Board-approved Risk Appetite, and as a result the Group has taken net investment hedges to partially cover its exposure to the Korean won, Chinese renminbi, Taiwanese dollar and Indian rupee to mitigate the FX impact of such positions on its capital ratios

## Liquidity Risk

At Group, region and country level we implement various business-as-usual and stress risk metrics and monitor these against limits and management action triggers. This ensures that the Group maintains an adequate and well-diversified liquidity buffer, as well as a stable funding base, and that it meets its liquidity and funding regulatory requirements. The approach to managing risks and the Board Risk Appetite are assessed annually through the Internal Liquidity Adequacy Assessment Process. A funding plan is also developed for efficient liquidity projections to ensure that the Group is adequately funded in the required currencies, to meet its obligations and client funding needs.

## Interest Rate Risk in the Banking Book

The Group defines Interest Rate Risk in the Banking Book (IRRBB) as the potential for a reduction in future earnings or economic value due to changes in interest rates. This risk arises from differences in the repricing profile, interest rate basis, and optionality of banking book assets, liabilities and off-balance sheet items. IRRBB represents an economic and commercial risk to the Group and its capital adequacy. The Group monitors IRRBB against a Board-approved Risk Appetite.

## Recovery and Resolution Planning

In line with PRA requirements, the Group maintains a Recovery Plan which is a live document to be used by management in the event of stress in order to restore the Group to a stable and sustainable position. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions capable of being implemented in a stress. A Recovery Plan is also maintained within each major entity, and all recovery plans are subject to periodic fire-drill testing.

As the UK resolution authority, the Bank of England (BoE) is required to set a preferred resolution strategy for the Group. The BoE's preferred resolution strategy is whole Group single point of entry bail-in at the ultimate holding company level (Standard Chartered PLC) and would be led by the BoE as the Group's home resolution authority. In support of this strategy, the Group has been developing a set of capabilities, arrangements and resources to achieve the following three outcomes, as per the BoE's approach to assessing resolvability, published in 2019:

- Adequate financial resources in the context of resolution
- Being able to continue to do business through resolution and restructuring
- Being able to coordinate and communicate effectively within the Group and with authorities and markets so that resolution and subsequent restructuring are orderly

The Group expects to disclose a summary of its preparations in 2022, alongside a public statement from the BoE on the resolvability of each in-scope firm.

### Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Capital and Liquidity Risk. At the executive level, the Group Asset and Liability Committee ensures the effective management of risk throughout the Group in support of the Group's strategy, guides the Group's strategy on balance sheet optimisation and ensures that the Group operates within the internally approved Risk Appetite and other internal and external capital and liquidity requirements.

The Group Asset and Liability Committee delegates part of this responsibility to the Operational Balance Sheet Committee to ensure alignment with business objectives.

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

### Decision-making authorities and delegation

The Group Chief Financial Officer has responsibility for capital, funding and liquidity under the Senior Managers Regime. The Group Chief Risk Officer has delegated the Risk Framework Owner responsibilities associated with Capital and Liquidity Risk to the Treasurer. The Treasurer delegates second-line oversight and challenge responsibilities to relevant and suitably qualified Treasury and Finance individuals.

### Monitoring

On a day-to-day basis, the management of Capital and Liquidity Risk at the country level is performed by the Country Chief Executive Officer and Treasury Markets respectively. The Group regularly reports and monitors Capital and Liquidity Risk inherent in its business activities and those that arise from internal and external events. The management of capital and liquidity is monitored by Treasury and Finance with appropriate escalation processes in place.

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

In addition, an independent Liquidity Risk Review team as part of Enterprise Risk Management reviews the prudence and effectiveness of Liquidity and Interest Rate Risk management. The team focuses on balance sheet structure and strategy, policy development and implementation, risk identification, monitoring and control.

### Stress testing

Stress testing and scenario analysis are an integral part of the capital and liquidity framework and are used to ensure that the Group's internal assessment of capital and liquidity considers the impact of extreme but plausible scenarios on its risk profile. A number of stress scenarios, some designed internally, some required by regulators, are run periodically. They provide an insight into the potential impact of significant adverse events on the Group's capital and liquidity position and how this could be mitigated through appropriate management actions to ensure that the Group remains within the approved Risk Appetite and regulatory limits. Daily liquidity stress scenarios are also run to ensure that the Group holds sufficient high-quality liquid assets to withstand extreme liquidity events.

# Operational and Technology Risk

The Group defines Operational and Technology Risk as the potential for loss resulting from inadequate or failed internal processes, technology events, human error or from the impact of external events (including legal risks)

## Risk Appetite Statement

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

## Roles and responsibilities

The Operational Risk Type Framework (ORTF) sets the roles and responsibilities in respect of Operational Risk for the Group, and is owned by the Global Head of Risk, Functions and Operational Risk (GHRFOR). This Framework collectively defines the Group's operational risk sub-types which have not been classified as Principal Risk Types (PRTs) and sets standards for the identification, control, monitoring and treatment of risks. These standards are applicable across all PRTs and risk sub-types in the ORTF. These risk sub-types relate to execution capability, governance, reporting and obligations, legal enforceability, and operational resilience (including client service, third party vendor services, change management, people management, safety and security, and system availability).

The ORTF reinforces clear accountability for managing risk throughout the Group and delegates second line of defence responsibilities to identified subject matter experts. For each risk sub-type, the expert sets policies and standards for the organisation to comply with, and provides guidance, oversight and challenge over the activities of the Group. They ensure that key risk decisions are only taken by individuals with the requisite skills, judgement, and perspective to ensure that the Group's risk-return objectives are met.

## Mitigation

The ORTF sets out the Group's overall approach to the management of Operational Risk in line with the Group's Operational Risk Appetite. This is supported by Risk and Control Self-Assessment (RCSA) which defines roles and responsibilities for the identification, control and monitoring of risks (applicable to all PRTs and risk sub-types).

The RCSA is used to determine the design strength and reliability of each process, and requires:

- The recording of processes run by client segments, products, and functions into a process universe
- The identification of potential breakdowns to these processes and the related risks of such breakdowns
- An assessment of the impact of the identified risks based on a consistent scale
- The design and monitoring of controls to mitigate prioritised risks

Assessments of residual risk and timely actions for elevated risks. Risks that exceed the Group's Operational Risk Appetite require treatment plans to address underlying causes.

## Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Operational Risk. At the executive level, the Group Risk Committee is responsible for the governance and oversight of Operational Risk for the Group,

monitors the Group's Operational Risk Appetite and relies on other key Group committees for the management of Operational Risk in particular the Group Non-Financial Risk Committee (GNFRC).

Regional business segments and functional committees also provide enterprise oversight of their respective processes and related operational risks. In addition, Country Non-Financial Risk Committees (CNFRCs) oversee the management of Operational Risk at the country (or entity) level. In smaller countries, the responsibilities of the CNFRC may be exercised directly by the Country Risk Committee (for branches) or Executive Risk Committee (for subsidiaries).

## Decision-making authorities and delegation

The ORTF is the formal mechanism through which the delegation of Operational Risk authorities is made. The GHRFOR delegates second-line authorities to designated subject matter experts (SMEs) responsible for the risk sub-types through this framework. The SMEs may further delegate their second-line responsibilities to designated individuals at a global business, product and function level, as well as regional or country level.

## Monitoring

To deliver services to clients and to participate in the financial services sector, the Group runs processes which are exposed to operational risks. The Group prioritises and manages risks which are significant to clients and to the financial services sectors. Control indicators are regularly monitored to determine the residual risk the Group is exposed to. The residual risk assessments and reporting of events form the Group's Operational Risk profile. The completeness of the Operational Risk profile ensures appropriate prioritisation and timeliness of risk decisions, including risk acceptances with treatment plans for risks that exceed acceptable thresholds.

The Board is informed on adherence to Operational Risk Appetite through metrics reported for selected risks. These metrics are monitored, and escalation thresholds are devised based on the materiality and significance of the risk. These Operational Risk Appetite metrics are consolidated on a regular basis and reported at relevant Group committees. This provides senior management with the relevant information to inform their risk decisions.

## Stress testing

Stress testing and scenario analysis are used to assess capital requirements for operational risks. This approach considers the impact of extreme but plausible scenarios on the Group's Operational Risk profile. A number of scenarios have been identified to test the robustness of the Group's processes and assess the potential impact on the Group. These scenarios include anti-money laundering, sanctions, as well as information and cyber security.

## Information and Cyber Security Risk

The Group defines Information and Cyber Security Risk as the risk to the Group's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems

### Risk Appetite Statement

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

### Roles and responsibilities

The Group's Information and Cyber Security Risk Type Framework (ICS RTF) defines the roles and responsibilities of the first and second lines of defence in managing and governing ICS Risk respectively across the Group with emphasis on business ownership and individual accountability.

The Group Chief Operating Officer has overall first line of defence responsibility for ICS Risk and holds accountability for the Group's ICS strategy. The Group Chief Information Security Officer (CISO) leads the development and execution of the ICS strategy.

The Group Chief Information Security Risk Officer (CISRO) function within Group Risk, led by the Group CISRO, operates as the second line of defence and sets the strategy and methodology for assessing, scoring and prioritising ICS risks across the Group. This function has overall responsibility for governance, oversight and independent challenge of ICS Risk.

### Mitigation

ICS Risk is managed through a structured ICS Risk framework comprising a risk assessment methodology and supporting policy, standards and methodologies which are aligned to industry best practice models.

In 2020, to ensure ICS Risk management principles prioritise the adverse impact of cyber threat and vulnerability information on confidentiality, integrity and availability of information assets and systems across the Group, the ICS RTF was uplifted to include a threat led risk assessment methodology.

The Group CISRO function monitors compliance to the ICS framework through the review of the ICS risk assessments conducted by Group CISO. All key ICS risks, breaches and weaknesses are reviewed and approved by Group CISRO prior to the execution of mitigating actions.

The Group CISO function performs ICS Risk assessment to determine the ICS Risk posture across the Group with reporting to key Group governance committees. Key ICS risks, breaches or weaknesses identified are documented, reviewed and approved by Group CISRO with mitigation activities monitored for completion with statuses reported to the relevant Group governance committees.

### Governance committee oversight

ICS Risk within the Group is governed via the Board Risk Committee (BRC) which has responsibility for approving the definition of ICS Risk and the Group Risk Appetite. In addition, the Group Risk Committee (GRC) has delegated authority to the Group Non-Financial Risk Committee (GNFRC) to ensure effective implementation of the ICS RTF. The GRC and GNFRC are responsible for oversight of ICS Risk posture and Risk Appetite breaches rated very high and high. Sub-committees of the GNFRC have oversight of ICS Risk management arising from business, country and functional areas.

At a management level, the Group has also created the Cyber Security Advisory Forum, chaired by the Group Chief Executive Officer, as a way of ensuring the Management Team, the Chairman and several non-executive directors are well informed on ICS Risk, and to increase business understanding and awareness so that business priorities drive the security and cyber resilience agenda.

### Decision-making authorities and delegation

The ICS RTF is the formal mechanism through which the delegation of ICS Risk authorities is made. The Group Chief Risk Officer (GCRO) has delegated the ICS Risk Framework Owner authority to the Group CISRO. The Group CISRO has, where appropriate, delegated second-line authority to Information Security Risk Officers (ISRO) to assume the responsibilities for approval for business, functions, and countries.

Group CISO, supported by the Heads of ICS, presents the proposed ICS Risk ratings to Group CISRO for review and sign-off.

Information Asset Owners, Information System Owners and process owners are responsible for the identification, creation and implementation of processes as required to comply with the ICS RTF.

Approval of ICS Risk ratings follows an approval matrix defined by the ICS RTF where the GCRO and Group CISRO sign off very high and high risks respectively.

## Monitoring

The ICS Risk assessment is in transition in 2020 to a threat-focused risk assessment. The risk assessment is performed by Group CISO to identify key ICS risks, breaches and weaknesses, and to ascertain the severity of the risk posture. The risk postures of all businesses, functions and countries are consolidated to present a holistic Group-level ICS Risk posture for ongoing ICS Risk monitoring.

During these reviews, the status of each risk is assessed to identify any changes to materiality, impact and likelihood, which in turn affects the overall ICS Risk score and rating. Risks which exceed defined thresholds are reviewed with Group CISRO for approval, and escalated to appropriate Group governance committees.

Monitoring and reporting on the ICS Risk Appetite profile ensures that performance which falls outside the approved Risk Appetite is highlighted and reviewed at the appropriate governance committee or authority levels and ensures that adequate remediation actions are in place where necessary.

## Stress testing

Group CISRO determines ICS Risk controls to be subjected to scenario-based stress testing (i.e. cyber resilience red team testing) and sensitivity analysis, which is aimed to either ensure robustness of control and the ability to respond should a control fail. The Group's cyber resilience testing approach entails:

- Group CISRO oversees all ICS Risk-related stress testing the Group carries out to meet regulatory requirements, including covert testing
- Incident scenarios affecting information assets and systems are periodically tested to assess the incident management capability in the Group
- Purple team, penetration testing and vulnerability scanning are performed by Group CISO against the Group's internet-facing services and critical information assets/systems

## Compliance Risk

The Group defines Compliance Risk as the potential for penalties or loss to the Group, or for an adverse impact to our clients, stakeholders or to the integrity of the markets in which we operate through a failure on our part to comply with laws or regulations

### Risk Appetite Statement

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

### Roles and responsibilities

The Group Head, Corporate Affairs, Brand & Marketing and Conduct, Financial Crime and Compliance (Group Head, CABM & CFCC) as Risk Framework Owner for Compliance Risk provides support to senior management on regulatory and compliance matters by:

- Providing interpretation and advice on CFCC regulatory requirements and their impact on the Group
- Setting enterprise-wide standards for management of compliance risks through the establishment and maintenance of the Compliance Risk Type Framework (Compliance RTF)
- Setting a programme for monitoring Compliance Risk

The Compliance RTF sets out the Group's overall approach to the management of Compliance Risk and the roles and responsibilities in respect of Compliance Risk for the Group. All activities that the Group engages in must be designed to comply with the applicable laws and regulations in the countries in which we operate. The CFCC function is the second line that provides oversight and challenge of the first-line risk management activities that relate to Compliance Risk.

Where Compliance Risk arises, or could arise, from failure to manage another principal risk type or sub-type, the Compliance RTF outlines that the responsibility rests with the respective Risk Framework Owner or control function to ensure that effective oversight and challenge of the first line can be provided by the appropriate second-line function.

Each of the assigned second-line functions has responsibilities including monitoring relevant regulatory developments from Non-Financial Services regulators at both Group and country levels, policy development, implementation, and validation as well as oversight and challenge of first-line processes and controls.

In addition, the Compliance RTF has been enhanced in 2020 via Risk Appetite metrics that enable greater oversight of implementation of country-level regulatory requirements, and by bringing together all data management risks, including transition of Data Quality from the Operational Risk Type Framework.

### Mitigation

The CFCC function develops and deploys relevant policies and standards setting out requirements and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. Through a combination of risk assessment, control standard setting, control monitoring and assurance activities, the Compliance Risk Framework Owner seeks to ensure that all policies are operating as expected to mitigate the risk that they cover. The installation of appropriate processes and controls is the primary tool for

the mitigation of Compliance Risk. In this, the requirements of the Operational Risk Type Framework are followed to ensure a consistent approach to the management of processes and controls. Deployment of technological solutions to improve efficiencies and simplify processes has continued in 2020. These include further expansion of digital chatbots and a tool to track non-financial regulatory reporting.

### Governance committee oversight

Compliance Risk and the risk of non-compliance with laws and regulations resulting from failed processes and controls are overseen by Business, Product and Function Non-Financial Risk Committees.

The Compliance Risk Framework Owner has also established a CFCC Oversight Group to provide oversight of CFCC risks including the effective implementation of the Compliance RTF. The Conduct, Financial Crime and Compliance Non-Financial Risk Committee has a consolidated view of these risks and helps to ensure that appropriate governance is in place for these. In addition, the Committee helps to ensure that elevated levels of Compliance Risk are reported to the Group Non-Financial Risk Committee, Group Risk Committee and Audit Committee. Within each country, oversight of Compliance Risk is delegated through the Country Non-Financial Risk Committee.

### Decision-making authorities and delegation

The Compliance Risk Type Framework is the formal mechanism through which the delegation of Compliance Risk authorities is made. The Group Head, CABM & CFCC has the authority to delegate second-line responsibilities within the CFCC function to relevant and suitably qualified individuals.

### Monitoring

The monitoring of controls designed to mitigate the risk of regulatory non-compliance in processes are governed in line with the Operational Risk Type Framework. The Group has a monitoring and reporting process in place for Compliance Risk, which includes escalation and reporting to Conduct and Compliance Non-Financial Risk Committee, Group Risk Committee and Audit Committee, as appropriate.

### Stress testing

Stress testing and scenario analysis are used to assess capital requirements for Compliance Risk and form part of the overall scenario analysis portfolio managed under the Operational Risk Type Framework. Specific scenarios are developed annually with collaboration between the business, which owns and manages the risk, and the CFCC function, which is second line to incorporate significant Compliance Risk tail events. This approach considers the impact of extreme but plausible scenarios on the Group's Compliance Risk profile.

## Financial Crime Risk

The Group defines Financial Crime Risk as the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to international sanctions, anti-money laundering, anti-bribery and corruption, and fraud

### Risk Appetite Statement

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

### Roles and responsibilities

The Group Head, CABM & CFCC has overall responsibility for Financial Crime Risk and is responsible for the establishment and maintenance of effective systems and controls to meet legal and regulatory obligations in respect of Financial Crime Risk. The Group Head, CABM & CFCC is the Group's Compliance and Money-Laundering Reporting Officer and performs the Financial Conduct Authority (FCA) controlled function and senior management function in accordance with the requirements set out by the FCA, including those set out in their handbook on systems and controls. As the first line, the business unit process owners have responsibility for the application of policy controls and the identification and measurement of risks relating to financial crime. Business units must communicate risks and any policy non-compliance to the second line for review and approval following the model for delegation of authority.

### Mitigation

There are four Group policies in support of the Financial Crime Risk Type Framework.

- Group Anti-Bribery and Corruption Policy
- Group Anti-Money Laundering and Counter Terrorist Financing Policy
- Group Sanctions Policy
- Group Fraud Risk Management Policy

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

- Group Risk Assessment - the Group monitors enterprise-wide Financial Crime Risks through the CFCC Risk Assessment process consisting of Financial Crime Risk and Compliance Risk assessments. The Financial Crime Risk assessment is a Group-wide risk assessment undertaken annually to assess the inherent Financial Crime Risk exposures, the associated processes and controls by which these exposures are mitigated.
- Financial Crime Surveillance – risk-based systems and processes to prevent and detect financial crime

The strength of controls is tested and assessed through the Group's ORTF, in addition to oversight by CFCC Assurance and Group Internal Audit.

### Governance committee oversight

Financial Crime Risk within the Group is governed by the Group Financial Crime Risk Committee; and the Group Non-Financial Risk Committee for Fraud Risk which is appointed by and reports into the Group Risk Committee.

Both committees are responsible for ensuring the effective management of Operational Risk relating to Financial Crime Risk and Fraud Risk compliance throughout the Group. The Board appoints the Board Financial Crime Risk Committee to provide oversight on anti-bribery and corruption, anti-money laundering (and terrorist financing) and sanctions; and the Board Risk Committee for oversight on Fraud Risk. The Committees provide oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance mechanisms designed to identify, assess, manage, monitor, detect or prevent money laundering, non-compliance with sanctions, bribery, corruption, internal/ external fraud and tax crime by third parties.

### Decision-making authorities and delegation

The Financial Crime Risk Type Framework is the formal mechanism through which the delegation of Financial Crime Risk authorities is made. The Group Head, CABM & CFCC is the Risk Framework Owner for Financial Crime Risk under the Group's Enterprise Risk Management Framework and has delegated authorities to effectively implement the Financial Crime Risk Type Framework, to the Co-Heads, Financial Crime Compliance. Certain aspects of Financial Crime Compliance, second-line oversight and challenge, are further delegated within the CFCC function. Approval frameworks are in place to allow for risk-based decisions on client on-boarding, potential breaches of sanctions regulation or policy, and situations of potential money laundering (and terrorist financing), bribery and corruption or internal and external fraud.

### Monitoring

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

### Stress testing

The assessment of Financial Crime vulnerabilities under stressed conditions or extreme events with a low likelihood of occurring is carried out through enterprise stress testing where scenario analysis is used to assess capital requirements for Financial Crime as part of the overall scenario analysis portfolio managed under the Operational Risk Type Framework. Specific scenarios are developed annually with collaboration between the business, which owns and manages the risk, and the CFCC function, which is second line to incorporate significant Financial Crime risk events. This approach considers the impact of extreme but plausible scenarios on the Group's Financial Crime Risk profile.

## Model Risk

The Group defines Model Risk as potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models due to errors in the development, implementation, or use of such models

### Risk Appetite Statement

The Group has no appetite for material adverse implications arising from misuse of models or errors in the development or implementation of models, whilst accepting model uncertainty

### Roles and responsibilities

The Global Head, Enterprise Risk Management is the Risk Framework Owner for Model Risk under the Group's Enterprise Risk Management Framework. Responsibility for the oversight and implementation of the Model Risk Type Framework is delegated to the Global Head, Model Risk Management.

The Model Risk Type Framework sets out clear accountability and roles for Model Risk management through the three lines of defence. First-line ownership of Model Risk resides with Model Sponsors, who are the business or function heads and assign a Model Owner for each model. Model Owners represent model users and are responsible for end-to-end model development, ensuring model performance through regular model monitoring and communicating model limitations, assumptions and risks. Model Owners also coordinate the submission of models for validation and approval and ensure appropriate model implementation and use. Second-line oversight is provided by Model Risk Management, which is comprised of Group Model Validation and Model Risk Policy and Governance.

Group Model Validation independently review and grade models, in line with design objectives, business uses and compliance requirements, and highlight identified model risks. Model Risk Policy and Governance team provide oversight of Model Risk, performing regular Model Risk Assessment and risk profile reporting to senior management.

### Mitigation

The Model Risk policy and standards define requirements for model development and validation activities, including regular model performance monitoring. Any model issues or deficiencies identified through the validation process are mitigated through the application of model overlays and/or a model redevelopment plan, which undergo robust review, challenge and approval. Operational controls govern all Model Risk-related processes, with regular risk assessments performed to assess appropriateness and effectiveness of those controls, in line with the Operational Risk Type Framework, with remediation plans implemented where necessary.

### Governance committee oversight

At the Board level, the Board Risk Committee exercises oversight of Model Risk within the Group. At the executive level, the Group Risk Committee has appointed the Model Risk Committee to ensure effective measurement and management of Model Risk. Sub-committees such as the Credit Model Assessment Committee and Traded Risk Model Assessment Committee oversee their respective in-scope models and escalate material model risks to the Model Risk Committee. In parallel, business and function-level risk committees provide governance oversight of the models used in their respective processes.

### Decision-making authorities and delegation

The Model Risk Type Framework is the formal mechanism through which the delegation of Model Risk authorities is made.

The Global Head, Enterprise Risk Management delegates authorities to designated individuals or Policy Owners through the RTF. The second-line ownership for Model Risk at country level is delegated to Country Chief Risk Officers at the applicable branches and subsidiaries.

The Model Risk Committee is responsible for approving models for use. Model approval authority is also delegated to the Credit Model Assessment Committee, Traded Risk Model Assessment Committee and individual model approvers for less material models.

### Monitoring

The Group monitors Model Risk via a set of Risk Appetite metrics that are approved by the Board. Adherence to Model Risk Appetite and any threshold breaches are reported regularly to the Board Risk Committee and Model Risk Committee.

Models undergo regular monitoring based on their level of perceived Model Risk, with monitoring results and breaches presented to Model Risk Management and delegated model approvers.

Model Risk Management produces Model Risk reports covering the model landscape, which include performance metrics, identified issues and remediation plans. These are presented for discussion at the Model Risk governance committees on a regular basis.

### Stress testing

Models play an integral role in the Group's stress testing and are rigorously validated to ensure that they are fit-for-purpose for use under stressed market conditions. Compliance with Model Risk management requirements and regulatory guidelines are also assessed as part of each stress test, with any identified gaps mitigated through model overlays and defined remediation plans.

# Reputational and Sustainability Risk

The Group defines Reputational and Sustainability Risk as the potential for damage to the franchise, (such as loss of trust, earnings or market capitalisation) because of stakeholders taking a negative view of the Group through actual or perceived actions or inactions – including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client and third-party relationships or our own operations.

## Risk Appetite Statement

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

Over the past 20 years, sustainability has grown in importance from a corporate social responsibility to become embedded within the Group's business model and as such, the sustainability-related risks of environmental, social and governance (ESG) have been elevated within the Group's Reputational and Sustainability Risk Type Framework. We recognise that there are many facets to Sustainability Risk; however, the primary focus of the Group's approach will be on environmental and social risk management to ensure that we uphold the principles of Responsible Business Conduct and continue to do the right thing for our stakeholders, the environment and affected communities.

## Roles and responsibilities

The Global Head, Enterprise Risk Management is the Risk Framework Owner for Reputational and Sustainability Risk under the Group's Enterprise Risk Management Framework.

The responsibility for Reputational and Sustainability Risk management is delegated to Reputational Risk Leads in ERM as well as Chief Risk Officers at region, country and client-business levels. They constitute the second line of defence, overseeing and challenging the first line of defence, which resides with the Chief Executive Officers, Business Heads, Product Heads and Function Heads in respect of risk management activities of reputational and sustainability-related risks respectively. The Environmental and Social Risk Management team (ESRM), which is in the first line of defence, also provides dedicated support on the management of environmental and social risks and impacts arising from the Group's client relationships and transactions.

## Mitigation

In line with the principles of Responsible Business Conduct and Do No Significant Harm, the Group deems Reputational and Sustainability Risk to be driven by:

- Negative shifts in stakeholder perceptions due to decisions related to clients, products, transactions, third parties and strategic coverage
- Potential material harm or degradation to the natural environment (environmental) through actions/inactions of the Group
- Potential material harm to individuals or communities (social) risks through actions/inactions of the Group

The Group's Reputational Risk policy sets out the principal sources of Reputational Risk driven by negative shifts in stakeholder perceptions as well as responsibilities, control and oversight standards for identifying, assessing, escalating and effectively managing Reputational Risk. The Group takes a structured approach to the assessment of risks associated with how individual client, transaction, product and strategic coverage decisions may affect perceptions of the organisation and its activities, based on explicit principles including, but not limited to gambling, defence and dual use goods. Whenever potential for stakeholder concerns is identified, issues are subject to prior approval by a management authority commensurate with the materiality of matters being considered. Such authorities may accept or decline the risk or impose conditions upon proposals, to protect the Group's reputation.

The Group's Sustainability Risk policy sets out the requirements and responsibilities for managing environmental and social risks for the Group's operations, clients and third parties, as guided by various industry standards such as the OECD's Due Diligence Guidance for Responsible Business Conduct, Equator Principles, UN Sustainable Development Goals and the Paris Agreement.

Through our operations, the Group seeks to minimise its impact on the environment and have targets to reduce energy, water and waste. Clients are expected to adhere to minimum regulatory and compliance requirements, including criteria from the Group's Position Statements. Suppliers must comply with the Group's Supplier Charter which sets out the Group's expectations on ethics, anti-bribery and corruption, human rights, environmental, health and safety standards, labour and protection of the environment.

## Governance committee oversight

The Brand, Values and Conduct Committee retains Board-level oversight responsibility for Reputational Risk. Oversight from an operational perspective falls under the remit of the Group Risk Committee (GRC) and the Board Risk Committee. The Group Responsibility and Reputational Risk Committee (GRRRC), appointed by the GRC ensures the effective management of Reputational and Sustainability Risk across the Group.

The GRRRC's remit is to:

- Challenge, constrain and, if required, stop business activities where risks are not aligned with the Group's Risk Appetite
- Make decisions on Reputational Risk matters assessed as high or very high based on the Group's primary Reputational Risk materiality assessment matrix, and matters escalated from the regions or client businesses
- Provide oversight of material Reputational Risk and/or thematic issues arising from the potential failure of other risk types
- Oversee Sustainability Risk management of the Group

The Sustainable Finance Governance Committee, appointed by the GRRRC provides leadership, governance and oversight for delivering the Group's sustainable finance offering. This includes:

- The endorsement of the Group's Green and Sustainable Product Framework and control framework for the review and approval of products and transactions which carry the sustainable finance label
- Decision-making authority on the eligibility of a sustainable asset for any risk-weighted assets (RWA) relief

The Group Non-Financial Risk Committee has oversight of the control environment and effective management of Reputational Risk incurred when there are negative shifts in stakeholder perceptions of the Group due to failure of other PRTs. The regional and client-business risk committees provide oversight on the Reputational and Sustainability Risk profile within their remit. The Country Non-Financial Risk Committee (CNFRC) provides oversight of the Reputational and Sustainability Risk profile at a country level.

### Decision-making authorities and delegation

The Reputational and Sustainability RTF is the formal mechanism through which the delegation of Reputational and Sustainability Risk authorities is made. The Global Head, Enterprise Risk Management delegates risk acceptance authorities for stakeholder perception risks to designated individuals in the first line and second line or to Committees such as the GRRRC via risk authority matrices.

These risk authority matrices are tiered at country, regional, business segment or Group levels and are established for risks incurred in strategic coverage, clients, products or transactions. For environmental and social Risks, the ESRM must review and support the risk assessments for clients and transactions and escalate to the Reputational Risk leads as required. Risk authorities will be enhanced through 2021 as Sustainability Risk is embedded throughout the Group.

### Monitoring

Reputational and Sustainability Risk policies and standards are applicable to all Group entities. However, local regulators in some markets may impose additional requirements on how banks manage and track Reputational and Sustainability Risk. In such cases, these are complied with in addition to Group policies and standards.

Exposure to stakeholder perception risks arising from transactions, clients, products and strategic coverage are monitored through established triggers outlined in risk materiality matrices to prompt the right levels of risk-based consideration by the first line and escalations to the second line where necessary. Risk acceptance decisions and thematic trends are also being reviewed on a periodic basis.

Exposure to Sustainability Risk is monitored through triggers embedded within the first-line processes where environmental and social risks are considered for clients and transactions via the Environmental and Social Risk Assessments; and considered for vendors in our supply chain through the Modern Slavery questionnaires.

### Stress testing

Reputational Risk outcomes are taken into account in enterprise stress tests, and incorporated into the Group's stress testing scenarios. For example, the Group might consider what impact a hypothetical event leading to loss of confidence among liquidity providers in a particular market might have, or what the implications might be for supporting part of the organisation in order to protect the brand.

## Climate Risk – Material cross-cutting risk

The Group currently recognises Climate Risk as a material cross-cutting risk. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it.

### Risk Appetite Statement

The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement

Climate Risk has been recognised as an emerging risk since 2017 and was elevated to a material cross-cutting risk in 2019. We are in the process of integrating Climate Risk into mainstream risk management in alignment with the Bank of England's Supervisory Statement 3/19 requirements. We have a Climate Risk workplan with defined milestones for 2021 and are making good progress. However, it is still a relatively nascent risk area which will mature and stabilise over the years to come.

### Roles and responsibilities

The three lines of defence model as per the Enterprise Risk Management Framework applies to Climate Risk. The Group Chief Risk Officer (GCRO) has the ultimate second line and senior management responsibility for Climate Risk. The GCRO is supported by the Global Head, Enterprise Risk Management who has day-to-day oversight and central responsibility for second-line Climate Risk activities. As Climate Risk is integrated into the relevant Principal Risk Types (PRTs), second-line responsibilities between the Risk Framework Owner (at Group, regional and country level) and the central Climate Risk team will be shared.

### Mitigation

As a material cross-cutting risk manifests through other PRTs, risk mitigation activities are specific to individual PRTs. Centrally, a cross-cutting standard is being put in place to capture practices across various PRTs. Within each individual PRT, relevant framework, policy and standards are being updated as per the Climate Risk workplan. As an example, for Operational Risk in our own operations, the checklist for new property acquisition has been updated to include a physical risk rating.

### Governance committee oversight

Board-level oversight is exercised through the Board Risk Committee (BRC), and regular Climate Risk updates are provided to the Board and BRC. At the executive level, the Group Risk Committee oversees implementation of the Climate Risk workplan. The GCRO has also appointed a Climate Risk Management Forum consisting of senior representatives from the business, risk, strategy and other functions such as sustainability and legal. The Climate Risk Management Forum meets quarterly to discuss development and implementation of the Climate Risk workplan, and to provide structured governance around engagement with the relevant PRTs impacted by Climate Risk.

### Tools and methodologies

Applying existing risk management tools to quantify Climate Risk is challenging given inherent data and methodology challenges, including the need to be forward-looking over long time horizons. To leverage expertise from various areas, we have invested in a number of tools and partnerships:

1. Munich Re – we are using Munich Re's physical risk assessment tool, which is built on extensive re-insurance experience
2. Baringa Partners – we are using Baringa's flagship climate models to understand climate scenarios, compute transition risk and temperature alignment
3. Standard and Poor – we are leveraging S&P and Trucost's wealth of climate data covering asset locations, energy mixes and emissions
4. Imperial College – we are leveraging Imperial's academic expertise to advance our understanding of climate science, upskill our staff and senior management, and progress the state of independent research on climate risks with an acute focus on emerging markets

### Decision-making authorities and delegation

The Global Head, Enterprise Risk Management is supported by a centralised Climate Risk team within the ERM function. The Global Head, Risk Governance and Enterprise Risks and the Head of Climate Risk are responsible for ensuring and executing the delivery of the Climate Risk workplan which will define decision-making authorities and delegations across the Group.

### Monitoring

The Climate Risk Appetite Statement is approved and reviewed annually by the Board. In 2020, we began initial management reporting on prioritised Climate Risk metrics and this will be further strengthened over 2021 with the development of risk categories and an authority matrix. Strategic Risk Appetite reporting will begin in 2022.

### Stress testing

Climate Risk intensifies over time, and future global temperature rises depend on today's transition pathway. Considering different transition scenarios is crucial to assessing Climate Risk over the next 10, 20 and 50 years. Stress testing and scenario analysis are used to assess capital requirements for Climate Risk and in 2020 physical and transition risks were included in the Group Internal Capital Adequacy Assessment Process (ICAAP). In 2021, we will undertake a number of Climate Risk stress tests, including by the Bank of England and the Hong Kong Monetary Authority. This will help us develop our understanding and management of Climate Risk.



Details on the Group's Taskforce on Climate-related Financial Disclosures can be found on [sc.com/tcfd](https://www.sc.com/tcfd)

# Emerging risks

In addition to our Principal Risk Types that we manage through Risk Type Frameworks, policies and Risk Appetite, we also maintain an inventory of emerging risks. Emerging risks refer to unpredictable and uncontrollable events which may have the potential to materially impact our business. These include near-term risks that are on the horizon and can be measured or mitigated to some extent, as well as longer-term uncertainties that are on the radar but not yet fully measurable.

In 2020, we undertook a thorough review of our emerging risks, using the approach described in the Enterprise Risk Management Framework (ERMF) section (pages 248 to 253). The key results of the review are detailed below.

## Key changes to our emerging risks:

The following items have been removed as emerging risks:

- 'Hong Kong Social Unrest' – This has been incorporated into 'US-China trade tensions driven by geopolitics and trade imbalance'
- 'China slowdown and impact on regional economies with close ties to China' – This has been removed as China is on target to be the first large market to rebound from the COVID-19 slowdown and is on track for recovery
- 'Climate related transition and physical risks' – This has been removed as it is now formally classified in the ERMF as a material cross-cutting risk. The emerging risks section of the Half Year report 2020 stated that, in addition to principal risks, the Group also recognises Climate Risk as a cross-cutting risk that manifests through other principal risks
- 'Negotiating the future EU-UK relationship' – This has been removed as it has been resolved with the signing of an agreement. The outcome and impact of the future relationship will need to be monitored and assessed
- 'Regulatory changes and regulatory reviews and investigations, legal proceedings' – These have been removed as they are considered intrinsic risks for being in the financial services industry. Any Group-specific risks would be disclosed as appropriate
- 'Japan Korea diplomatic dispute' – This has been removed due to the manageable immediate impact to the Group's portfolio

The following items have been amended or added as new emerging risks:


- 'Rise of populism and nationalism driven by unemployment and a shift in global supply chains' – Populism is on the rise globally. Policies such as income redistribution, public spending increases, a rise in trade barriers and tariffs, tax cuts, restrictions on immigration, and pro-nationalist or anti-global rhetoric pose a risk to long-term economic progression
- 'Social unrest driven by economic downturns, water crises, medical provision and food security' – 2019 and 2020 saw a surge in protests globally and the risk is these will increase with greater severity and frequency as economic growth is challenging, while health systems and food shortages are becoming more significant factors. Energy, food transportation and nature all depend on a limited reserve of clean, flowing water, the availability of which is becoming an increasing concern
- 'Rising sovereign default risk and private sector creditor participation in the Common Framework Agreement (CFA), – The combination of economic downturns, capital flight, commodity price collapses, political instability resulting from the social consequences of COVID-19, and increased debt obligations for extending financial support may make it difficult for some countries to refinance their debts. The CFA for the world's poorest nations could impact market access and medium-term lending to some sovereigns.
- 'Unintended consequences of accommodative monetary policy and the risk of asset bubbles and inflation' – Developed market central banks have seen record balance sheet expansion in response to the economic downturn and there is a risk this may result in asset bubbles and/or inflation in the longer term. Refinance risk may become an increasing concern
- 'Third party dependency' – The global pandemic, it's economic fallout and increased cyber threats have impacted companies globally, resulting in significant pressure on the financial health and security of suppliers, vendors and other third parties that the Group relies upon.
- 'Increase in long-term remote working providing new challenges' – This risk has increased as malicious actors are increasing their capability and maturity by adapting to varying trends and new technologies to personalise attacks on organisations e.g. ransomware. This risk is exacerbated by remote working with reduced monitoring capabilities

Our list of emerging risks, based on our current knowledge and assumptions, is set out below, with our subjective assessment of their impact, likelihood and velocity of change. This reflects the latest internal assessment of material risks that the Group faces as identified by senior management. This list is not designed to be exhaustive and there may be additional risks which could materialise or have an adverse effect on the Group.

Our mitigation approach for these risks may not be successful in completely eliminating them, but rather shows the Group's attempt to reduce or manage the risk. As certain risks develop and materialise over time, management will take appropriate incremental steps based on the materiality of the impact of the risk to the operations of the Group.



## Geopolitical considerations (Risk ranked according to severity)

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>US-China trade tensions driven by geopolitics and trade imbalance</b>  Potential impact: <b>High</b> Likelihood: <b>High</b> Velocity of change: <b>Fast</b>		<ul style="list-style-type: none"> <li>Since the beginning of 2020, US-China tensions have evolved into broad-based differences between China, US and its allies as well as some other Asian countries. Areas of tensions include:                             <ul style="list-style-type: none"> <li>Vietnam, the Philippines, Brunei, Malaysia, Taiwan, Australia and the US rejection of China's maritime claims in the South China Sea. Taiwan's status continues to remain a point of contention. Increasingly frequent military exercises in the disputed waters have resulted in escalating tensions</li> <li>China's military border clash with India resulted in the rise of nationalism in India. The Government of India has banned Chinese apps in India including TikTok and WeChat</li> <li>After the implementation of the National Security Law in Hong Kong, the US revoked Hong Kong's Special Status in US laws and imposed sanctions on individual officials. The UK and Australia relaxed immigration rules for Hong Kong residents while the US and Canada started granting refugee status to eligible Hong Kong residents</li> <li>The US is increasing restrictions on Chinese technology companies with various US sanctions lists and Executive Orders restricting US entities' dealing with specific Chinese entities. China's retaliatory measure of its own "unreliable entity list" raises uncertainty for foreign businesses</li> </ul> </li> <li>China is a key network income generator for the Group. Opportunities from China's opening-up remain pivotal to the Group strategy</li> </ul>	<ul style="list-style-type: none"> <li>A sharp slowdown in US-China and, more broadly, world trade and global growth is a feature of the Group stress scenarios. These stress tests provide visibility to key vulnerabilities so that management can implement timely interventions</li> <li>Detailed portfolio reviews are conducted on an ongoing basis and action is taken where necessary</li> <li>We monitor and assess geopolitical events and act as appropriate to ensure that we minimise the impact to the Group and our clients. Scenario planning is conducted regularly to assess the possible impact of developments and enable management to prepare contingency plans where appropriate</li> <li>There is continuous monitoring at a country, regional and Group level to identify emerging risks and evaluate their management</li> <li>Increased scrutiny is applied when onboarding clients in sensitive industries and in ensuring compliance with sanctions requirements</li> </ul>
<b>Middle East geopolitical tensions</b>  Potential impact: <b>High</b> Likelihood: <b>Medium</b> Velocity of change: <b>Moderate</b>		<ul style="list-style-type: none"> <li>The emergence of COVID-19 in 2020 may have contributed to reduced security incidents in the Middle East relative to 2019 as governments focused on safeguarding their populations and mitigating the impact of COVID-19 on their economies</li> <li>Nevertheless, the underlying destabilising factors remain. The Middle East and North Africa (MENA) region faces multiple challenges including :                             <ul style="list-style-type: none"> <li>Young populations with high unemployment and widespread religious and sectarian tension</li> <li>Low oil prices. The collapse of oil prices in March 2020 hit the MENA region hard with a significant negative impact to fiscal and current account balances. The various currency pegs to the US dollar do not appear under threat as yet but this risk could rise if low oil prices persist and the economic downturn becomes protracted</li> </ul> </li> <li>The US remains an important factor in MENA as evidenced by the recently announced normalisation of relations between Israel, UAE and Bahrain. US foreign policy changes following the November 2020 elections could impact the balance of power in the region. Potentially, the US's approach to issues such as the Joint Comprehensive Plan of Action in relation to Iran could change significantly. In addition, the growing economic linkages between MENA and China could impact the nature of the US support to the region in light of the current trade disputes between the US and China</li> <li>Fundamental tensions remain between Iran and Saudi Arabia/UAE with little prospect for short to medium-term resolution</li> <li>The tensions related to the boycott of Qatar by the Arab quartet (Saudi Arabia, UAE, Bahrain and Egypt) have dissipated to some extent but are still to be completely resolved and represent an ongoing hindrance to the unity of the Gulf Cooperation Council. The Group has a material presence across the region</li> </ul>	<ul style="list-style-type: none"> <li>The Group monitors developments at regional and country level to detect adverse horizon risks</li> <li>The direct impact on our MENA portfolio to date has been limited but the unstable backdrop and uncertain outlook inevitably impact confidence and economic prospects for the region</li> <li>The Group's Risk Appetite and Underwriting Standards across the region have been amended considering the economic downturn</li> </ul>

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Rise of populism and nationalism driven by unemployment and a shift in global supply chains</b>		<ul style="list-style-type: none"> <li>The rising gap between winners and losers of globalisation is the main driver for the rise of populism and nationalism, especially apparent in the aftermath of the global financial crisis</li> <li>COVID-19 provides an opportunity for populist leaders to utilise extended state powers in ways that may undermine the rule of law and democracy and result in more autocratic behaviour</li> <li>Populist and nationalist parties have created conflict and instability, leading to increases in ethnic, ideological, religious and increasingly military conflict</li> <li>There is no clear trend that would suggest a rise of populism and nationalism on a global scale, but instead pockets in certain countries and regions. For example, Jair Bolsonaro has been in office since January 2019 and Benjamin Netanyahu was re-elected in Israel in 2019. In defeat, Donald Trump received the second-highest number of votes in US history during the November 2020 presidential elections</li> <li>The approach taken by the new administration in the US to addressing unemployment and socio-economic challenges will be a significant factor</li> </ul>	<ul style="list-style-type: none"> <li>We monitor and assess geopolitical events and act as appropriate to ensure that we minimise the impact to the Group and our clients</li> <li>There is continuous monitoring of emerging risks at a country, regional and Group level</li> </ul>
Potential impact: <b>Low</b>			
Likelihood: <b>Low</b>			
Velocity of change: <b>Steady</b>			

## Macroeconomic considerations (Risk ranked according to severity)

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>The COVID-19 outbreak and the emergence of new diseases</b>		<ul style="list-style-type: none"> <li>Governments around the world have taken financial measures to offset the damaging economic impacts of the virus and physical measures to contain its spread, including \$11 trillion in fiscal support and international and domestic travel restrictions. Nonetheless, the impact of the pandemic has been severe, leading to increased volatility in financial markets and commodity prices and major economic downturns in many countries. The financial market volatility and economic downturn is greater than that experienced in the global financial crisis</li> <li>With multiple waves of COVID-19 undermining efforts to return to normal, business, consumer and investor confidence has been affected and most countries' gross domestic product is well below pre-pandemic levels. At the same time, the International Monetary Fund has estimated that global public debt will reach a record high of approximately 100 per cent of Gross Domestic Product before the end of 2020, as the global economy struggles to bounce back from the COVID-19 crisis, leaving little scope for additional monetary policy stimulus</li> <li>Although global output is expected to recover to pre-COVID-19 levels by the end of 2021, the previous growth path will not be achieved for many years and there is a risk of further disruption, economic downturn and financial market volatility in the interim</li> <li>COVID-19 has resulted in more than a health crisis. It has become a human, economic and social crisis, which may result in increased uncertainty and new risks</li> <li>There has been significant recent progress with regard to treatment and potential vaccinations for COVID-19. A number of pharmaceutical companies have announced the delivery of various vaccines candidates with more expected. The uneven vaccine rollout could cause recoveries in emerging markets to lag</li> <li>Greater China, North Asia and South East Asian economies remain key strategic regions for the Group and Hong Kong remains the largest profit contributor</li> <li>There is a risk other diseases may emerge</li> </ul>	<ul style="list-style-type: none"> <li>The Group's priority remains the health and safety of our clients and employees and the continuation of normal operations by leveraging our robust Business Continuity Plans which include enabling the vast majority of our staff to work remotely where possible</li> <li>To support our clients the Group has enacted comprehensive support schemes for retail and corporate customers, including loan and interest repayment holidays, covenant relief, fee waivers or cancellations, loan extensions and new facilities</li> <li>The Group made \$1 billion of financing available for companies to provide ventilators, face masks and other goods and services to help fight the pandemic. The Group also launched a \$50 million global fund to provide assistance to aid those affected</li> <li>As part of our stress tests, a severe stress in the global economy associated with a sharp slowdown was assessed in addition to the Internal Capital Adequacy Assessment Process stress tests</li> <li>Exposures that could result in material credit impairment charges and risk-weighted assets inflation under stress tests are regularly reviewed and actively managed</li> </ul>
Potential impact: <b>High</b>			
Likelihood: <b>High</b>			
Velocity of change: <b>Moderate</b>			

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Unintended consequences of accommodative monetary policy and the risk of asset bubbles and inflation</b>  Potential impact: <b>Medium</b> Likelihood: <b>High</b> Velocity of change: <b>Steady</b>		<ul style="list-style-type: none"> <li>In response to the economic outcome of the COVID-19 outbreak, central banks have significantly expanded their balance sheets to record levels</li> <li>There is a risk that long-term low or negative interest rates may drive searches for improved yield which could result in a rapid escalation in asset values not aligned to fundamentals</li> <li>Another key concern is that accommodative policies may result in persistent inflation risks. In the short term, this risk is mitigated by weak demand and high unemployment. The current challenge and focus for most fiscal and monetary authorities are to restore demand</li> <li>Beyond the near term, there are concerns about the permanent loss of spare capacity, especially in more developed markets. This could mean that potential output in many economies is lower, and competition is weaker. A small amount of recovery in demand would mean that inflation is a more material risk. It is not clear that central banks will have the tools to remove policy accommodation without causing other risks</li> </ul>	<ul style="list-style-type: none"> <li>There is regular and continuous portfolio monitoring at a country, regional and Group level to identify and assess emerging risks</li> <li>Client exposures and risk-weighted assets identified as being at risk of impairment are monitored and reviewed on a regular basis and actively managed</li> </ul>
<b>Rising sovereign default risk and private sector creditor participation in the Common Framework Agreement (CFA)</b>  Potential impact: <b>High</b> Likelihood: <b>Medium</b> Velocity of change: <b>Moderate</b>		<ul style="list-style-type: none"> <li>COVID-19 has exacerbated already deteriorating market conditions causing liquidity and potentially solvency issues for a number of the world's poorest countries. This may make it difficult for some countries to service their debts in the coming 12 to 18 months, including increased debt that has been taken on to limit the economic damage from the global pandemic</li> <li>There have been six sovereign defaults in 2020 including two countries in which the Group operates</li> <li>The original Debt Service Suspension Initiative (DSSI) called upon private sector creditors to participate and this has been re-emphasised in the CFA beyond the DSSI. The G20 agreed to allow 73 of the world's poorest countries to postpone this year's official bilateral debt repayments until June 2021 with subsequent payments spread over 6 years. In 2020, 46 countries have applied for debt suspensions through the initiative, to delay about \$5 billion of payments this year – less than half of the \$11.5 billion available, according to the World Bank. The suspensions apply only to bilateral lending arrangements; none of the countries has requested comparable relief from bondholders out of concern that such a move would have an impact on their ability to access international capital markets in the future</li> <li>Ghana has criticised western nations for neglecting the mounting crisis in Africa while finding trillions of dollars to stimulate their own economies and the UN is co-ordinating an appeal by African finance ministers for \$100 billion a year for the next three years to support COVID-afflicted economies on the continent</li> <li>Unless progress is made, many developing economies will struggle to service or refinance their existing debt in the coming 12 to 18 months</li> </ul>	<ul style="list-style-type: none"> <li>Exposures that may result in material credit impairment and increased risk-weighted assets are closely monitored and actively managed</li> <li>We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events and manage the portfolio accordingly</li> <li>We actively utilise Credit Risk mitigation techniques including credit insurance and collateral</li> <li>We actively track the participation of our footprint countries in the CFA and the associated exposure</li> </ul>



Risk heightened in 2020



Risk reduced in 2020




Risk remained consistent with 2019 levels

Potential impact	Likelihood	Velocity of change
Refers to the extent to which a risk event might affect the Group	Refers to the possibility that a given event will occur	Refers to when the risk event might materialise
High (significant financial or non-financial risk)	High (almost certain)	Fast (risk of sudden developments with limited time to respond)
Medium (some financial or non-financial risk)	Medium (likely or possible)	Moderate (moderate pace of developments for which we expect there will be time to respond)
Low (marginal financial or non-financial risk)	Low (unlikely or rare)	Steady (gradual or orderly developments)

## Environmental and social considerations



Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Social unrest driven by economic downturns, water crises, medical provision and food security</b>  Potential impact: <b>High</b>  Likelihood: <b>Medium</b>  Velocity of change: <b>Moderate</b>		<ul style="list-style-type: none"> <li>• 2019 and 2020 saw a surge in protests globally and the risk is that these will increase in 2021, with greater severity and frequency, as economic performance, constrained health systems and food shortages become more significant factors</li> <li>• Societies and economies are deeply dependent on water. Energy, food, transportation and nature all rely on a limited supply of clean water. Climate change, unsustainable agricultural practices, poorly planned infrastructure and pollution all threaten the availability of this resource which is increasing the risk of social unrest as a result</li> <li>• Global food prices jumped in 2008 and again in 2011–2012 leading to street and food riots in more than 50 countries, contributing to the overthrow of governments in Haiti and Madagascar, for example, and igniting the Arab spring</li> <li>• Recurring COVID-19 outbreaks are disrupting economies, food systems and supply chains, including medical and goods supply globally. New normal measures have imposed a change in consumption habits</li> </ul>	<ul style="list-style-type: none"> <li>• There is continuous monitoring at a country, regional and Group level to identify emerging and horizon risks and evaluate their management</li> <li>• Detailed reviews are conducted on an ongoing basis of exposures that may result in significant credit impairment</li> </ul>

## Legal considerations

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Interbank Offered Rate (IBOR) discontinuation and transition</b>  Potential impact: <b>High</b>  Likelihood: <b>High</b>  Velocity of change: <b>Moderate</b>		<ul style="list-style-type: none"> <li>• In 2017, the UK Financial Conduct Authority announced that it had reached an agreement with LIBOR panel banks to contribute to LIBOR until the end of 2021, after which there would be a transition from IBORs to risk free rates (RFRs)</li> <li>• Transition from LIBOR to RFRs presents several risks: (i) there are fundamental differences between LIBOR and RFRs and value transfer may arise in transitioning contracts from one to the other; (ii) the market will transition at different paces in different regions and across different products, presenting various sources of basis risk and posing major challenges to hedging strategies; (iii) clients may not be treated fairly throughout the transition, or may not be aware of the options available to them and the implications of decisions taken, which may result in unfair financial detriment; (iv) Legal Risk in relation to the fall-back risks associated with the transition; (v) changes in processes, systems and vendor arrangements associated with the transition may not be within appropriate tolerance levels; and (vi) Accounting and Financial Reporting Risk in that the changes in underlying rates, such as on cashflows and valuations, may not be incorporated correctly</li> <li>• The lack of liquidity in some of the RFR markets, particularly the Secured Overnight Financing Rate, may present challenges to the transition until resolved, as will the different transition timelines for the five LIBOR currencies</li> <li>• Complexity in managing the IBOR transition is also increasing as a result of growing interest from a number of local regulators, and the work required where there are local IBORs requiring transition as well</li> <li>• While the Group does not submit to LIBOR, LIBOR is heavily relied upon by the Group as a reference rate for many financial instruments</li> </ul>	<ul style="list-style-type: none"> <li>• The Group has a well-established global IBOR Transition Programme to consider all aspects of the transition and how risks from the transition can be mitigated</li> <li>• A significant amount of work has been undertaken in raising awareness and understanding of the transition, both internally and with clients, with around 6,500 staff and over 1,900 clients trained globally</li> <li>• From an industry and regulatory perspective, the Group is actively participating in and contributing to different RFR Working Groups, industry associations and business forums focusing on different aspects of the LIBOR (and other IBORs, as applicable) to RFR transition</li> <li>• The Group monitors the developments at these IBOR-related forums and reflects and aligns significant industry decisions into the Group's transition plans, as required</li> </ul>

## Technological considerations (Risk ranked according to severity)

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Third party dependency</b>  Potential impact: <b>High</b>  Likelihood: <b>High</b>  Velocity of change: <b>Moderate</b>		<ul style="list-style-type: none"> <li>COVID-19 has impacted businesses globally, and placed significant pressure on the financial health of our suppliers, vendors and other third parties. While current operational performance remains at expected levels with no significant impact, the Group needs to continue focusing on and monitoring critical suppliers, in particular as the risk of impact in the near term remains heightened</li> <li>This is particularly relevant from a cyber-security perspective where the effect of a cyber event can quickly multiply and extend to other intersecting areas</li> <li>There is increasing usage of partnerships and alliances by banks to respond to a rapidly changing banking landscape and disruption, particularly in new technologies, from existing players and new entrants. This is making partnerships and alliances an integral part of banks' emerging business model and value proposition to the clients</li> </ul>	<ul style="list-style-type: none"> <li>An assessment of Third Party Risk was undertaken in 4Q'20. We continue to enhance our overall Third-Party Risk management in response to a changing environment</li> <li>The 2021 Risk Appetite metrics for Vendor Service Risk focus on heightened monitoring of high-risk arrangements and contingency plans</li> <li>Third Party Risk management policies, procedures and governance are being reviewed to ensure adequate coverage of all third-party types in addition to inclusion and consideration across all Group activities</li> </ul>
<b>New technologies and digitisation (including business disruption risk, responsible use of Artificial Intelligence)</b>  Potential impact: <b>High</b>  Likelihood: <b>High</b>  Velocity of change: <b>Fast</b>		<ul style="list-style-type: none"> <li>Innovation in the financial services industry is happening at a relentless pace, for example artificial intelligence (AI) and blockchain have continued to gather speed with a growing number of use cases that address evolving customer expectations. The Group must adapt its operating model or risk competitive disadvantage</li> <li>In Retail Banking, we continue to observe significant shifts in customer value propositions as markets deepen. Fintechs are delivering digital only banking offerings with differentiated user experience, value propositions and product pricing. There is growing usage of AI and machine learning (ML) to deliver highly personalised services such as virtual chatbots to provide digital financial advice and predictive analytics to cross-sell products</li> <li>In Corporate &amp; Institutional Banking, we continue to observe an increasing focus on digitalisation to streamline processes and provide scalable and personalised solutions for corporate clients. There are growing use cases for blockchain technologies, e.g. streamline cross-border payments and automate key documentation. AI and ML are also increasingly used in predictive risk modelling</li> <li>Rapid adoption of new technologies requires that we also determine how the Group's security standards, capabilities and processes need to be applied and, in some cases, how we need to adapt in light of new technology</li> <li>As these new technologies grow in sophistication and become further embedded across the banking and financial services industry, banks may become more susceptible to technology-related risks. For example, the growing usage of big data and cloud computing solutions has heightened cyber security risks in banks</li> <li>Regulators are increasing emphasis on the importance of resilient technology infrastructure in terms of elimination of cyber risk and improving reliability</li> <li>Crypto-assets are diversifying rapidly, in line with the ongoing structural transformation in technology, preferences and usages amongst investors and consumers. They may increasingly pose a risk to monetary policy and the smooth functioning of market infrastructures and payments</li> </ul>	<ul style="list-style-type: none"> <li>The Group continues to undertake a rigorous approach in monitoring emerging trends and new developments, opportunities and risks in the technology space, which may have implications on the banking sector</li> <li>In 2017, the Group set up the SC Ventures unit to spearhead Group-wide digital advancement. The unit continues to promote innovation, invest in disruptive technologies and deliver client digital solutions. SC Ventures' eXcellerator innovation labs in China, Singapore, Hong Kong, London, San Francisco and Kenya are designed to drive innovation, invest in promising fintech and implement new business models in banking. Several ventures going live in 2021 are driving the Group into new services and technologies, including those associated with crypto currencies.</li> <li>The Group is developing an AI modelling framework which includes the validation of AI models</li> <li>The Group has an integrated strategy to leverage technology to manage cyber risk and combat cyber-enabled financial crime. Rapid adoption of new technologies requires that we also determine how the Group's security standards, capabilities and processes need to be applied and, in some cases, how we need to adapt security aspects</li> <li>The Group continues to apply our existing governance and control frameworks for the deployment of new technology services. We maintain our vigilant watch on legal and regulatory trends in relation to the usage of new technologies and related data risks. We are also developing a crypto risk framework to better manage these risks.</li> </ul>

Emerging Risk	Risk trend since 2019	Context	How these are mitigated/next steps
<b>Increased data privacy and security risks from strategic and wider use of data</b>		<ul style="list-style-type: none"> <li>As digital technologies grow in sophistication and become further embedded across the banking and financial services industry, the potential impact profile with regards to data risk is changing. The growing use of big data for analysis purposes and cloud computing solutions are examples of this</li> <li>In addition, these risks represent an emerging and topical theme both from regulatory and compliance perspectives</li> </ul>	<ul style="list-style-type: none"> <li>The Group has existing governance and control frameworks for the deployment of new technologies, products and services</li> <li>The Group is enhancing the existing risk framework around data management to streamline and strengthen our oversight of these risks across the data lifecycle</li> <li>To manage the risks posed by rapidly evolving cyber security threats and technology adoption, the Group has designed and is implementing a programme focused on delivering an improved security framework</li> <li>The Group maintains a vigilant watch on legal and regulatory developments in relation to data privacy and security risks to identify any potential impact to the business and implement appropriate mechanisms to control these related risks</li> </ul>
<p>Potential impact: <b>High</b></p> <p>Likelihood: <b>High</b></p> <p>Velocity of change: <b>Moderate</b></p>			
<b>Increase in long-term remote working providing new challenges</b>		<ul style="list-style-type: none"> <li>With the outbreak of COVID-19 across the world, many governments have imposed a full or partial lockdown in countries where the Group operates. These actions have restricted the movement of staff and meant that a large percentage are required to work remotely for a prolonged period</li> <li>There is an increase in information and cyber security (ICS) and privacy risks given the increase in the number of staff in certain roles who have access to confidential customer and client information working outside the secure office or branch environment</li> <li>Traditional threat vectors (i.e. phishing and malware) combined with new threats due to digitisation and technology advancements at the endpoints (i.e. mobile devices and websites) adds another layer of potential cyber risk that could lead to disrupted services</li> <li>Malicious actors are increasing their capability and maturity by adapting to varying trends and new technologies to personalise attacks on organisations (i.e. ransomware)</li> <li>There is increased risk that staff become detached. While some people have work-conducive environments at home, many do not. The impact of this takes many forms and may result in feelings of isolation, increased stress and challenges around work-life balance</li> <li>Without the supervision that being in an office allows, there is a risk that issues such as those relating to wellbeing, performance and misconduct go unseen. Staff skills and capabilities may also be affected by extended remote working</li> </ul>	<ul style="list-style-type: none"> <li>The Group recognises the importance of ensuring that its ICS focus does not shift as it manages the financial and operational challenges posed by COVID-19</li> <li>The Group has sought to raise ICS awareness among customers and clients through messages posted on websites, applications and through fraud alerts on the online banking landing pages. Internally, the Group has increased ICS awareness amongst staff to remind them to stay vigilant to the new types of, and increased frequency of, cyber threats</li> <li>The Group employs a range of technical measures across its laptops, IT systems and network to minimise the risk of data leakage. The Group's Cyber Defence Centre and Cyber Threat Intelligence teams have improved proactive security monitoring of COVID-19 themed phishing campaigns, malicious activities and threats</li> <li>The Group has moved to large-scale adoption of technology to master a variety of critical aspects of the COVID-19 crisis and sustain productivity levels, such as implementing required infrastructure and security controls to enable work from home arrangements, use of collaboration tools (including Skype, BlueJeans, and MURAL), accelerated cloud-based service offerings and many others</li> <li>The Group has also assessed the risk, impact and robustness of continuity plans for pandemic critical vendor services supporting critical banking operations</li> <li>The Group has prioritised supporting people in working virtually through the pandemic. This has included a learning pathway to help colleagues and people leaders continue developing skills and work virtually, providing information and resources, including toolkits and webinars covering working from home related topics such as safety and wellbeing and productivity</li> </ul>
<p>Potential impact: <b>High</b></p> <p>Likelihood: <b>High</b></p> <p>Velocity of change: <b>Moderate</b></p>			

# Capital review

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

## Capital summary

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

	2020	2019
CET1 capital	<b>14.4%</b>	13.8%
Tier 1 capital	<b>16.5%</b>	16.5%
Total capital	<b>21.2%</b>	21.2%
UK leverage	<b>5.2%</b>	5.2%
MREL	<b>30.9%</b>	28.6%
Risk-weighted assets (RWA) \$million	<b>268,834</b>	264,090

The Group's CET1 capital and Tier 1 leverage position are well above current requirements. For further detail see the Capital section in the Standard Chartered PLC Pillar 3 Disclosures for FY 2020.

The Group's CET1 ratio increased 60 basis points to 14.4 per cent as profits, the sale of its interest in Permata, favourable regulatory changes and other movements more than offset higher RWA (mainly due to COVID-19 related credit migration) and the impact of the part completed share buy-back.

In the period, the PRA set the Group's current Pillar 2A requirement as a nominal value instead of a percentage of RWA. At the full year this equated to 3.2 per cent of RWA, of which at least 1.8 per cent must be held in CET1. This requirement will vary over time with movements in RWA and as Pillar 2A remains subject to regular PRA review. The Group's countercyclical buffer reduced by 21 basis points to 14 basis points mainly due to reductions in countercyclical buffer rates in Hong Kong and the UK in response to the COVID-19 pandemic. As a result of these changes to Pillar 2A and countercyclical buffer rates the Group's minimum CET1 requirement reduced by 28bps to 10.0 per cent.

On 30 June, the PRA published a statement on various amendments to the Capital Requirements Regulation (CRR) including revisions to certain IFRS 9 transitional arrangements and the treatment of software assets in CET1 with the intention of part offsetting COVID impacts on CET1 ratios (CRR Quick Fix). As at 31 December 2020 the CRR Quick Fix changes provided a CET1 benefit of around 29 basis points of which the change in treatment of software assets contributed 22 basis points. However, the PRA is consulting on maintaining the earlier position whereby all software assets are fully deducted from CET1.

The Group's fully phased minimum requirement for own funds and eligible liabilities (MREL) will be 22.5 per cent of RWA from 1 January 2022 based on RWA and leverage exposure at FY'20<sup>1</sup>. The Group's combined buffer (comprising the capital conservation buffer, the GSII buffer and the countercyclical buffer) is additive to the minimum MREL, resulting in a total MREL of 26.1 per cent of FY'20 RWA from 1 January 2022. The Group's MREL position was 30.9 per cent of RWA and 9.9 per cent of leverage exposure at 31 December 2020.

Despite challenging market conditions, the Group successfully raised around \$10.1 billion of MREL eligible debt from its holding company in the period. Issuance was across the capital structure including \$1.0 billion of Additional Tier 1, \$2.4 billion of Tier 2 and around \$6.8 billion of callable senior debt.

In response to a request from the PRA and as a consequence of the unprecedented challenges from the COVID-19 pandemic, the Board decided to cancel the 2019 final dividend of 20 cents per ordinary share and to suspend the \$0.5 billion share buy-back programme announced in February 2020. Additionally, no interim dividend on ordinary shares was accrued, recommended or paid in 2020. Following recent PRA guidance, the Board has recommended a final dividend for 2020 of \$284 million or 9 cents a share and, in addition, has decided to carry out a share buy-back for up to a maximum consideration of \$254 million. The impact of this buy-back will be reflected in the Group's CET1 position in the first quarter of 2021.

The Group is a G-SII, with a 1.0 per cent G-SII CET1 buffer. The Standard Chartered PLC G-SII disclosure is published at: [sc.com/fullyearresults](https://www.sc.com/fullyearresults)

<sup>1</sup> Potential future offset to Pillar 2A requirements from changes to the countercyclical buffer in PS 15/20 are not considered here. MREL end state requirements are based on FY'20 RWA, leverage exposure and Pillar 2A requirements.

## Capital ratios

	2020	2019
CET1	14.4%	13.8%
Tier 1 capital	16.5%	16.5%
Total capital	21.2%	21.2%

CRD Capital base<sup>1</sup> (audited)

	2020 \$million	2019 \$million
<b>CET1 instruments and reserves</b>		
Capital instruments and the related share premium accounts	5,564	5,584
Of which: share premium accounts	3,989	3,989
Retained earnings <sup>2</sup>	25,723	24,044
Accumulated other comprehensive income (and other reserves)	12,688	11,685
Non-controlling interests (amount allowed in consolidated CET1)	180	723
Independently reviewed interim and year-end profits	718	2,301
Foreseeable dividends	(481)	(871)
CET1 capital before regulatory adjustments	44,392	43,466
<b>CET1 regulatory adjustments</b>		
Additional value adjustments (prudential valuation adjustments)	(490)	(615)
Intangible assets (net of related tax liability) <sup>3</sup>	(4,274)	(5,318)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	(138)	(129)
Fair value reserves related to net losses on cash flow hedges	52	59
Deduction of amounts resulting from the calculation of excess expected loss	(701)	(822)
Net gains on liabilities at fair value resulting from changes in own credit risk	52	(2)
Defined-benefit pension fund assets	(40)	(26)
Fair value gains arising from the institution's own credit risk related to derivative liabilities	(48)	(38)
Exposure amounts which could qualify for risk weighting of 1250%	(26)	(62)
<b>Total regulatory adjustments to CET1</b>	<b>(5,613)</b>	<b>(6,953)</b>
<b>CET1 capital</b>	<b>38,779</b>	<b>36,513</b>
<b>Additional Tier 1 capital (AT1) instruments</b>	<b>5,632</b>	<b>7,184</b>
<b>AT1 regulatory adjustments</b>	<b>(20)</b>	<b>(20)</b>
<b>Tier 1 capital</b>	<b>44,391</b>	<b>43,677</b>
<b>Tier 2 capital instruments</b>	<b>12,687</b>	<b>12,318</b>
<b>Tier 2 regulatory adjustments</b>	<b>(30)</b>	<b>(30)</b>
<b>Tier 2 capital</b>	<b>12,657</b>	<b>12,288</b>
<b>Total capital</b>	<b>57,048</b>	<b>55,965</b>
<b>Total risk-weighted assets (unaudited)</b>	<b>268,834</b>	<b>264,090</b>

1 CRD capital is prepared on the regulatory scope of consolidation

2 Retained earnings includes IFRS9 capital relief (transitional) of \$394 million, including dynamic relief of \$97 million

3 Deduction for intangible assets includes software deduction relief of \$677 million as the CRR 'Quick Fix' measures

## Movement in total capital (audited)

	2020 \$million	2019 \$million
<b>CET1 at 1 January</b>	<b>36,513</b>	36,717
Ordinary shares issued in the period and share premium	–	25
Share buy-back	(242)	(1,006)
Profit for the period	718	2,301
Foreseeable dividends deducted from CET1	(481)	(871)
Difference between dividends paid and foreseeable dividends	476	(641)
Movement in goodwill and other intangible assets	1,044	(172)
Foreign currency translation differences	700	(180)
Non-controlling interests	(543)	37
Movement in eligible other comprehensive income	324	284
Deferred tax assets that rely on future profitability	(9)	(14)
Decrease/(increase) in excess expected loss	121	53
Additional value adjustments (prudential valuation adjustment)	125	(51)
IFRS 9 transitional impact on regulatory reserves including day one	35	(43)
Exposure amounts which could qualify for risk weighting	36	61
Fair value gains arising from the institution's own Credit Risk related to derivative liabilities	(10)	–
Other	(28)	13
<b>CET1 at 31 December</b>	<b>38,779</b>	36,513
<b>AT1 at 1 January</b>	<b>7,164</b>	6,684
Net issuances (redemptions)	(995)	552
Foreign currency translation difference	8	9
Excess on AT1 grandfathered limit (ineligible)	(565)	(81)
<b>AT1 at 31 December</b>	<b>5,612</b>	7,164
<b>Tier 2 capital at 1 January</b>	<b>12,288</b>	12,295
Regulatory amortisation	(463)	(1,111)
Net issuances (redemptions)	(69)	1,000
Foreign currency translation difference	257	(12)
Tier 2 ineligible minority interest	82	31
Recognition of ineligible AT1	565	81
Other	(3)	4
<b>Tier 2 capital at 31 December</b>	<b>12,657</b>	12,288
<b>Total capital at 31 December</b>	<b>57,048</b>	55,965

The main movements in capital in the period were:

- CET1 increased by \$2.3 billion as retained profits of \$0.7 billion, a \$0.7 billion lower deduction for software resulting from adoption of CRR II Quick fix measures, favourable foreign currency translation impacts of \$0.7 billion and other comprehensive income movements of \$0.3 billion were only partly offset by the partly completed share buy-back of \$0.2 billion and the \$0.5 billion decrease in non-controlling interests mainly due to the sale of Permata.
- AT1 decreased to \$5.6 billion as the call of \$2 billion of existing 6.5 per cent AT1 securities and the ongoing de-recognition of legacy Tier 1 was partly offset by the issuance of \$1 billion of new 6.0 per cent AT1 securities, increasing the efficiency of the Group's AT1 stock.
- Tier 2 capital increased by \$0.4 billion as issuances of \$2.4 billion of new Tier 2 instruments and the recognition of ineligible AT1 were partly offset by regulatory amortisation and the redemption of \$2.7 billion of Tier 2 during the year.

## Risk-weighted assets by business

	2020			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Banking	102,004	13,153	21,465	136,622
Retail Banking	39,595	7,575	–	47,170
Commercial Banking	25,659	2,810	–	28,469
Private Banking	5,160	763	–	5,923
Central & other items	48,023	2,499	128	50,650
<b>Total risk-weighted assets</b>	<b>220,441</b>	<b>26,800</b>	<b>21,593</b>	<b>268,834</b>

	2019			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Banking	95,261	13,261	20,562	129,084
Retail Banking	37,194	7,314	–	44,508
Commercial Banking	28,350	2,626	–	30,976
Private Banking	5,681	728	–	6,409
Central & other items	49,178	3,691	244	53,113
<b>Total risk-weighted assets</b>	<b>215,664</b>	<b>27,620</b>	<b>20,806</b>	<b>264,090</b>

## Risk-weighted assets by geographic region

	2020 \$million	2019 \$million
Greater China & North Asia	92,860	85,695
ASEAN & South Asia	81,423	88,942
Africa & Middle East	51,149	49,244
Europe & Americas	45,758	43,945
Central & other items	(2,356)	(3,736)
<b>Total risk-weighted assets</b>	<b>268,834</b>	<b>264,090</b>

## Movement in risk-weighted assets

	Credit risk						Operational risk \$million	Market risk \$million	Total risk \$million
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million			
At 1 January 2019	96,954	35,545	27,711	5,103	45,825	211,138	28,050	19,109	258,297
Assets growth mix	1,303	1,020	(557)	528	4,093	6,387	–	–	6,387
Asset quality	2,565	832	(642)	8	607	3,370	–	–	3,370
Risk-weighted assets efficiencies	(1,112)	(33)	(403)	–	(2,404)	(3,952)	–	–	(3,952)
Model, methodology and policy changes	(904)	(7)	–	–	1,400	489	–	500	989
Disposals	(397)	–	(441)	–	–	(838)	–	–	(838)
Foreign currency translation	(182)	(219)	(228)	42	(343)	(930)	–	–	(930)
Other non-credit risk movements	–	–	–	–	–	–	(430)	1,197	767
At 31 December 2019	98,227	37,138	25,440	5,681	49,178	215,664	27,620	20,806	264,090
At 1 January 2020 <sup>1</sup>	<b>95,261</b>	<b>37,194</b>	<b>28,350</b>	<b>5,681</b>	<b>49,178</b>	<b>215,664</b>	<b>27,620</b>	<b>20,806</b>	<b>264,090</b>
Assets growth mix	<b>(6,684)</b>	<b>1,122</b>	<b>(3,059)</b>	<b>(602)</b>	<b>3,711</b>	<b>(5,512)</b>	–	–	<b>(5,512)</b>
Asset quality	<b>11,685</b>	<b>325</b>	<b>505</b>	<b>(2)</b>	<b>2,409</b>	<b>14,922</b>	–	–	<b>14,922</b>
Risk-weighted assets efficiencies	<b>(150)</b>	–	<b>79</b>	–	–	<b>(71)</b>	–	–	<b>(71)</b>
Model, methodology and policy changes	<b>586</b>	<b>134</b>	<b>(339)</b>	–	<b>661</b>	<b>1,042</b>	–	<b>(1,500)</b>	<b>(458)</b>
Disposals	–	–	–	–	<b>(7,859)</b>	<b>(7,859)</b>	<b>(1,003)</b>	<b>(159)</b>	<b>(9,021)</b>
Foreign currency translation	<b>1,306</b>	<b>820</b>	<b>123</b>	<b>83</b>	<b>(77)</b>	<b>2,255</b>	–	–	<b>2,255</b>
Other non-credit risk movements	–	–	–	–	–	–	<b>183</b>	<b>2,446</b>	<b>2,629</b>
<b>At 31 December 2020</b>	<b>102,004</b>	<b>39,595</b>	<b>25,659</b>	<b>5,160</b>	<b>48,023</b>	<b>220,441</b>	<b>26,800</b>	<b>21,593</b>	<b>268,834</b>

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. 1 January 2020 balances have been restated

### Movements in risk-weighted assets

RWA increased by \$4.7 billion, or 1.8 per cent from 31 December 2019 to \$268.8 billion. This was mainly due to increases in Credit Risk RWA of \$4.8 billion, Market Risk RWA \$0.8 billion, partly offset by a decrease of \$0.8 billion in Operational Risk RWA.

### Corporate & Institutional Banking

Credit risk RWA increased by \$6.7 billion to \$102.0 billion mainly due to:

- \$11.7 billion increase due to deterioration in asset quality from client downgrades across all regions and several industries following the onset of the COVID-19 pandemic
- \$1.3 billion increase from foreign currency translation mainly due to appreciation of currencies in China, Europe, and the UK against the US dollar
- \$0.6 billion increase due to model, methodology and policy changes mainly from Revised Securitisation Framework
- \$6.7 billion decrease due to asset balance decline in Corporate Finance and Transaction Banking across all regions, offset by asset growth in Financial Markets primarily from Europe & Americas
- \$0.2 billion decrease due to business initiatives in certain Transaction Banking and Lending facilities.

### Retail Banking

Credit risk RWA increased by \$2.4 billion to \$39.6 billion mainly due to:

- \$1.1 billion asset balance growth in Greater China & North Asia and ASEAN & South Asia, partly offset by asset decline in Africa & Middle East
- \$0.8 billion increase from foreign currency translation mainly due to appreciation of currencies in Korea, Taiwan & China against the US dollar.
- \$0.3 billion increase due to deterioration in asset quality across retail portfolios primarily in ASEAN & South Asia
- \$0.1 billion increase due to model, methodology and policy changes across retail portfolios primarily in ASEAN & South Asia

### Commercial Banking

Credit Risk RWA decreased by \$2.7 billion to \$25.7 billion mainly due to:

- \$3.1 billion decrease due to asset balance decline in Transaction Banking and Lending primarily in Africa & Middle East, ASEAN & South Asia and Greater China & North Asia
- \$0.3 billion decrease primarily due to methodology change relating to CRR II treatment for SME exposures
- \$0.5 billion increase due to deterioration in asset quality across several industry sectors primarily in Africa & Middle East and ASEAN & South Asia
- \$0.1 billion increase from foreign currency translation mainly due to appreciation of currencies in China and Korea against the US dollar
- \$0.1 billion increase due to business initiatives in certain Transaction Banking facilities.

### Private Banking

Credit risk RWA decreased by \$0.5 billion to \$5.2 billion principally due to asset balance decline in Wealth Management and Retail products primarily in ASEAN & South Asia.

### Central & other items

Central and other items RWA mainly relate to the Treasury Markets liquidity portfolio, equity investments and deferred/current tax assets.

Credit risk RWA decreased by \$1.2 billion to \$48.0 billion mainly due to:

- \$7.9 billion decrease principally due to the sale of the Group's principal joint venture investment, PT Bank Permata Tbk
- \$0.1 billion decrease from foreign currency translation mainly due to depreciation of currencies in Nigeria and Zimbabwe against the US dollar
- \$3.7 billion increase from asset balance growth primarily in Africa & Middle East.
- \$2.4 billion increase due to deterioration in asset quality primarily due to sovereign downgrades in Africa & Middle East
- \$0.7 billion increase due to methodology change relating to intangibles with a corresponding lower deduction to CET1.

### Market risk

Total market risk RWA increased by \$0.8 billion, or 4 per cent from 31 December 2019 to \$21.6 billion. The increase was in the internal models approach (IMA) RWA due to increased market volatility and increased charges for IMA Risks not in VaR. The increase was partially offset by a decrease in the IMA RWA multiplier as back-testing exceptions rolled out of the 250-day window and reduced positions in both the IMA and standardised approach.

### Operational risk

Operational risk RWA reduced by \$0.8 billion, or 3 per cent from 31 December 2019 to \$26.8 billion. This was mainly due to the sale of our shareholding in the Group's principal joint venture investment, PT Bank Permata Tbk.

## UK leverage ratio

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 5.2 per cent, which is above the current minimum requirement of 3.6 per cent. The UK leverage ratio was flat in the period following a \$1.3 billion increase in end point Tier 1 mainly due to higher CET1 of \$2.3 billion, the issue of \$1 billion of new 6.0 per cent AT1 securities partly offset by the call of \$2 billion of 6.5 per cent AT1 securities. The exposure measure increased by \$34 billion due to growth in on-balance sheet assets, particularly investment in debt-securities, loans and advances to customers, derivatives and SFTs, part offset by a higher benefit from regulatory consolidation adjustments mainly due to the increased balances with central banks eligible for netting and the Permata disposal.

## UK leverage ratio

	2020 \$million	2019 \$million
Tier 1 capital (transitional)	44,391	43,677
Additional Tier 1 capital subject to phase out	(1,114)	(1,671)
<b>Tier 1 capital (end point)<sup>1</sup></b>	<b>43,277</b>	<b>42,006</b>
Derivative financial instruments	69,467	47,212
Derivative cash collateral	11,759	9,169
Securities financing transactions (SFTs)	67,570	60,414
Loans and advances and other assets	640,254	603,603
<b>Total on-balance sheet assets</b>	<b>789,050</b>	<b>720,398</b>
Regulatory consolidation adjustments <sup>2</sup>	(60,059)	(31,485)
Derivatives adjustments		
Derivatives netting	(44,257)	(32,852)
Adjustments to cash collateral	(21,278)	(11,853)
Net written credit protection	1,284	1,650
Potential future exposure on derivatives	42,410	32,961
Total derivatives adjustments	(21,841)	(10,094)
Counterparty risk leverage exposure measure for SFTs	4,969	7,005
Off-balance sheet items	128,167	122,341
Regulatory deductions from Tier 1 capital	(5,521)	(6,913)
<b>UK leverage exposure (end point)</b>	<b>834,765</b>	<b>801,252</b>
<b>UK leverage ratio (end point)</b>	<b>5.2%</b>	<b>5.2%</b>
<b>UK leverage exposure quarterly average</b>	<b>837,147</b>	<b>816,244</b>
<b>UK leverage ratio quarterly average</b>	<b>5.2%</b>	<b>5.1%</b>
<b>Countercyclical leverage ratio buffer</b>	<b>0.0%</b>	<b>0.1%</b>
<b>G-SII additional leverage ratio buffer</b>	<b>0.4%</b>	<b>0.4%</b>

1 Tier 1 Capital (end point) is adjusted only for Grandfathered Additional Tier 1 instruments

2 Includes adjustment for qualifying central bank claims



# • Our \$50 million COVID-19 Global Charitable Fund •

To help the world battle COVID-19, we launched a \$50 million Global Charitable Fund to provide emergency support for the communities most impacted by the pandemic. In Nepal, our donation to the Pasang Lhamu Foundation provided immediate relief and recovery for Nepalese mountain communities that rely heavily on tourism for their livelihoods.



Read more online at [sc.com/covid19relief](https://sc.com/covid19relief)



## Financial statements

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# Independent Auditor's Report to the members of Standard Chartered PLC

## Opinion

In our opinion:

- the financial statements of Standard Chartered PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union (EU);
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Group and Parent Company for the year ended 31 December 2020 which comprise:

Group	Parent Company
Consolidated balance sheet as at 31 December 2020;	Balance sheet as at 31 December 2020;
Consolidated income statement for the year then ended;	Statement of changes in equity for the year then ended;
Consolidated statement of comprehensive income for the year then ended;	Parent Company cash flow statement for the year then ended; and
Consolidated statement of changes in equity for the year then ended;	Related note 1 to 40, where relevant to the financial statements including a summary of significant accounting policies.

Group cash flow statement for the year then ended;

Related note 1 to 40 to the financial statements, including a summary of significant accounting policies;

Risk and capital disclosures marked as 'audited' from page 186 to 279; and

Information marked as 'audited' within the Directors' Remuneration Report from page 133 to 156.

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and as regards the Group financial statements, IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Understanding management's going concern assessment process, including the impact of the COVID-19 pandemic (COVID-19);
- Review of the Corporate Plan, including assessing the reasonableness of assumptions and historical forecasting accuracy;
- Assessing the results of management's stress testing, including consideration of principal and emerging risks on funding, liquidity and regulatory capital;
- Reviewing correspondence with prudential regulators and authorities for matters that may impact the going concern assessment; and
- Evaluating the appropriateness of the going concern disclosure included in note 1 to the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Overview of our audit approach

<b>Audit scope</b>	<ul style="list-style-type: none"> <li>We performed an audit of the complete financial information of 28 components across 17 countries and audit procedures on specific balances for a further 5 components across 3 countries.</li> <li>The components where we performed full or specific audit procedures accounted for 86% of adjusted absolute profit before tax (PBT), 89% of absolute operating income and 97% of total assets.</li> </ul>
<b>Key audit matters</b>	<ol style="list-style-type: none"> <li>Credit impairment</li> <li>User access management</li> <li>Valuation of financial instruments held at fair value with higher risk characteristics</li> <li>Impairment of non-financial assets (Aircraft, Goodwill and Investment in subsidiary undertakings)</li> <li>Accounting and impairment of investment in associate</li> </ol>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>Overall Group materiality of \$144m which represents 5% of adjusted PBT</li> </ul>

### Initial audit considerations

In preparation for our first-year audit of the Group and Parent Company, we performed a number of transitional procedures. This involved considering previous commercial relationships and personal financial arrangements and confirming that all staff who work on the audit are independent of the Group. Following our selection, we held discussions with the predecessor auditor and reviewed their 2019 financial statement audit work papers. We gained an understanding of the Group's processes, including the risk assessment and key judgements made by the predecessor auditors. At the outset of our audit we gained an understanding of the business issues and met with executive and key management of the Group and Parent Company. We used this understanding in the formulation of our audit strategy for the 2020 Group audit. Our procedures are in line with the requirements of ISA 510 – initial audit engagements to gain comfort over the opening balances as at 1 January 2020.

### An overview of the scope of the Parent Company and Group audits

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We took into account the size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as material issues or misstatements noted in prior periods by the predecessor auditor when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 365 reporting components of the Group, we selected 33 components across 20 countries covering entities within Bangladesh, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Kenya, South Korea, Mainland China, Malaysia, Nigeria, Pakistan, Singapore, Sri Lanka, Taiwan, Thailand, United Arab Emirates, United Kingdom, and the United States of America which represent the principal business units within the Group. The definition of a component is aligned with the structure of the Group's consolidation system, typically these are either a branch, group of branches or a subsidiary.

We took a centralised approach to auditing certain processes and controls, as well as the substantive testing of specific balances. This included audit work over Global Business Services, Commercial Banking, Corporate and Institutional Banking, Credit Impairment and Technology.

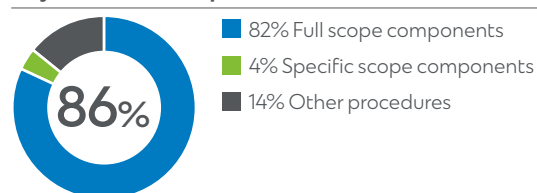
Of the 33 components selected representing 20 countries, we performed an audit of the complete financial information of 28 components representing 17 countries ('full scope components') which were selected based on their size or risk characteristics. For the remaining 5 components representing 3 countries ('specific scope components'), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 86% (2019: KPMG 89%) of the Group's adjusted PBT, 89% of the Group's absolute operating income and 97% (2019: KPMG 96%) of the Group's total assets. For the current year, the full scope components contributed 82% (2019: KPMG 88%) of the Group's adjusted PBT, 82% of the Group's absolute operating income and 90% (2019: KPMG 87%) of the Group's total assets. The specific scope components contributed 4% of the Group's adjusted PBT, 7% of the Group's absolute operating income and 7% (2019: KPMG 9%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

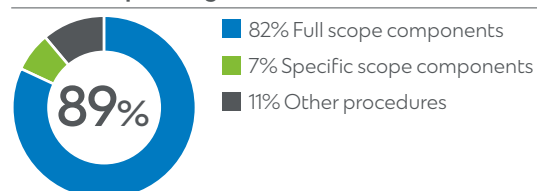
Of the remaining 332 components that together represent 14% of the Group's adjusted PBT, none are individually greater than 1.7% of the Group's adjusted PBT. For these components, we performed other procedures which included, but were not limited to, performing analytical reviews at a Group financial statement line item level, testing entity level controls, performing audit procedures on the centralised shared service centres, testing of consolidation journals and intercompany eliminations, inquiring with local component teams and assessing the outcome of prior year local statutory audits.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

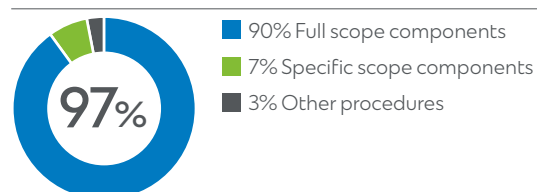
#### Adjusted absolute profit before tax



#### Absolute operating income



#### Total assets



## Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by the Group audit engagement team, or by component auditors from other EY global network firms and another firm operating under our instruction. Of the 28 full scope components, audit procedures were performed on 2 of these directly by the primary audit team, EY London (including audit of the parent Company). In addition, the Group has centralised processes and controls over key areas in its shared service centres. Members of the Group audit engagement team provide direct oversight, review and coordination of our shared service centres audit teams.

Our programme of planned visits to components and shared service centres in several locations were impacted by the current travel restrictions and other imposed government measures as a result of COVID-19. As part of our alternative procedures during the current year's audit cycle, we undertook virtual site visits. These virtual site visits involved discussing the audit approach with the component and shared service centres team and any issues arising from their work, meeting with local management, attending interim and closing meetings and performing remote reviews of key audit workpapers.

As a result of COVID-19, we extended our involvement and oversight of the component teams. This includes the Group audit engagement partners and senior members of the primary audit team increasing their involvement and

oversight, increased regular interactions through calls and video conferences during various stages of the audit process, increasing our written communications to and reporting from the component teams and inviting component teams to our virtual planning event and subsequent dedicated virtual events.

For all significant and fraud risk areas, substantial elements of the audit work were led centrally, either within the Group audit engagement team, or within other teams performing centralised procedures.

These, together with the additional procedures performed at Group level, gave us sufficient and appropriate evidence for our opinion on the Group and Parent Company financial statements.

## Key audit matters

Key audit matters (KAMs) are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the Group audit engagement team. These matters were addressed in the context of our audit of the financial statements, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<b>1. Credit Impairment</b> Refer to the Audit Committee Report (page 109); Accounting policies (page 316); Note 8 of the financial statements; and relevant credit risk disclosures (including pages 188 and 190) At 31 December 2020 the Group reported total credit impairment of \$7,145 million (2019: \$6,391 million). Management's judgements and estimates which are especially subjective to audit due to significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of expected credit losses (ECL) include: <ul style="list-style-type: none"> <li>• Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures, such as payment deferrals, on customer behaviours;</li> <li>• Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation;</li> <li>• There are significant judgements involved with the determination of parameters used in Monte Carlo Simulation and the evaluation of the appropriateness of using Monte Carlo Simulation in the context of COVID-19 with regards to whether the simulation can sufficiently capture the non-linearity of expected credit losses and appropriately generate a wide range of possible outcomes.</li> </ul>	We evaluated the design and operating effectiveness of controls relevant to the Group's processes over material ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. These included: <ul style="list-style-type: none"> <li>• controls over the allocation of assets into stages such as management's monitoring of stage effectiveness;</li> <li>• the governance and review of post model adjustments;</li> <li>• risk event overlays;</li> <li>• completeness and accuracy of data;</li> <li>• multiple economic scenarios;</li> <li>• credit monitoring; and</li> <li>• individual provisions.</li> </ul> We obtained papers and minutes of the executive forums that evaluate credit models and ECL provisions for evidence of executive review and challenge. We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of COVID-19 including geographic considerations and high risk industries. We also assessed the effect of government support measures in key locations (e.g., payment deferrals), which may delay and mask stage migrations. Our assessment also included the evaluation of the macroeconomic environment by considering trends in the economies and industries to which the Group is exposed. We evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of assets and assessed the reasonableness of staging downgrades applied by management.	Our testing of models, model assumptions and the Group's Monte Carlo Simulation identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable. The COVID-19 adjustment on the ECL as at year end was reasonable. Overall modelled ECL levels, staging and individually assessed provisions were reasonable. We concluded that the Group's ECL provisions was reasonable and recognised in accordance with IFRS 9.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>1. Credit Impairment</b> continued</p> <ul style="list-style-type: none"> <li>• Appropriateness, completeness and valuation of post model adjustments and COVID-19 specific risk event overlays given the increased uncertainty and less reliance on modelled outputs increasing the risk of management override; and</li> <li>• Measurement of individual provisions including the assessment of probability weighted scenarios and the impact COVID-19 had on exit strategies, collateral valuations and time to collect.</li> </ul>	<p>We performed a risk assessment on models involved in the ECL calculation to select a sample of models to test.</p> <p>Our modelling specialists evaluated a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default.</p> <p>We also assessed the material post-model adjustments which were applied as a response to model ineffectiveness and risk event overlays as a result of COVID-19. With our modelling specialists, we also considered the completeness and appropriateness of these adjustments by considering the judgments, methodology and governance applied.</p> <p>In response to new models implemented this year which addressed known weaknesses, we performed more extensive substantive procedures in testing the modelled ECL.</p> <p>To test credit monitoring, we challenged the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19.</p> <p>To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models. We also tested a sample of the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing.</p> <p>We involved economic specialists to assist us in evaluating the reasonableness of the base forecast and the range of economic scenarios produced by the Monte Carlo Simulation. Procedures performed included benchmarking a sample of core macro-economic variables to a variety of external sources.</p> <p>For material models, in collaboration with our economists and modelling specialists, we also challenged the completeness and appropriateness of the macroeconomic variables used as inputs to these models.</p> <p>When recalculating a sample of individually assessed provisions, our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified and assigning individual probability weightings.</p> <p>We also engaged our valuation specialists to test the value of the collateral used in management's calculations. Our sample was based on quantitative thresholds and qualitative factors including vulnerable sectors. We considered the impact COVID-19 had on collateral valuations and time to collect. We also considered whether planned exit strategies remained viable under COVID-19.</p> <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>2. User Access Management</b></p> <p>Refer to the Audit Committee Report (page 110) IT general controls (ITGCs) support continuous operation of the automated controls within the business processes related to financial reporting. Effective ITGCs are needed to ensure that IT applications process business data as expected and that changes are made in an appropriate manner.</p> <p>During 2018 and 2019, the Group Internal Audit and the predecessor auditor identified a number of significant privileged ID management control deficiencies. These control deficiencies are still in the process of being fully remediated. In addition, we identified new control findings in the current year audit, as well as observations relating to the effectiveness of management's remediation activities.</p> <p>The possibility of users gaining access privileges beyond those necessary to perform their assigned duties may result in breaches in segregation of duties, including inappropriate manual intervention and unauthorised changes to systems or programmes.</p>	<p>We reviewed the results of management's remediation programmes and risk assessments for applications within the scope of our audit and assessed the impact on the financial statements for the year ended 31 December 2020.</p> <p>We tested IT compensating controls, and where these compensating controls were not effective, we performed additional IT substantive procedures to confirm whether the risks associated with the reported deficiencies materialised during the year.</p> <p>Where required, we tested business compensating controls and performed additional business substantive procedures.</p>	<p>We communicated weaknesses in internal control to the Audit Committee, in respect of the effectiveness of IT user-access management.</p> <p>We explained the additional procedures performed, including IT substantive testing, testing of IT and business compensating controls, and where required, additional substantive testing over impacted account balances.</p> <p>As a result of the procedures performed, we have reduced the risk that our audit has not identified a material error in the Group and Parent Company financial statements, related to user access management, to an appropriate level.</p>
<p><b>3. Valuation of financial instruments held at fair value with higher risk characteristics</b></p> <p>Refer to the Audit Committee Report (page 110); Accounting policies (page 327); and Note 13 of the financial statements</p> <p>At 31 December 2020, the Group reported financial assets measured at fair value of \$310,089 million, and financial liabilities at fair value of \$139,906 million, of which financial assets of \$2,948 million and financial liabilities of \$446 million are classified as Level 3 in the fair value hierarchy.</p> <p>The fair value of financial instruments with higher risk characteristics is determined through the application of valuation techniques, which involve the use of management judgement in the selection of valuation models, assumptions and pricing inputs, and present the risk of inappropriate revenue recognition through incorrect pricing.</p> <p>A higher level of estimation uncertainty is involved for financial instruments valued using complex models, pricing inputs that have limited observability, and fair value adjustments, including the Debit Valuation Adjustment, Funding Valuation Adjustment and Credit Valuation Adjustment in relation to derivative transactions with counterparties where credit spreads are less readily able to be determined. Management's estimates that required significant auditor judgement included:</p> <ul style="list-style-type: none"> <li>• Level 3 derivative financial instruments and certain Level 2 derivative financial instruments valued using complex models; and</li> <li>• Unlisted equity investments, loans at fair value, debt and other financial instruments classified in Level 3 with unobservable pricing inputs.</li> </ul> <p>Significant judgement is required due to the absence of verifiable third-party information to determine the key inputs and assumptions in the valuation models.</p>	<p>We evaluated the design and operating effectiveness of controls relating to the valuation of financial instruments, including independent price verification, model review and approval, collateral management, and income statement analysis and reporting.</p> <p>We engaged valuation specialists to assist the audit team in performing the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested complex model-dependent valuations by independently revaluing Level 3 and certain complex Level 2 derivatives that had been valued using less liquid pricing inputs, in order to assess the appropriateness of models and the adequacy of assumptions and inputs used by the Group;</li> <li>• Tested valuations of other financial instruments with higher estimation uncertainty, such as unlisted equity investments, loans at fair value, debt and other financial instruments. We compared management's valuation to our own independently developed range, where appropriate;</li> <li>• Assessed the appropriateness of pricing inputs as part of the Independent Price Verification process; and</li> <li>• Compared the methodology used for fair value adjustments to current market practice. We revalued a sample of valuation adjustments, compared funding spreads to third party data and challenged the basis for determining illiquid credit spreads.</li> </ul> <p>Where differences between our independent valuation and management's valuation were outside our thresholds, we performed additional testing over each variance to assess the impact on the valuation of financial instruments with higher risk characteristics, including related income from trading activities.</p>	<p>We concluded that assumptions used by management to estimate the fair value of financial instruments with higher risk characteristics and the recognition of related income was reasonable. We highlighted the following matters to the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Complex model-dependent valuations were appropriate based on the output of our independent revaluations;</li> <li>• Fair values of derivative transactions, unlisted equity investments, loans, debt and other financial instruments valued using pricing information with limited observability were not materially misstated as at 31 December 2020, based on the output of our independent calculations; and</li> <li>• Valuation adjustments in respect of credit, funding and other risks applied to derivative portfolios and debt securities issued were appropriate, based on our analysis of market data and benchmarking of pricing information.</li> </ul>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>4. Impairment of non-financial assets</b></p> <p>Refer to the Audit Committee Report (pages 109 to 110);</p> <p><b>a) Impairment of aircraft:</b> Accounting policies (page 369); and Note 18 of the financial statements</p> <p><b>b) Impairment of investment in subsidiary undertakings:</b> Accounting policies (page 366); and Note 17 of the financial statements</p> <p><b>c) Impairment of Goodwill:</b> Accounting policies (page 366); and Note 17 of the financial statements</p> <p>COVID-19 and government measures taken in response to the pandemic have had, and are expected to continue to have, a significant economic impact globally. As a result, the Group recorded impairment charges in respect of various non-financial assets during 2020, the most significant of which are set out below.</p> <p>The Group owns a portfolio of aircraft, which are leased to airlines. The aircraft are measured at cost less accumulated depreciation and impairment. As at 31 December 2020, the Group has reported a \$132 million impairment charge in respect of aircraft. Each aircraft was tested for impairment.</p> <p>Impairment of aircraft is determined by comparing the carrying value to the higher of the current market value, provided by third party appraisers, and the value in use (VIU). The judgemental inputs into the VIU calculation are the discount rate and residual values.</p> <p>In addition, as at 31 December 2020, the Group impaired goodwill by \$489 million (2019: \$27 million) and, in the Parent Company accounts, impaired investments in subsidiary undertakings by \$349m (2019: \$259m).</p> <p>Impairment of goodwill and investments in subsidiary undertakings is determined by comparing the carrying value to VIU. The VIU is based on future profitability forecasts, which are inherently uncertain, require significant judgement and are subject to the risk of management bias.</p> <p>Aside from profit forecasts, other significant judgements included in the VIU are discount rates and macroeconomic assumptions such as long-term growth rates.</p> <p>Consequently, there is a risk that if the judgements and assumptions underpinning the impairment assessments are inappropriate, then the aircraft, goodwill and investments in subsidiaries balances may be misstated.</p>	<p>We obtained an understanding of management's processes for impairment assessment and evaluated the design of controls.</p> <p><b>Impairment of aircraft</b></p> <p>We assessed the appropriateness of the Group's VIU methodology for testing the impairment of aircraft.</p> <p>We tested the mathematical accuracy of the VIU model and engaged valuation specialists to support the audit team in calculating an independent range for assumptions underlying the VIU calculations, such as discount rates and residual values. Where appraisal values were used to support the carrying value or as an input into the VIU, we benchmarked those values to external market data.</p> <p>We evaluated management's sensitivity analysis to assumptions in VIU calculations and performed stress testing for reasonably possible changes to the discount rate and market values.</p> <p><b>Impairment of goodwill and investment in subsidiary undertakings</b></p> <p>We assessed the appropriateness of the Group's VIU methodology for testing the impairment of goodwill and investments in subsidiaries.</p> <p>We tested the mathematical accuracy of the VIU model and engaged valuation specialists to support the audit team in calculating an independent range for assumptions underlying the VIU calculations, such as the discount rate and long-term growth rates for each cash generating unit.</p> <p>We reconciled the future profitability forecasts to the Group's approved Corporate Plan. We performed audit procedures to assess the reasonableness of the forecasts by reviewing the Group Strategy and Corporate Plan and conducted benchmarking analysis by reviewing institutional forecasts and assessing the reasonableness of assumptions and testing historical forecasting accuracy. In addition, we performed a stand back test to assess whether the forecasts and assumptions utilised by the Group were consistent across the key estimates.</p> <p>We evaluated management's sensitivity analysis and performed independent stress tests to identify the cash generating units that were most sensitive to potential change in assumptions, including the long-term growth rate, discount rates and profitability forecasts.</p> <p>We assessed the appropriateness of goodwill disclosures in relation to the impact of reasonably possible changes in key assumptions on the carrying values of non-financial assets.</p>	<p><b>Impairment of aircraft</b></p> <p>We concluded that management's methodology, judgements and assumptions related to the impairment assessment for aircraft were reasonable and in accordance with IFRS. We highlighted the following matters to the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Current market values and residual values were appropriate based on benchmarking to independently sourced market data; and</li> <li>• The discount rate was within our independent expectation of a reasonable range, with due regard to the risks facing the aviation industry and the characteristics of the Group's portfolio of aircraft.</li> </ul> <p><b>Impairment of Goodwill</b></p> <p>We concluded that the goodwill balance as at 31 December 2020 was not materially misstated. We concluded that the disclosures in the annual report appropriately reflect the sensitivity of the carrying value of goodwill to reasonably possible changes in key assumptions, and that these downside sensitivities could require an adjustment to the carrying amount of goodwill in future.</p> <p><b>Impairment of investment in subsidiary undertakings</b></p> <p>We concluded that the investment in subsidiaries balance is not materially misstated as at 31 December 2020.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>5. Accounting and Impairment of investment in associate</b></p> <p>Refer to the Audit Committee Report (page 110); Accounting policies (page 396); and Note 32 of the financial statements</p> <p>At 31 December 2020, the Group reported an investment in associate, China Bohai Bank (Bohai), of \$2,025 million (2019: \$1,803 million). On 16 July 2020, Bohai was listed on the Hong Kong Stock Exchange, and as a result, the Group's investment in Bohai was diluted to 16.26% as at 31 December 2020 (2019: 19.99%).</p> <p>We focused on judgements, including the appropriateness of equity accounting, impairment considerations and non-coterminous reporting.</p> <p><b>Equity accounting</b></p> <p>There is a presumption that an investor holding less than a 20% stake in an investee cannot exert significant influence, and continue to account for the investment as an associate, unless such influence can be clearly demonstrated.</p> <p>Prior to listing, the Group equity accounted its interest in Bohai on a one-month lag basis. Following the listing, Bohai is now subject to regulations in respect of price sensitive information and, as such, the Group now includes Bohai's results on a three-month lag basis. In 2020, the Group accounted for 10 months of profits from Bohai (2019: 12 months).</p> <p><b>Impairment testing</b></p> <p>At 31 December 2020, there was a 7% deficit between the Group's share of Bohai's market capitalisation, as compared with the carrying value of the investment, which represents an impairment trigger.</p> <p>Impairment of the investment in Bohai is determined by comparing the carrying value to VIU. The VIU is based on future profitability forecasts, which are inherently uncertain, require significant judgement and are subject to the risk of management bias.</p> <p>Aside from profit forecasts, other significant judgements included in the VIU are discount rates and macroeconomic assumptions such as long-term growth rates.</p> <p>Consequently, there is a risk that if the judgements and assumptions underpinning the impairment assessments are inappropriate, then the investment in associate may be overstated.</p>	<p>We evaluated the facts and circumstances that the Group presented to demonstrate its ability to maintain significant influence over the management, and financial and operating policies of Bohai, through Board representation and the provision of technical skills to Bohai.</p> <p>In addition, we assessed the appropriateness in the change in basis of inclusion of Bohai's results from a one-month lag to a three-month lag. We assessed the appropriateness of the Group's VIU methodology for testing the impairment of the investment in Bohai.</p> <p>We tested the mathematical accuracy of the VIU model and engaged valuation specialists to support the audit team in calculating an independent range for assumptions underlying the VIU calculations, such as the discount rate and long-term growth rate. We reconciled the future profitability forecasts to the available analyst reports.</p> <p>We assessed the appropriateness of disclosures in the annual report in relation to the impact of reasonably possible changes in key assumptions on the carrying values of the investment in Bohai.</p>	<p>We concluded that the Group continues to maintain significant influence over Bohai as at 31 December 2020.</p> <p>We concluded that the investment in associate balance as at 31 December 2020 was not materially misstated. We concluded that the disclosures in the annual report appropriately reflect the sensitivity of the carrying value to reasonably possible changes in key assumptions.</p>

Other than the additional KAMs 4a and 5 noted in the table above, the current year KAMs are consistent with prior year KAMs reported by the predecessor auditor.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be \$144 million (2019: KPMG \$140 million), which is 5% of adjusted PBT. We believe that adjusted PBT provides us with the most appropriate measure for the users of the financial statements, given the Group is profit making; it is consistent with the wider industry and is the standard for listed and regulated entities and we believe it reflects the most useful measure for users of the financial statements. We also believe that the adjustments are appropriate as they relate to material non-recurring items.

#### Starting basis

- Statutory profit before tax \$1.617bn

#### Adjustments

- Goodwill impairment of \$489m
- Provision for regulatory matters of (\$14)m
- Restructuring costs of \$382m
- Net loss on businesses disposed of \$38m
- Total Adjustments per Note 2 of \$895m
- Management overlay relating to COVID-19 of \$359m
- Total Non-recurring items: \$1.25bn

#### Materiality

- Totals \$2.87bn Adjusted profit before tax
- Materiality of \$144m (5% of Adjusted PBT)

We determined materiality for the Parent Company to be \$130 million (2019: KPMG \$110 million), which is 0.25% of net assets. We believe that net assets provide us with the most appropriate measure for the users of the Parent Company's financial statements, given that it is primarily a holding Company.

We reassessed our materiality based on actual results for the year ended 31 December 2020 and have concluded that the planning materiality remains appropriate.

## Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely \$72m (2019: KPMG \$91m). We have set performance materiality at this percentage since this is an initial audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative size and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was \$7m to \$22m (2019: KPMG \$1m to \$60m).

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$7m (2019: KPMG \$5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report including the Strategic report, the Directors' report, the Directors' remuneration report, the Risk review and Capital review, and the Supplementary information, other than the financial statements, the specific disclosures or tables marked as 'audited' and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; 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

## Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 144;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 144;
- Directors' statement on fair, balanced and understandable set out on page 144;

- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 148;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 148; and;
- The section describing the work of the audit committee set out on pages 91 to 97.

## Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 153, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006 and the UK Corporate Governance Code), regulations and supervisory requirements of the Prudential Regulation Authority (PRA), FRC, Financial Conduct Authority (FCA) and other overseas regulatory requirements, including but not limited to regulations in its major markets such as Hong Kong, India, South Korea, Singapore, United States of America, and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to regulatory capital and liquidity, conduct, financial crime including anti-money laundering, sanctions, market abuse and environmental regulations recognising the financial and regulated nature of the Group's activities.
- We understood how the Group is complying with those frameworks by performing a combination of inquiries of senior management and those charged with governance as required by auditing standards, review of board and committee meeting minutes, gaining an understanding of the Group's approach to governance and inspection of regulatory correspondences in the year. We also engaged EY financial crime specialists to perform procedures on areas relating to anti-money laundering and sanctions. Through these procedures, we became aware of actual or suspected non-compliance. The identified actual or suspected non-compliance was not sufficiently significant to our audit that would have resulted in being identified as a key audit matter.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates and journal entry testing.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of Group legal counsel, money laundering reporting officer, internal audit, certain senior management executives and focused testing. We also performed inspection of key regulatory correspondence from the relevant regulatory authorities.
- For instances of actual or suspected non-compliance with laws and regulations, which have a material impact on the financial statements, these were communicated to the Group audit engagement team and component teams who performed audit procedures such as inquiries with management and external legal counsel, sending confirmations to external lawyers and meeting with external regulators. Where appropriate, we involved specialists from our firm to support the audit team.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the Group audit engagement team, the component teams and the shared service centre teams to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed as auditors of the Company and signed an engagement letter on 31 March 2020, and were appointed by the Company at the Annual General Meeting on 6 May 2020, to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ended 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

### David Canning-Jones (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

25 February 2021

# Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 \$million	2019 \$million
Interest income		12,292	16,549
Interest expense		(5,440)	(8,882)
<b>Net interest income</b>	3	<b>6,852</b>	7,667
Fees and commission income		3,865	4,111
Fees and commission expense		(705)	(589)
<b>Net fee and commission income</b>	4	<b>3,160</b>	3,522
Net trading income	5	3,672	3,350
Other operating income	6	1,070	878
<b>Operating income</b>		<b>14,754</b>	15,417
Staff costs		(6,886)	(7,122)
Premises costs		(412)	(420)
General administrative expenses		(1,831)	(2,211)
Depreciation and amortisation		(1,251)	(1,180)
<b>Operating expenses</b>	7	<b>(10,380)</b>	(10,933)
<b>Operating profit before impairment losses and taxation</b>		<b>4,374</b>	4,484
Credit impairment	8	(2,325)	(908)
Goodwill, property, plant and equipment and other impairment	9	(587)	(163)
Profit from associates and joint ventures	32	151	300
<b>Profit before taxation</b>		<b>1,613</b>	3,713
Taxation	10	(862)	(1,373)
<b>Profit for the year</b>		<b>751</b>	2,340
<b>Profit attributable to:</b>			
Non-controlling interests	29	27	37
Parent company shareholders		724	2,303
<b>Profit for the year</b>		<b>751</b>	2,340
		<b>cents</b>	cents
<b>Earnings per share:</b>			
Basic earnings per ordinary share	12	10.4	57.0
Diluted earnings per ordinary share	12	10.3	56.4

The notes on pages 304 to 425 form an integral part of these financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020 \$million	2019 \$million
<b>Profit for the year</b>		<b>751</b>	<b>2,340</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that will not be reclassified to income statement:</b>		<b>(9)</b>	<b>(531)</b>
Own credit losses on financial liabilities designated at fair value through profit or loss		<b>(55)</b>	<b>(462)</b>
Equity instruments at fair value through other comprehensive income		<b>62</b>	<b>13</b>
Actuarial gains/(losses) on retirement benefit obligations	30	<b>1</b>	<b>(124)</b>
Taxation relating to components of other comprehensive income	10	<b>(17)</b>	<b>42</b>
<b>Items that may be reclassified subsequently to income statement:</b>		<b>922</b>	<b>131</b>
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		<b>657</b>	<b>(386)</b>
Net (losses)/gains on net investment hedges		<b>(287)</b>	<b>191</b>
Reclassified to income statement on sale of joint venture		<b>246</b>	<b>–</b>
Share of other comprehensive (loss)/income from associates and joint ventures		<b>(37)</b>	<b>25</b>
Debt instruments at fair value through other comprehensive income:			
Net valuation gains taken to equity		<b>815</b>	<b>555</b>
Reclassified to income statement		<b>(431)</b>	<b>(170)</b>
Net impact of expected credit losses		<b>21</b>	<b>7</b>
Cash flow hedges:			
Net losses taken to equity		<b>(25)</b>	<b>(64)</b>
Reclassified to income statement	14	<b>17</b>	<b>21</b>
Taxation relating to components of other comprehensive income	10	<b>(54)</b>	<b>(48)</b>
<b>Other comprehensive income/(loss) for the year, net of taxation</b>		<b>913</b>	<b>(400)</b>
<b>Total comprehensive income for the year</b>		<b>1,664</b>	<b>1,940</b>
<b>Total comprehensive income attributable to:</b>			
Non-controlling interests	29	<b>15</b>	<b>20</b>
Parent company shareholders		<b>1,649</b>	<b>1,920</b>
<b>Total comprehensive income for the year</b>		<b>1,664</b>	<b>1,940</b>

# Consolidated balance sheet

As at 31 December 2020

	Notes	2020 \$million	2019 \$million
<b>Assets</b>			
Cash and balances at central banks	13, 35	66,712	52,728
Financial assets held at fair value through profit or loss	13	106,787	92,818
Derivative financial instruments	13, 14	69,467	47,212
Loans and advances to banks	13, 15	44,347	53,549
Loans and advances to customers	13, 15	281,699	268,523
Investment securities	13	153,315	143,731
Other assets	20	48,688	42,022
Current tax assets	10	808	539
Prepayments and accrued income		2,122	2,700
Interests in associates and joint ventures	32	2,162	1,908
Goodwill and intangible assets	17	5,063	5,290
Property, plant and equipment	18	6,515	6,220
Deferred tax assets	10	919	1,105
Assets classified as held for sale	21	446	2,053
<b>Total assets</b>		<b>789,050</b>	<b>720,398</b>
<b>Liabilities</b>			
Deposits by banks	13	30,255	28,562
Customer accounts	13	439,339	405,357
Repurchase agreements and other similar secured borrowing	13	1,903	1,935
Financial liabilities held at fair value through profit or loss	13	68,373	66,974
Derivative financial instruments	13, 14	71,533	48,484
Debt securities in issue	13, 22	55,550	53,025
Other liabilities	23	47,904	41,583
Current tax liabilities	10	660	703
Accruals and deferred income		4,546	5,369
Subordinated liabilities and other borrowed funds	13, 27	16,654	16,207
Deferred tax liabilities	10	695	611
Provisions for liabilities and charges	24	466	449
Retirement benefit obligations	30	443	469
Liabilities included in disposal groups held for sale	21	–	9
<b>Total liabilities</b>		<b>738,321</b>	<b>669,737</b>
<b>Equity</b>			
Share capital and share premium account	28	7,058	7,078
Other reserves		12,688	11,685
Retained earnings		26,140	26,072
<b>Total parent company shareholders' equity</b>		<b>45,886</b>	<b>44,835</b>
Other equity instruments	28	4,518	5,513
<b>Total equity excluding non-controlling interests</b>		<b>50,404</b>	<b>50,348</b>
Non-controlling interests	29	325	313
<b>Total equity</b>		<b>50,729</b>	<b>50,661</b>
<b>Total equity and liabilities</b>		<b>789,050</b>	<b>720,398</b>

The notes on pages 304 to 425 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 25 February 2021 and signed on its behalf by:



**José Viñals**  
Chairman



**Bill Winters**  
Group Chief Executive



**Andy Halford**  
Group Chief Financial Officer

# Consolidated statement of changes in equity

For the year ended 31 December 2020

	Ordinary share capital and share premium account \$million	Preference share capital and share premium account \$million	Capital and merger reserves \$million	Own credit adjustment reserve \$million	Fair value through other comprehensive income reserve – debt \$million	Fair value through other comprehensive income reserve – equity \$million	Cash flow hedge reserve \$million	Translation reserve \$million	Retained earnings \$million	Parent company share-holders' equity \$million	Other equity instruments \$million	Non-controlling interests \$million	Total \$million
As at 1 January 2019	5,617	1,494	17,129 <sup>1</sup>	412	(161)	120	(10)	(5,612)	26,129	45,118	4,961	273	50,352
Profit for the period	–	–	–	–	–	–	–	–	2,303	2,303	–	37	2,340
Other comprehensive (loss)/income	–	–	–	(410)	358	30	(49)	(180)	(132) <sup>2</sup>	(383)	–	(17)	(400)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(35)	(35)
Shares issued, net of expenses <sup>3</sup>	25	–	–	–	–	–	–	–	–	25	–	–	25
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	552	–	552
Treasury shares purchased	–	–	–	–	–	–	–	–	(206)	(206)	–	–	(206)
Treasury shares issued	–	–	–	–	–	–	–	–	7	7	–	–	7
Share option expense	–	–	–	–	–	–	–	–	139	139	–	–	139
Dividends on ordinary shares	–	–	–	–	–	–	–	–	(720)	(720)	–	–	(720)
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(448)	(448)	–	–	(448)
Share buy-back <sup>4</sup>	(58)	–	58	–	–	–	–	–	(1,006)	(1,006)	–	–	(1,006)
Other movements	–	–	–	–	–	–	–	–	6 <sup>5</sup>	6	–	55 <sup>6</sup>	61
<b>As at 31 December 2019</b>	<b>5,584</b>	<b>1,494</b>	<b>17,187</b>	<b>2</b>	<b>197</b>	<b>150</b>	<b>(59)</b>	<b>(5,792)</b>	<b>26,072</b>	<b>44,835</b>	<b>5,513</b>	<b>313</b>	<b>50,661</b>
Profit for the period	–	–	–	–	–	–	–	–	724	724	–	27	751
Other comprehensive (loss)/income	–	–	–	(54)	332	(2)	7	631	11 <sup>2</sup>	925	–	(12)	913
Distributions	–	–	–	–	–	–	–	–	–	–	–	(20)	(20)
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	992	–	992
Redemption of other equity instruments	–	–	–	–	–	–	–	–	(13)	(13)	(1,987)	–	(2,000)
Treasury shares purchased	–	–	–	–	–	–	–	–	(98)	(98)	–	–	(98)
Treasury shares issued	–	–	–	–	–	–	–	–	8	8	–	–	8
Share option expense	–	–	–	–	–	–	–	–	133	133	–	–	133
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(395)	(395)	–	–	(395)
Share buy-back <sup>7</sup>	(20)	–	20	–	–	–	–	–	(242)	(242)	–	–	(242)
Other movements	–	–	–	–	–	–	–	69	(60) <sup>8</sup>	9	–	17 <sup>9</sup>	26
<b>As at 31 December 2020</b>	<b>5,564</b>	<b>1,494</b>	<b>17,207</b>	<b>(52)</b>	<b>529</b>	<b>148</b>	<b>(52)</b>	<b>(5,092)</b>	<b>26,140</b>	<b>45,886</b>	<b>4,518</b>	<b>325</b>	<b>50,729</b>

1 Includes capital reserve of \$5 million, capital redemption reserve of \$13 million and merger reserve of \$17,111 million

2 Comprises actuarial gain, net of taxation \$11 million and nil share from associates and joint ventures (\$130 million actuarial loss and \$2 million share of loss from associates and joint ventures for the year ending 31 December 2019)

3 Comprises share capital of shares issued to fulfil discretionary awards \$1 million, share capital of shares issued to fulfil employee share save options \$1 million (nil for the year ended 31 December 2020) and share premium of shares issued to fulfil employee Sharesave options exercised \$23 million (nil for the year ended 31 December 2020)

4 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of \$0.50 each up to a maximum consideration of \$1,000 million. Nominal value of share purchases is \$58 million for the year ended 31 December 2019 and the total consideration paid was \$1,006 million which includes share buyback expenses of \$6 million. The total number of shares purchased was 116,103,483 representing 3.51 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account

5 Comprises \$10 million disposal of non-controlling interest of Phoon Huat Pte Ltd offset by \$4 million withholding tax on capitalisation of revenue reserves for Standard Chartered Bank Ghana Limited

6 Comprises \$72 million of non-controlling interest in Mox Bank Limited offset by \$17 million disposal of non-controlling interest in Phoon Huat Pte Ltd, Sirat Holdings Limited and Ori Private Limited

7 On 28 February 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of \$0.50 each. Nominal value of share purchases was \$20 million, and the total consideration paid was \$242 million. The total number of shares purchased was 40,029,585 representing 1.25 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On 31 March 2020, the Group announced that, in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share, and to suspend the buy-back programme

8 Includes \$69 million related to prior period adjustments to reclass FX movements from translation reserve to retained earnings (\$45 million related to FX movements of the hedging instruments for net investment hedges and \$24 million related to FX movements for monetary items, which were considered structural positions), and \$9 million increase related to revenue reserves of PT Bank Permata Tbk

9 \$17 million movement related to non-controlling interest from Mox Bank Limited

Note 28 includes a description of each reserve.

The notes on pages 304 to 425 form an integral part of these financial statements.

# Cash flow statement

For the year ended 31 December 2020

	Notes	Group		Company	
		2020 \$million	2019 \$million	2020 \$million	2019 \$million
<b>Cash flows from operating activities:</b>					
Profit before taxation		1,613	3,713	666	22,306
Adjustments for non-cash items and other adjustments included within income statement	34	4,342	2,417	19	(16,760)
Change in operating assets	34	(38,064)	(35,433) <sup>1</sup>	(8,451)	(5,473)
Change in operating liabilities	34	54,437	29,935	6,415	(4,182)
Contributions to defined benefit schemes	30	(123)	(137)	–	–
UK and overseas taxes paid	10	(971)	(1,421)	3	–
<b>Net cash from/(used in) operating activities</b>		<b>21,234</b>	<b>(926)<sup>1</sup></b>	<b>(1,348)</b>	<b>(4,109)</b>
<b>Cash flows from investing activities:</b>					
Purchase of property, plant and equipment	18	(1,270)	(518) <sup>1</sup>	–	–
Disposal of property, plant and equipment		178	566 <sup>1</sup>	–	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	32	(52)	–	–	–
Dividends received from subsidiaries, associates and joint ventures	32	–	3	1,110	4,494
Disposal of joint ventures, net of cash acquired		1,066	–	–	–
Purchase of investment securities		(285,026)	(259,473)	–	(7,583)
Disposal and maturity of investment securities		280,626	241,600	2,590	1,065
<b>Net cash (used in)/from investing activities</b>		<b>(4,478)</b>	<b>(17,822)</b>	<b>3,700</b>	<b>(2,024)</b>
<b>Cash flows from financing activities:</b>					
Issue of ordinary and preference share capital, net of expenses	28	–	25	–	25
Exercise of share options		8	7	8	7
Purchase of own shares		(98)	(206)	(98)	(206)
Cancellation of shares including share buy-back		(242)	(1,006)	(242)	(1,006)
Premises and equipment lease liability principal payment		(319)	(332)	–	–
Issue of AT1 capital, net of expenses	28	992	552	990	552
Redemption of Tier 1 capital	28	(2,000)	–	(2,000)	–
Gross proceeds from issue of subordinated liabilities	34	2,473	1,000	2,473	1,000
Interest paid on subordinated liabilities	34	(601)	(603)	(537)	(547)
Repayment of subordinated liabilities	34	(2,446)	(23)	(1,402)	–
Proceeds from issue of senior debts	34	9,953	9,169	2,193	6,012
Repayment of senior debts	34	(4,305)	(7,692)	(2,106)	(3,780)
Interest paid on senior debts	34	(627)	(797)	(575)	(740)
Investment from non-controlling interests		–	56	–	–
Dividends paid to non-controlling interests, preference shareholders and AT1 securities		(415)	(483)	(395)	(448)
Dividends paid to ordinary shareholders		–	(720)	–	(720)
<b>Net cash from/(used in) financing activities</b>		<b>2,373</b>	<b>(1,053)</b>	<b>(1,691)</b>	<b>149</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>19,129</b>	<b>(19,801)</b>	<b>661</b>	<b>(5,984)</b>
Cash and cash equivalents at beginning of the year		77,454	97,500	11,622	17,606
Effect of exchange rate movements on cash and cash equivalents		1,291	(245)	–	–
<b>Cash and cash equivalents at end of the year</b>	35	<b>97,874</b>	<b>77,454</b>	<b>12,283</b>	<b>11,622</b>

1 Aircraft and shipping purchases and disposals re-presented as cash flows from investing activities

# Company balance sheet

For the year ended 31 December 2020

	Notes	2020 \$million	2019 \$million
<b>Non-current assets</b>			
Investments in subsidiary undertakings	32	57,407	58,037
<b>Current assets</b>			
Derivative financial instruments	39	971	229
Financial assets held at fair value through profit or loss	39	12,783	4,502
Investment securities	39	11,146	13,665
Amounts owed by subsidiary undertakings	39	12,283	11,622
Taxation		9	15
<b>Total current assets</b>		37,192	30,033
<b>Current liabilities</b>			
Derivative financial instruments	39	360	738
Amounts owed to subsidiary undertakings	39	212	26
Financial liabilities held at fair value through profit or loss	39	6,552	112
Other creditors		465	403
<b>Total current liabilities</b>		7,589	1,279
<b>Net current assets</b>		29,603	28,754
<b>Total assets less current liabilities</b>		87,010	86,791
<b>Non-current liabilities</b>			
Debt securities in issue	39	20,701	19,713
Subordinated liabilities and other borrowed funds	39	14,783	14,588
<b>Total non-current liabilities</b>		35,484	34,301
<b>Total assets less liabilities</b>		51,526	52,490
<b>Equity</b>			
Share capital and share premium account	28	7,058	7,078
Other reserves		17,178	17,177
Retained earnings		22,774	22,722
<b>Total shareholders' equity</b>		47,010	46,977
Other equity instruments	28	4,516	5,513
<b>Total equity</b>		51,526	52,490

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements. The Company profit for the period after tax is \$659 million (31 December 2019: \$22,309 million). Please see Note 39 Standard Chartered PLC (Company) for details of the group reorganisation.

The notes on pages 304 to 425 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 25 February 2021 and signed on its behalf by:

**José Viñals**  
Chairman

**Bill Winters**  
Group Chief Executive

**Andy Halford**  
Group Chief Financial Officer

# Company statement of changes in equity

For the year ended 31 December 2020

	Share capital and share premium account \$million	Capital and merger reserve \$million	Own credit adjustment \$million	Cash flow hedge reserve \$million	Retained earnings \$million	Other equity instruments \$million	Total \$million
As at 1 January 2019	7,111	17,129 <sup>1</sup>	–	–	2,647	4,961	31,849
Profit for the year	–	–	–	–	22,309 <sup>2</sup>	–	22,309
Other comprehensive loss	–	–	(10)	–	–	–	(10)
Shares issued, net of expenses	25	–	–	–	–	–	25
Other equity instruments issued, net of expenses	–	–	–	–	–	552	552
Treasury shares purchased	–	–	–	–	(206)	–	(206)
Treasury shares issued	–	–	–	–	7	–	7
Share option expense	–	–	–	–	139	–	139
Dividends on ordinary shares	–	–	–	–	(720)	–	(720)
Dividends on preference share and AT1 securities	–	–	–	–	(448)	–	(448)
Share buy-back <sup>3</sup>	(58)	58	–	–	(1,006)	–	(1,006)
<b>As at 31 December 2019</b>	<b>7,078</b>	<b>17,187</b>	<b>(10)</b>	<b>–</b>	<b>22,722</b>	<b>5,513</b>	<b>52,490</b>
Profit for the year	–	–	–	–	659	–	659
Other comprehensive loss	–	–	(8)	(11)	–	–	(19)
Other equity instruments issued, net of expenses	–	–	–	–	–	990	990
Treasury shares purchased	–	–	–	–	(98)	–	(98)
Treasury shares issued	–	–	–	–	8	–	8
Share option expense	–	–	–	–	133	–	133
Dividends on preference share and AT1 securities	–	–	–	–	(395)	–	(395)
Redemption of other equity instruments	–	–	–	–	(13)	(1,987)	(2,000)
Share buy-back <sup>4</sup>	(20)	20	–	–	(242)	–	(242)
<b>As at 31 December 2020</b>	<b>7,058</b>	<b>17,207</b>	<b>(18)</b>	<b>(11)</b>	<b>22,774</b>	<b>4,516</b>	<b>51,526</b>

1 Includes capital reserve of \$5 million, capital redemption reserve of \$13 million and merger reserve of \$17,111 million

2 Includes dividend received of \$20,989 million from Standard Chartered Holding Limited. Of this amount, \$17,978 million was a dividend in specie of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited, while \$3,010 million was a cash dividend related to the sale of Standard Chartered NEA Limited and Standard Chartered Bank (Taiwan) Limited

3 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of \$0.50 each up to a maximum consideration of \$1,000 million. Nominal value of share purchases is \$58 million for the year ended 31 December 2019 and the total consideration paid was \$1,006 million which includes share buy-back expenses of \$6 million. The total number of shares purchased was 116,103,483 representing 3.51 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account

4 On 28 February 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of \$0.50 each. Nominal value of share purchases was \$20 million, and the total consideration paid was \$242 million. The total number of shares purchased was 40,029,585 representing 1.25 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On 31 March 2020, the Group announced that, in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its Board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share, and to suspend the buy-back programme

Note 28 includes a description of each reserve.

The notes on pages 304 to 425 form an integral part of these financial statements.

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# Notes to the financial statements

## 1. Accounting policies

### Statement of compliance

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

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

The Group financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU IFRS). As the Group has early adopted 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which have been endorsed by the EU and UK in January 2021 (see 'New accounting standards adopted by the Group' below), the Group has applied international accounting standards which have been adopted for use within the UK.

The Company financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements.

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

- a) Risk review: Disclosures marked as 'audited' from the start of the Credit Risk section (page 186) to the end of Other principal risks in the same section (page 247).
- b) Capital review: Tables marked as 'audited' from the start of 'CRD Capital base' to the end of 'Movement in total capital', excluding 'Total risk-weighted assets' (pages 278 to 279).

### Basis of preparation

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

The consolidated financial statements are presented in United States dollars (\$), being the presentation currency of the Group and functional currency of the Company, and all values are rounded to the nearest million dollars, except when otherwise indicated.

### Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future

events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Credit impairment, including evaluation of management overlays and post-model adjustments, and determination of probability weightings for Stage 3 individually assessed provisions (Note 8)
- Taxation (Note 10)
- Financial instruments measured at fair value (Note 13)
- Goodwill impairment (Note 17)
- Recoverable amounts for aircraft operating lease assets (Note 18)
- Provisions for liabilities and charges (Note 24)
- Investments in subsidiary undertakings, joint ventures and associates (Note 32)

### IFRS and Hong Kong accounting requirements

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

### Comparatives

Certain comparatives have been restated in line with current year disclosures. Details of these changes are set out in the relevant sections and notes below:

- Note 2 Segmental information
- Note 13 Financial instruments
- Note 19 Leased Assets
- Note 25 Contingent liabilities and commitments

### New accounting standards adopted by the Group

#### Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB published the second phase of its amendments to IFRS concerning the global initiative to replace or reform Interbank Offered Rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. These amendments were endorsed by the EU on 14 January 2021 and by the UK Secretary of State for Business, Energy and Industrial Strategy on 5 January 2021. Phase 2 focuses on issues expected to affect financial reporting when an existing IBOR is replaced with an alternative risk-free rate (RFR). The Group has elected to early adopt the Phase 2 amendments for the year ended 31 December 2020.

The first phase of amendments were early-adopted for the year ended 31 December 2019 (refer to pages 263 to 264 in the 2019 Annual Report), and continue to be in force until there is no longer uncertainty over the cash flows of both the hedged item and hedging instrument.

## 1. Accounting policies continued

The Phase 2 amendments contain a practical expedient, which requires changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as a change in floating interest rate, provided that the transition from the IBOR benchmark to the alternative RFR takes place on an economically equivalent basis. This may include the addition of a fixed spread to compensate for a basis difference between the existing IBOR benchmark and alternative RFR, changes to reset period, reset dates or number of days between coupon payment dates that are necessary to effect reform of an IBOR benchmark and the addition of any fallback provision to the contractual terms of a financial instrument that allow any of the above changes to be made.

Any other change to contractual terms would be assessed under the Group's accounting policies for loan modifications, including an assessment of whether derecognition of the original instrument is required.

The amendments also provide reliefs which allow the Group to change hedge designations and corresponding documentation without the hedge relationship being discontinued. These include the ability to:

- Redefine the description of the hedged item and/or hedging instrument
- Redefine the hedged risk to reference an alternative RFR
- Change the method for assessing hedge effectiveness due to modifications required by IBOR reform
- Elect, on a hedge-by-hedge basis, to reset the cumulative fair value changes in the assessment of retrospective hedge effectiveness to zero

A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform (for example, if the hedged item and hedging instrument are repapered into the alternative RFR at different times).

Where an alternative RFR designated as a non-contractually specified risk portion is not separately identifiable (i.e. fair value hedge of a fixed-rate debt instrument), the Group may assume that the alternative RFR is deemed to have met that requirement provided it reasonably expected the alternative RFR will be separately identifiable within 24 months.

The 24-month period begins individually for each benchmark, but if it is subsequently assessed that the alternative RFR is no longer expected to be separately identifiable within 24 months of the first hedge designation of a benchmark, then all hedges for that benchmark are discontinued prospectively.

Disclosures required under these amendments may be found in the Emerging Risks section on page 274 and in Notes 13 and 14.

### Amendments to IFRS 16: COVID-19-related Rent Concessions

In May 2020 the IASB issued amendments to IFRS 16 Leases, which were endorsed by the EU on 12 October 2020. The amendments are effective for annual reporting periods beginning on or after 1 June 2020, but the Group has elected to early adopt the amendments for the year ended 31 December 2020.

The amendments provide lessees of premises and equipment a practical expedient that permits them not to assess whether a rent concession granted as a direct

consequence of the COVID-19 pandemic is accounted for as a lease modification. Entities may therefore account for such rent concessions by reducing the lease liability by the value of the concession, with a corresponding gain recorded in Other income. A rent concession is only deemed a direct consequence of COVID-19 if all the following criteria are met:

- A change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due up to and including 30 June 2021 (this includes the case where the change results in reduced lease payments before this date and increased lease payments after this date); and
- There is no substantive change to other terms and conditions of the lease

The amendments have not had a material effect on the Group's financial statements, and do not result in any adjustment to opening retained earnings as of 1 January 2020.

### Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations, which were endorsed by the EU in April 2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. The amendments:

- Clarify the minimum requirements for a business;
- Remove the assessment of whether market participants are capable of replacing any missing elements;
- Add guidance to help entities assess whether an acquired process is substantive;
- Narrow the definitions of a business and of outputs; and
- Introduce an optional fair value concentration test

These amendments do not have a material effect on these financial statements as no transactions in scope of IFRS 3 have occurred during the period and no adjustment is required to opening retained earnings.

### Conceptual Framework for Financial Reporting

In March 2018 the IASB published a revised Conceptual Framework for Financial Reporting, often referred to as the 'Conceptual Framework', applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The Conceptual Framework provides guidance to preparers on determining accounting policies where no specific IFRS or IAS standard applies to a particular transaction or where a standard allows for an accounting policy choice. It includes limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and derecognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality. The Conceptual Framework is not an IFRS standard and does not replace any specific standards. The changes in the Conceptual Framework are not considered material to the Group since all of the Group's significant accounting policies are derived from specific IFRS or IAS standards.

## 1. Accounting policies continued

### Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018 the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ('the amendments'), applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The purpose is to align the definition of 'material' across the standards and to clarify certain aspects of the definition. Information is 'material' if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The revised definition is already aligned to how the Group assesses whether the effect of a change in accounting policy, change in accounting estimate or error would be considered 'material' to the primary users of the Group's financial statements, hence these amendments have no specific effect on the preparation of these financial statements and are not expected to affect the preparation of future financial statements.

### New accounting standards in issue but not yet effective IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 to replace IFRS 4 Insurance Contracts and to establish a comprehensive standard for inceptors of insurance policies. The effective date has been deferred to 1 January 2023. The Group is assessing the likely implementation impact on adopting the standards on its financial statements.

### Amendments to IFRS 9 Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities

In May 2020 the IASB published its 2018-2020 annual improvements process which provides non-urgent but necessary amendments to IFRS. This publication included changes to IFRS 9 that will be effective prospectively from 1 January 2022, with early adoption permitted. Under these amendments, when assessing changes in terms of a financial liability, the only fees considered in the assessment of whether the terms of a new or modified financial liability are substantially different (i.e. a change in present value of more than 10 per cent) from the terms of the original financial liability are fees paid or received between the borrower or lender. This includes fees paid or received by either the borrower or lender on the other's behalf. The effect of these amendments is not expected to be material to the Group's financial statements.

### Going concern

These financial statements were approved by the Board of directors on 25 February 2021. The directors have made an assessment of the Group's ability to continue as a going concern. This assessment has been made having considered the impact of COVID-19, macroeconomic and geopolitical headwinds, including:

- A review of the Group Strategy and Corporate Plan, both of which cover a year from the date of signing the annual report
- An assessment of the actual performance to date, loan book quality, credit impairment, legal, regulatory and compliance matters, and the updated annual budget
- Consideration of stress testing performed, including a bespoke COVID-19 stress test with scenario analysis focused on mild, moderate, severe and extreme variants across the Group's footprint markets to ensure that the Group has sufficient capital to withstand this shock. Under a range of scenarios, the results of these stress tests demonstrate that the Group has sufficient capital and liquidity to continue as a going concern and meet minimum regulatory capital and liquidity requirements
- Analysis of the capital, funding and liquidity position of the Group, including the capital and leverage ratios, and ICAAP which summarises the Group's capital and risk assessment processes, assesses its capital requirements and the adequacy of resources to meet them. Further, funding and liquidity was considered in the context of the risk appetite metrics, including the ADR and LCR ratios
- The Group's Internal Liquidity Adequacy Assessment Process (ILAAP), which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due, was also reviewed
- The level of debt in issue, including redemptions and issuances during the year, debt falling due for repayment in the next 12 months and further planned debt issuances, including the appetite in the market for the Group's debt.
- A detailed review of all principal and emerging risks

Based on the analysis performed, the directors confirm they are satisfied that the Group has adequate resources to continue in business for a period of at least 12 months from the date of approval of these financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

## 2. Segmental information

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

The following should also be noted:

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

## 2. Segmental information continued

- In addition to treasury activities, Corporate Centre costs and other Group-related functions, Central & other items for regions includes globally run businesses or activities that are managed by the client segments but not directly by geographic management. These include Principal Finance and Portfolio Management
- The Group allocated central costs (excluding Corporate Centre costs) relating to client segments and geographic regions using appropriate business drivers (such as in proportion to the direct cost base of each segment before allocation of indirect costs) and these are reported within operating expenses
- The segmental and regional results reported for 2020 do not reflect changes made to the Group organisation in January 2021 as discussed in the Strategic Report. The Group's segmental and regional results will start to reflect those organisational changes in 2021.

### Basis of preparation

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

### Restructuring items excluded from underlying results

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing underlying performance period-by-period.

Restructuring charges of \$382 million for 2020 is broadly split evenly between actions to exit the Group's discontinued businesses, primarily ship leasing and principal finance, and actions to transform the organisation to improve productivity, primarily redundancy related charges. Charges related to restructuring increased 50% due to the significant decline in income from discontinued businesses, including negative movements in the valuation of principal finance investments.

The goodwill impairment of \$489 million reflects writing off all goodwill relating to the Group's businesses in India, UAE, Indonesia and Brunei. This was primarily due to lower forward-looking cash flows, lower economic growth forecasts and higher discount rates reflecting lower interest rate environments.

Other restructuring items also include a \$43 million dilution loss following the initial public offering of the Group's associate in China Bohai Bank. Charges related to other items reduced 86% primarily due to the regulatory provisions booked in the prior year.

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

### Profit before taxation (PBT)

	2020						
	Underlying \$million	Provision for regulatory matters \$million	Restructuring \$million	Net loss on businesses disposed/ held for sale \$million	Goodwill impairment \$million	Share of profits of PT Bank Permata Tbk joint venture \$million	Statutory \$million
Operating income	14,765	–	27	(38)	–	–	14,754
Operating expenses	(10,142)	14	(252)	–	–	–	(10,380)
Operating profit/(loss) before impairment losses and taxation	4,623	14	(225)	(38)	–	–	4,374
Credit impairment	(2,294)	–	(31)	–	–	–	(2,325)
Other impairment	15	–	(113)	–	(489)	–	(587)
Profit from associates and joint ventures	164	–	(13)	–	–	–	151
<b>Profit/(loss) before taxation</b>	<b>2,508</b>	<b>14</b>	<b>(382)</b>	<b>(38)</b>	<b>(489)</b>	<b>–</b>	<b>1,613</b>

	2019						
	Underlying \$million	Provision for regulatory matters \$million	Restructuring \$million	Net loss on businesses disposed/ held for sale \$million	Goodwill impairment \$million	Share of profits of PT Bank Permata Tbk joint venture \$million	Statutory \$million
Operating income	15,271	–	146	–	–	–	15,417
Operating expenses	(10,409)	(226)	(298)	–	–	–	(10,933)
Operating profit/(loss) before impairment losses and taxation	4,862	(226)	(152)	–	–	–	4,484
Credit impairment	(906)	–	(2)	–	–	–	(908)
Other impairment	(38)	–	(98)	–	(27)	–	(163)
Profit from associates and joint ventures	254	–	(2)	–	–	48	300
<b>Profit/(loss) before taxation</b>	<b>4,172</b>	<b>(226)</b>	<b>(254)</b>	<b>–</b>	<b>(27)</b>	<b>48</b>	<b>3,713</b>

## 2. Segmental information continued

## Underlying performance by client segment

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>7,214</b>	<b>5,013</b>	<b>1,409</b>	<b>540</b>	<b>589</b>	<b>14,765</b>
External	7,083	4,322	1,320	374	1,666	14,765
Inter-segment	131	691	89	166	(1,077)	–
<b>Operating expenses</b>	<b>(4,178)</b>	<b>(3,701)</b>	<b>(878)</b>	<b>(476)</b>	<b>(909)</b>	<b>(10,142)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>3,036</b>	<b>1,312</b>	<b>531</b>	<b>64</b>	<b>(320)</b>	<b>4,623</b>
Credit impairment	(1,237)	(715)	(316)	(2)	(24)	(2,294)
Other impairment	42	(10)	(1)	–	(16)	15
Profit from associates and joint ventures	–	–	–	–	164	164
<b>Underlying profit/(loss) before taxation</b>	<b>1,841</b>	<b>587</b>	<b>214</b>	<b>62</b>	<b>(196)</b>	<b>2,508</b>
Restructuring	(164)	(50)	(57)	(11)	(100)	(382)
Goodwill impairment & other items	–	–	–	–	(513)	(513)
<b>Statutory profit/(loss) before taxation</b>	<b>1,677</b>	<b>537</b>	<b>157</b>	<b>51</b>	<b>(809)</b>	<b>1,613</b>
<b>Total assets</b>	<b>355,401</b>	<b>118,067</b>	<b>32,902</b>	<b>13,716</b>	<b>268,964</b>	<b>789,050</b>
Of which: loans and advances to customers <sup>2</sup>	160,629	115,611	27,342	13,619	19,075	336,276
loans and advances to customers	109,043	115,476	24,498	13,619	19,063	281,699
loans held at fair value through profit or loss	51,586	135	2,844	–	12	54,577
<b>Total liabilities</b>	<b>429,239</b>	<b>158,827</b>	<b>51,803</b>	<b>18,882</b>	<b>79,570</b>	<b>738,321</b>
Of which: customer accounts <sup>2</sup>	262,201	154,831	48,578	18,675	7,869	492,154

2019 (Restated) <sup>1</sup>						
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>7,074</b>	<b>5,186</b>	<b>1,574</b>	<b>577</b>	<b>860</b>	<b>15,271</b>
External	7,264	4,236	1,618	329	1,824	15,271
Inter-segment	(190)	950	(44)	248	(964)	–
<b>Operating expenses</b>	<b>(4,310)</b>	<b>(3,759)</b>	<b>(953)</b>	<b>(514)</b>	<b>(873)</b>	<b>(10,409)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>2,764</b>	<b>1,427</b>	<b>621</b>	<b>63</b>	<b>(13)</b>	<b>4,862</b>
Credit impairment	(475)	(336)	(122)	31	(4)	(906)
Other impairment	(32)	2	–	–	(8)	(38)
Profit from associates and joint ventures	–	–	–	–	254	254
<b>Underlying profit before taxation</b>	<b>2,257</b>	<b>1,093</b>	<b>499</b>	<b>94</b>	<b>229</b>	<b>4,172</b>
Restructuring	(110)	(63)	(11)	(11)	(59)	(254)
Goodwill impairment & other items	–	–	–	–	(205)	(205)
<b>Statutory profit/(loss) before taxation</b>	<b>2,147</b>	<b>1,030</b>	<b>488</b>	<b>83</b>	<b>(35)</b>	<b>3,713</b>
<b>Total assets</b>	<b>326,565</b>	<b>109,368</b>	<b>33,978</b>	<b>14,922</b>	<b>235,565</b>	<b>720,398</b>
Of which: loans and advances to customers <sup>2</sup>	153,884	107,140	28,831	14,821	10,078	314,754
loans and advances to customers	108,746	106,902	27,978	14,821	10,076	268,523
loans held at fair value through profit or loss	45,138	238	853	–	2	46,231
<b>Total liabilities</b>	<b>387,561</b>	<b>148,413</b>	<b>41,628</b>	<b>18,480</b>	<b>73,655</b>	<b>669,737</b>
Of which: customer accounts <sup>2</sup>	243,269	144,760	38,847	18,424	7,433	452,733

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

2 Loans and advances to customers includes FVTPL and customer accounts includes FVTPL and repurchase agreements

## 2. Segmental information continued

### Operating income by client segment

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>7,214</b>	<b>5,013</b>	<b>1,409</b>	<b>540</b>	<b>589</b>	<b>14,765</b>
Restructuring	11	–	29	–	(13)	27
Other items	–	–	–	–	(38)	(38)
<b>Statutory operating income</b>	<b>7,225</b>	<b>5,013</b>	<b>1,438</b>	<b>540</b>	<b>538</b>	<b>14,754</b>

2019 (Restated) <sup>1</sup>						
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>7,074</b>	<b>5,186</b>	<b>1,574</b>	<b>577</b>	<b>860</b>	<b>15,271</b>
Restructuring	146	–	4	–	(4)	146
Other items	–	–	–	–	–	–
<b>Statutory operating income</b>	<b>7,220</b>	<b>5,186</b>	<b>1,578</b>	<b>577</b>	<b>856</b>	<b>15,417</b>

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

### Underlying performance by region

	2020					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	<b>6,016</b>	<b>4,366</b>	<b>2,364</b>	<b>1,922</b>	<b>97</b>	<b>14,765</b>
<b>Operating expenses</b>	<b>(3,739)</b>	<b>(2,618)</b>	<b>(1,683)</b>	<b>(1,383)</b>	<b>(719)</b>	<b>(10,142)</b>
<b>Operating profit/(loss) before impairment losses and taxation</b>	<b>2,277</b>	<b>1,748</b>	<b>681</b>	<b>539</b>	<b>(622)</b>	<b>4,623</b>
Credit impairment	(352)	(1,132)	(654)	(161)	5	(2,294)
Other impairment	(53)	163	(14)	8	(89)	15
Profit from associates and joint ventures	163	–	–	–	1	164
<b>Underlying profit/(loss) before taxation</b>	<b>2,035</b>	<b>779</b>	<b>13</b>	<b>386</b>	<b>(705)</b>	<b>2,508</b>
Restructuring	(92)	(42)	(88)	(45)	(115)	(382)
Goodwill impairment & other items	(43)	–	–	–	(470)	(513)
<b>Statutory profit/(loss) before taxation</b>	<b>1,900</b>	<b>737</b>	<b>(75)</b>	<b>341</b>	<b>(1,290)</b>	<b>1,613</b>
Total assets	311,484	155,728	58,069	253,438	10,331	789,050
Of which: loans and advances to customers <sup>1</sup>	151,879	87,213	29,413	67,771	–	336,276
loans and advances to customers	143,260	82,897	28,214	27,328	–	281,699
loans held at fair value through profit or loss	8,619	4,316	1,199	40,443	–	54,577
Total liabilities	286,855	134,856	39,980	211,840	64,790	738,321
Of which: customer accounts <sup>1</sup>	231,456	103,167	32,106	125,425	–	492,154

## 2. Segmental information continued

### Underlying performance by region continued

	2019					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Operating income</b>	6,155	4,213	2,562	1,725	616	15,271
<b>Operating expenses</b>	(3,771)	(2,681)	(1,747)	(1,470)	(740)	(10,409)
<b>Operating profit/(loss) before impairment losses and taxation</b>	2,384	1,532	815	255	(124)	4,862
Credit impairment	(194)	(506)	(132)	(98)	24	(906)
Other impairment	(5)	(1)	1	–	(33)	(38)
Profit from associates and joint ventures	247	–	–	–	7	254
<b>Underlying profit/(loss) before taxation</b>	2,432	1,025	684	157	(126)	4,172
Restructuring	(138)	(34)	(18)	(34)	(30)	(254)
Goodwill impairment & other items	–	48	–	–	(253)	(205)
<b>Statutory profit/(loss) before taxation</b>	2,294	1,039	666	123	(409)	3,713
Total assets	277,704	149,785	59,828	220,579	12,502	720,398
Of which: loans and advances to customers <sup>1</sup>	139,977	80,885	31,487	62,405	–	314,754
loans and advances to customers	134,066	78,229	29,940	26,288	–	268,523
loans held at fair value through profit or loss	5,911	2,656	1,547	36,117	–	46,231
Total liabilities	249,004	126,213	36,144	218,794	39,582	669,737
Of which: customer accounts <sup>1</sup>	204,286	97,459	29,280	121,708	–	452,733

1 Loans and advances to customers includes FVTPL and customer accounts includes FVTPL and repurchase agreements

### Operating income by region

	2020					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Underlying operating income</b>	<b>6,016</b>	<b>4,366</b>	<b>2,364</b>	<b>1,922</b>	<b>97</b>	<b>14,765</b>
Restructuring	82	(4)	(2)	–	(49)	27
Other items	(43)	–	–	–	5	(38)
<b>Statutory operating income</b>	<b>6,055</b>	<b>4,362</b>	<b>2,362</b>	<b>1,922</b>	<b>53</b>	<b>14,754</b>

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

## 2. Segmental information continued

### Additional segmental information (statutory)

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Net interest income	2,625	3,102	880	262	(17)	6,852
Net fees and commission income	1,219	1,457	280	237	(33)	3,160
Net trading and other income	3,381	454	278	41	588	4,742
<b>Operating income</b>	<b>7,225</b>	<b>5,013</b>	<b>1,438</b>	<b>540</b>	<b>538</b>	<b>14,754</b>

	2019 (Restated) <sup>1</sup>					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Net interest income	2,615	3,295	990	315	452	7,667
Net fees and commission income	1,559	1,505	285	223	(50)	3,522
Net trading and other income	3,046	386	303	39	454	4,228
<b>Operating income</b>	<b>7,220</b>	<b>5,186</b>	<b>1,578</b>	<b>577</b>	<b>856</b>	<b>15,417</b>

<sup>1</sup> Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

	2020					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
Net interest income	2,942	2,051	1,223	316	320	6,852
Net fees and commission income	1,329	1,015	531	519	(234)	3,160
Net trading and other income	1,784	1,296	608	1,087	(33)	4,742
<b>Operating income</b>	<b>6,055</b>	<b>4,362</b>	<b>2,362</b>	<b>1,922</b>	<b>53</b>	<b>14,754</b>

	2019					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
Net interest income	3,276	2,068	1,456	149	718	7,667
Net fees and commission income	1,393	1,123	617	503	(114)	3,522
Net trading and other income	1,573	1,020	489	1,073	73	4,228
<b>Operating income</b>	<b>6,242</b>	<b>4,211</b>	<b>2,562</b>	<b>1,725</b>	<b>677</b>	<b>15,417</b>

	2020								
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	Indonesia \$million	UAE \$million	UK \$million	US \$million
Net interest income	1,557	650	545	676	664	86	281	62	170
Net fees and commission income	760	175	163	515	202	66	113	61	371
Net trading and other income	1,235	236	175	367	379	156	173	824	242
<b>Operating income</b>	<b>3,552</b>	<b>1,061</b>	<b>883</b>	<b>1,558</b>	<b>1,245</b>	<b>308</b>	<b>567</b>	<b>947</b>	<b>783</b>

	2019								
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	Indonesia \$million	UAE \$million	UK \$million	US \$million
Net interest income	1,893	659	562	731	564	112	365	(211)	256
Net fees and commission income	866	160	144	552	244	69	143	70	352
Net trading and other income	1,082	152	166	354	232	91	110	904	151
<b>Operating income</b>	<b>3,841</b>	<b>971</b>	<b>872</b>	<b>1,637</b>	<b>1,040</b>	<b>272</b>	<b>618</b>	<b>763</b>	<b>759</b>

### 3. Net interest income

#### Accounting policy

Interest income for financial assets held at either fair value through other comprehensive income or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

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

Interest income for financial assets that are either held at fair value through other comprehensive income or amortised cost that have become credit-impaired subsequent to initial recognition (stage 3) and have had amounts written off, is recognised using the credit-adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the Credit Risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit-impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

	2020 \$million	2019 \$million
Balances at central banks	113	329
Loans and advances to banks	801	1,834
Loans and advances to customers	8,473	10,693
Listed debt securities	1,783	2,113
Unlisted debt securities	542	796
Other eligible bills	495	702
Accrued on impaired assets (discount unwind)	85	82
<b>Interest income</b>	<b>12,292</b>	<b>16,549</b>
Of which: financial instruments held at fair value through other comprehensive income	2,134	3,246
Deposits by banks	237	739
Customer accounts	3,671	6,202
Debt securities in issue	836	1,120
Subordinated liabilities and other borrowed funds	637	756
Interest expense on IFRS 16 lease liabilities	59	65
<b>Interest expense</b>	<b>5,440</b>	<b>8,882</b>
<b>Net interest income</b>	<b>6,852</b>	<b>7,667</b>

### 4. Net fees and commission

#### Accounting policy

Fees and commissions charged for services provided by the Group are recognised as or when the service is completed or significant act performed.

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

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

## 4. Net fees and commission continued

The Group applies the following practical expedients:

- Information on amounts of transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations at the end of the reporting period is not disclosed as almost all fee-earning contracts have an expected duration of less than one year
- Promised consideration is not adjusted for the effects of a significant financing component as the period between the Group providing a service and the customer paying for it is expected to be less than one year
- Incremental costs of obtaining a fee-earning contract are recognised upfront in 'Fees and commission expense' rather than amortised, if the expected term of the contract is less than one year

The determination of the services performed for the customer, the transaction price, and when the services are completed depends on the nature of the product with the customer. The main considerations on income recognition by product are as follows:

### Transaction Banking

The Group recognises fee income associated with transactional trade and cash management at the point in time the service is provided. The Group recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) over the period in which the service is provided.

Payment of fees is usually received at the same time the service is provided. In some cases, letters of credit and guarantees issued by the Group have annual upfront premiums, which are amortised on a straight-line basis to fee income over the year.

### Financial Markets and Corporate Finance

The Group recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Group to the fee. Fees are usually received shortly after the service is provided.

Syndication fees are recognised when the syndication is complete. Fees are generally received before completion of the syndication, or within 12 months of the transaction date.

Securities services include custody services, fund accounting and administration, and broker clearing. Fees are recognised over the period the custody or fund management services are provided, or as and when broker services are requested.

### Wealth Management

Upfront consideration on bancassurance agreements is amortised straight-line over the contractual term. Commissions for bancassurance activities are recorded as they are earned through sales of third-party insurance products to customers. These commissions are received within a short time frame of the commission being earned. Target-linked fees are accrued based on a percentage of the target achieved, provided it is assessed as highly probable that the target will be met. Cash payment is received at a contractually specified date after achievement of a target has been confirmed.

Upfront and trailing commissions for managed investment placements are recorded as they are confirmed. Income from these activities is relatively even throughout the period, and cash is usually received within a short time frame after the commission is earned.

### Retail Products

The Group recognises most income at the point in time the Group is entitled to the fee, since most services are provided at the time of the customer's request.

Credit card annual fees are recognised at the time the fee is received since, in most of our retail markets, there are contractual circumstances under which fees are waived, so income recognition is constrained until the uncertainties associated with the annual fee are resolved. The Group defers the fair value of reward points on its credit card reward programmes, and recognises income and costs associated with fulfilling the reward at the time of redemption.

	2020 \$million	2019 \$million
Fees and commissions income	3,865	4,111
Of which:		
Financial instruments that are not fair valued through profit or loss	1,122	1,495
Trust and other fiduciary activities	254	166
Fees and commissions expense	(705)	(589)
Of which:		
Financial instruments that are not fair valued through profit or loss	(219)	(138)
Trust and other fiduciary activities	(11)	(27)
<b>Net fees and commission</b>	<b>3,160</b>	<b>3,522</b>

## 4. Net fees and commission continued

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	789	10	205	1	–	1,005
Trade	399	10	143	1	–	553
Cash Management	390	–	62	–	–	452
Financial Markets	224	–	47	–	–	271
Corporate Finance	140	–	21	–	–	161
Lending and Portfolio Management	65	–	6	–	–	71
Principal Finance	1	–	–	–	–	1
Wealth Management	–	1,119	1	231	–	1,351
Retail Products	–	328	–	5	–	333
Treasury	–	–	–	–	(25)	(25)
Others	–	–	–	–	(8)	(8)
<b>Net fees and commission</b>	<b>1,219</b>	<b>1,457</b>	<b>280</b>	<b>237</b>	<b>(33)</b>	<b>3,160</b>

	2019					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	865	11	212	–	–	1,088
Trade	434	11	154	–	–	599
Cash Management	431	–	58	–	–	489
Financial Markets	453	–	30	–	–	483
Corporate Finance	168	–	27	2	–	197
Lending and Portfolio Management	85	–	14	–	–	99
Principal Finance	(12)	–	–	–	–	(12)
Wealth Management	–	1,132	2	216	–	1,350
Retail Products	–	362	–	5	–	367
Treasury	–	–	–	–	(22)	(22)
Others	–	–	–	–	(28)	(28)
<b>Net fees and commission</b>	<b>1,559</b>	<b>1,505</b>	<b>285</b>	<b>223</b>	<b>(50)</b>	<b>3,522</b>

Upfront bancassurance consideration amounts are amortised on a straight-line basis over the contractual period to which the consideration relates. Deferred income on the balance sheet in respect of these activities is \$718 million (31 December 2019: \$802 million). The income will be earned evenly over the next 8.5 years (31 December 2019: 9.5 years). For the twelve months ended 31 December 2020, \$84 million of fee income was released from deferred income (31 December 2019: \$84 million).

## 5. Net trading income

## Accounting policy

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are recorded in net trading income in the period in which they arise. This includes contractual interest receivable or payable.

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

When the initial fair value of a financial instrument held at fair value through profit or loss relies on unobservable inputs, the difference between the initial valuation and the transaction price is amortised to net trading income as the inputs become observable or over the life of the instrument, whichever is shorter. Any unamortised 'day one' gain is released to net trading income if the transaction is terminated.

	2020 \$million	2019 \$million
Net trading income	3,672	3,350
Significant items within net trading income include:		
Gains on instruments held for trading <sup>1</sup>	3,254	3,296
Gains on financial assets mandatorily at fair value through profit or loss	607	1,557
(Losses)/gains on financial assets designated at fair value through profit or loss	(4)	31
Losses on financial liabilities designated at fair value through profit or loss	(247)	(1,602)

<sup>1</sup> Includes \$395 million loss (31 December 2019: \$671 million gain) from the translation of foreign currency monetary assets and liabilities

## 6. Other operating income

### Accounting policy

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

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

On disposal of fair value through other comprehensive income debt instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the profit or loss in other operating income/expense.

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

	2020 \$million	2019 \$million
Other operating income includes:		
Rental income from operating lease assets	495	540
Gains less losses on disposal of fair value through other comprehensive income debt instruments	431	170
Gains less losses on amortised cost financial assets	40	(12)
Net loss on sale of businesses <sup>1</sup>	(38)	–
Dividend income	27	17
Gain on sale of aircrafts	11	71
Other	104	92
<b>Other operating income</b>	<b>1,070</b>	<b>878</b>

<sup>1</sup> Includes Bohai's dilution loss, see Note 32

## 7. Operating expenses

### Accounting policy

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

Pension costs: contributions to defined contribution pension schemes are recognised in profit or loss when payable.

For defined benefit plans, net interest expense, service costs and expenses are recognised in the income statement.

Further details are provided in Note 30.

Share-based compensation: the Group operates equity-settled and cash-settled share-based payment compensation plans. The fair value of the employee services (measured by the fair value of the option granted) received in exchange for the grant of the options is recognised as an expense. Further details are provided in Note 31.

	2020 \$million	2019 \$million
Staff costs:		
Wages and salaries	5,362	5,508
Social security costs	168	180
Other pension costs (Note 30)	358	372
Share-based payment costs (Note 31)	132	166
Other staff costs	866	896
	<b>6,886</b>	<b>7,122</b>

Other staff costs include redundancy expenses of \$179 million (31 December 2019: \$173 million). Further costs in this category include training, travel costs and other staff-related costs.

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

	2020			2019 <sup>1</sup>		
	Business	Support services	Total	Business	Support services	Total
At 31 December	34,905	48,752	83,657	37,117	47,281	84,398
Average for the year	36,435	48,305	84,740	37,400	46,538	83,938

<sup>1</sup> Prior year headcount has been re-presented due to a change in Management View of segments

The Company employed nil staff at 31 December 2020 (31 December 2019: nil) and it incurred costs of \$87 million (31 December 2019: \$32 million).

Details of directors' pay, benefits, pensions and benefits and interests in shares are disclosed in the Directors' remuneration report (page 133).

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

## 7. Operating expenses continued

	2020 \$million	2019 \$million
Premises and equipment expenses	412	420
General administrative expenses:		
UK bank levy	331	347
Provision for regulatory matters	(14)	226
Other general administrative expenses	1,514	1,638
	1,831	2,211
Depreciation and amortisation:		
Property, plant and equipment:		
Premises	373	360
Equipment	129	112
Operating lease assets	229	263
	731	735
Intangibles:		
Software	515	436
Acquired on business combinations	5	9
	1,251	1,180
<b>Total operating expenses</b>	<b>10,380</b>	<b>10,933</b>

The UK bank levy is applied on the chargeable equity and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equity 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 2020 is 0.14 per cent for chargeable short-term liabilities, with a lower rate of 0.07 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). From 1 January 2021 the rates are 0.10 per cent for short-term liabilities and 0.05 per cent for long-term liabilities. In addition, the scope of the UK bank levy is restricted to the balance sheet of UK operations only from this date.

## 8. Credit impairment

### Accounting policy

#### Significant accounting estimates and judgements

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in Credit Risk;
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables;
- Evaluation of management overlays and post-model adjustments;
- Determination of probability weightings for Stage 3 individually assessed provisions

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the Credit Risk Management Team based upon counterparty information they receive from various sources including relationship managers and on external market information. Details on the approach for determining expected credit loss can be found in the Credit Risk section, under IFRS 9 Methodology (page 224).

Estimates of forecasts of key macroeconomic variables underlying the expected credit loss calculation can be found within the Risk review, Key assumptions and judgements in determining expected credit loss (page 225).

#### Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

## 8. Credit impairment continued

### Measurement

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. Further details on the components of PD, LGD and EAD are disclosed in the Credit Risk section. For less material Retail Banking loan portfolios, the Group has adopted less sophisticated approaches based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence Credit Risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to Credit Risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to Credit Risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to Credit Risk, which includes the effect of Credit Risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired instruments (POCI)) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instruments	Location of expected credit loss provisions
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value <sup>1</sup>
Financial assets held FVOCI - Debt instruments	Other comprehensive income (FVOCI expected credit loss reserve) <sup>2</sup>
Loan commitments	Provisions for liabilities and charges <sup>3</sup>
Financial guarantees	Provisions for liabilities and charges <sup>3</sup>

1 Purchased or originated credit-impaired assets do not attract an expected credit loss provision on initial recognition. An expected credit loss provision will be recognised only if there is an increase in expected credit losses from that considered at initial recognition

2 Debt and treasury securities classified as fair value through other comprehensive income (FVOCI) are held at fair value on the face of the balance sheet. The expected credit loss attributed to these instruments is held as a separate reserve within other comprehensive income (OCI) and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised

3 Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit loss is recognised as a liability provision

### Recognition

**12 months expected credit losses (stage 1)** Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the Credit Risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in Credit Risk, expected credit losses will revert to being determined on a 12-month basis.

## 8. Credit impairment continued

**Significant increase in Credit Risk (Stage 2)** If a financial asset experiences a significant increase in Credit Risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in Credit Risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in Credit Risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in Credit Risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in Credit Risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in Credit Risk.

Qualitative factors assessed include those linked to current Credit Risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

**Credit-impaired (or defaulted) exposures (Stage 3)** Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions (page 319);
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses

Lending commitments to a credit-impaired obligor that have not yet been drawn down are included to the extent that the commitment cannot be withdrawn. Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the expected cash shortfalls, discounted at the instrument's original effective interest rate, and the gross carrying value (including contractual interest due but not paid) of the instrument prior to any credit impairment. The Group's definition of default is aligned with the regulatory definition of default as set out in European Capital Requirements Regulation (CRR178) and related guidelines.

## 8. Credit impairment continued

### Expert credit judgement

For Corporate & Institutional, Commercial and Private Banking, borrowers are graded by Credit Risk management on a credit grading (CG) scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit-impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as stage 3.

For individually significant financial assets within stage 3, GSAM will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geopolitical climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/forbearance/modification options. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken, the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail Banking clients are considered credit-impaired where they are more than 90 days past due. Retail Banking products are also considered credit-impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit-impaired, the account may also be credit-impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgement is also applied to determine whether any post-model adjustments are required for Credit Risk elements which are not captured by the models.

### Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised (an instrument is derecognised when a modification results in a change in cash flows that the Group would consider substantial), the resulting modification loss is recognised within credit impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the bank would not otherwise consider, the instrument is considered to be credit-impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in Credit Risk. These assets are assessed (by comparison to the origination date) to determine whether there has been a significant increase in Credit Risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in Credit Risk may occur. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

### Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third-party including government-sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest-only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered credit-impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement – Modifications) is recognised in the profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount. The modified loan is disclosed as 'Loans subject to forbearance – credit-impaired'.

Loans that have been subject to a forbearance modification, but which are not considered credit-impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit-impaired'. This may include amendments to covenants within the contractual terms.

## 8. Credit impairment continued

### Write-offs of credit-impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for credit impairment in the income statement.

### Loss provisions on purchased or originated credit-impaired instruments (POCI)

The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative change as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and as impairment loss where the expected credit losses are greater).

### Improvement in Credit Risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12-month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in Credit Risk.

Where significant increase in Credit Risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD-based transfer criteria are no longer met. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forbore loan can only be removed from being disclosed as forbore if the loan is performing (stage 1 or 2) and a further two-year probation period is met.

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

- At least a year has passed with no default based upon the forbore contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding (except for expected credit loss)

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

	2020 \$million	2019 \$million
Net credit impairment on loans and advances to banks and customers	2,191	856
Net credit impairment on debt securities	33	9
Net credit impairment relating to financial guarantees and loan commitments	103	35
Net credit impairment relating to other financial assets	(2)	8
<b>Credit impairment<sup>1</sup></b>	<b>2,325</b>	<b>908</b>

1 No material purchased or originated credit-impaired (POCI) assets

## 9. Goodwill, property, plant and equipment and other impairment

### Accounting policy

Refer to the below referenced notes for the relevant accounting policy

	2020 \$million	2019 \$million
Impairment of goodwill (Note 17)	489	27
Impairment of property, plant and equipment (Note 18)	132	122
Impairment of other intangible assets (Note 17)	17	12
Other <sup>1</sup>	(51)	2
Property, plant and equipment and other impairment	98	136
<b>Goodwill, property, plant and equipment and other impairment</b>	<b>587</b>	<b>163</b>

1 Includes a reversal of \$165 million as a result of a recovery on a disputed derivative receivable, following a favourable court ruling

## 10. Taxation

### Accounting policy

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

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

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

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

### Significant accounting estimates and judgements

- Determining the Group's tax charge for the year involves estimation and judgement, which includes an interpretation of local tax laws and an assessment of whether the tax authorities will accept the position taken. These judgements take account of external advice where appropriate, and the Group's view on settling with the relevant tax authorities
- The Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authorities where an outflow is probable. In making its estimates the Group assumes that the tax authorities will examine all the amounts reported to them and have full knowledge of all relevant information
- The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised

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

	2020 \$million	2019 \$million
The charge for taxation based upon the profit for the year comprises:		
<b>Current tax:</b>		
United Kingdom corporation tax at 19 per cent (2019:19 per cent):		
Current tax charge on income for the year	–	–
Adjustments in respect of prior years (including double tax relief)	(41)	(6)
Foreign tax:		
Current tax charge on income for the year	1,061	1,427
Adjustments in respect of prior years	(352)	1
	668	1,422
<b>Deferred tax:</b>		
Origination/reversal of temporary differences	(193)	22
Adjustments in respect of prior years	387	(71)
	194	(49)
<b>Tax on profits on ordinary activities</b>	<b>862</b>	<b>1,373</b>
<b>Effective tax rate</b>	<b>53.4%</b>	<b>37.0%</b>

The tax charge for the year of \$862 million (31 December 2019: \$1,373 million) on a profit before tax of \$1,613 million (31 December 2019: \$3,713 million) reflects the impact of non-deductible expenses, non-deductible goodwill impairment and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India. The 2019 charge reflected the impact of capital gains tax on internal restructuring to establish the Hong Kong hub and other non-deductible expenses, non-creditable withholding taxes and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

The adjustments in respect of prior years include \$288 million between current and deferred tax, relating to the treatment of loan impairments in India as deductible in the period they are impaired.

Foreign tax includes current tax of \$167 million (31 December 2019: \$206 million) on the profits assessable in Hong Kong. Deferred tax includes origination or reversal of temporary differences of \$(30) million (31 December 2019: \$(1) million) provided at a rate of 16.5 per cent (31 December 2019: 16.5 per cent) on the profits assessable in Hong Kong.

**10. Taxation** continued

**Tax rate:** The tax charge for the year is higher than the charge at the rate of corporation tax in the UK, 19 per cent. The differences are explained below:

	2020 \$million	2019 \$million
<b>Profit on ordinary activities before tax</b>	<b>1,613</b>	3,713
Tax at 19 per cent (2019: 19 per cent)	<b>306</b>	705
Lower tax rates on overseas earnings	<b>(36)</b>	(89)
Higher tax rates on overseas earnings	<b>305</b>	316
Non-creditable withholding taxes	<b>127</b>	144
Tax-free income	<b>(133)</b>	(138)
Share of associates and joint ventures	<b>(26)</b>	(51)
Non-deductible expenses	<b>266</b>	288
Provision for regulatory matters	<b>-</b>	27
Bank levy	<b>63</b>	66
Non-taxable losses on investments	<b>13</b>	9
Payments on financial instruments in reserves	<b>(59)</b>	(67)
Capital gains tax on internal restructuring	<b>-</b>	179
Goodwill impairment	<b>93</b>	5
Deferred tax not recognised	<b>49</b>	41
Deferred tax assets written-off	<b>15</b>	30
Deferred tax rate changes	<b>(51)</b>	(6)
Adjustments to tax charge in respect of prior years	<b>(6)</b>	(76)
Other items	<b>(64)</b>	(10)
<b>Tax on profit on ordinary activities</b>	<b>862</b>	1,373

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

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

Tax recognised in other comprehensive income	2020			2019		
	Current tax \$million	Deferred tax \$million	Total \$million	Current tax \$million	Deferred tax \$million	Total \$million
Items that will not be reclassified to income statement	-	(17)	(17)	15	27	42
Own credit adjustment	-	1	1	17	35	52
Equity instruments at fair value through other comprehensive income	-	(27)	(27)	5	(10)	(5)
Retirement benefit obligations	-	9	9	(7)	2	(5)
Items that may be reclassified subsequently to income statement	(1)	(53)	(54)	2	(50)	(48)
Debt instruments at fair value through other comprehensive income	(1)	(68)	(69)	2	(44)	(42)
Cash flow hedges	-	15	15	-	(6)	(6)
<b>Total tax credit/(charge) recognised in equity</b>	<b>(1)</b>	<b>(70)</b>	<b>(71)</b>	<b>17</b>	<b>(23)</b>	<b>(6)</b>

## 10. Taxation continued

**Current tax:** The following are the movements in current tax during the year:

	2020 \$million	2019 \$million
<b>Current tax comprises:</b>		
Current tax assets	539	492
Current tax liabilities	(703)	(676)
<b>Net current tax opening balance</b>	<b>(164)</b>	<b>(184)</b>
Movements in income statement	(668)	(1,422)
Movements in other comprehensive income	(1)	17
Taxes paid	971	1,421
Other movements	10	4
<b>Net current tax balance as at 31 December</b>	<b>148</b>	<b>(164)</b>
Current tax assets	808	539
Current tax liabilities	(660)	(703)
<b>Total</b>	<b>148</b>	<b>(164)</b>

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

	At 1 January 2020 \$million	Exchange & other adjustments \$million	(Charge)/credit to profit \$million	(Charge)/credit to equity \$million	At 31 December 2020 \$million
<b>Deferred tax comprises:</b>					
Accelerated tax depreciation	(526)	–	33	–	(493)
Impairment provisions on loans and advances	957	(14)	(524)	–	419
Tax losses carried forward	263	(5)	24	–	282
Fair value through other comprehensive income	(49)	–	(2)	(95)	(146)
Cash flow hedges	(13)	–	–	15	2
Own credit adjustment	2	–	–	1	3
Retirement benefit obligations	31	(1)	(3)	9	36
Share-based payments	16	(3)	10	–	23
Other temporary differences	(187)	14	268	3	98
<b>Net deferred tax assets</b>	<b>494</b>	<b>(9)</b>	<b>(194)</b>	<b>(67)</b>	<b>224</b>

	At 1 January 2019 \$million	Exchange & other adjustments \$million	(Charge)/credit to profit \$million	(Charge)/credit to equity \$million	At 31 December 2019 \$million
<b>Deferred tax comprises:</b>					
Accelerated tax depreciation	(494)	(5)	(27)	–	(526)
Impairment provisions on loans and advances	961	(13)	9	–	957
Tax losses carried forward	266	–	(3)	–	263
Fair value through other comprehensive income	3	1	1	(54)	(49)
Cash flow hedges	(7)	–	–	(6)	(13)
Own credit adjustment	(33)	–	–	35	2
Retirement benefit obligations	40	(3)	(8)	2	31
Share-based payments	15	–	1	–	16
Other temporary differences	(267)	4	76	–	(187)
<b>Net deferred tax assets</b>	<b>484</b>	<b>(16)</b>	<b>49</b>	<b>(23)</b>	<b>494</b>

**10. Taxation** continued

Deferred tax comprises assets and liabilities as follows:

	2020			2019		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
<b>Deferred tax comprises:</b>						
Accelerated tax depreciation	(493)	(30)	(463)	(526)	(9)	(517)
Impairment provisions on loans and advances	419	403	16	957	956	1
Tax losses carried forward	282	171	111	263	137	126
Fair value through other comprehensive income	(146)	(61)	(85)	(49)	(40)	(9)
Cash flow hedges	2	6	(4)	(13)	6	(19)
Own credit adjustment	3	2	1	2	4	(2)
Retirement benefit obligations	36	25	11	31	20	11
Share-based payments	23	8	15	16	14	2
Other temporary differences	98	395	(297)	(187)	17	(204)
	224	919	(695)	494	1,105	(611)

At 31 December 2020, the Group has net deferred tax assets of \$224 million (31 December 2019: \$494 million). The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the Group's total deferred tax assets, \$282 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.

- \$129 million of the deferred tax assets relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 18 years
- \$92 million of the deferred tax assets relating to losses has arisen in the US. Management forecasts show that the losses are expected to be fully utilised over a period of five years.

The remaining deferred tax assets of \$61 million relating to losses have arisen in other jurisdictions and are expected to be recovered in less than 10 years.

	2020 \$million	2019 \$million
<b>No account has been taken of the following potential deferred tax assets/(liabilities):</b>		
Withholding tax on unremitted earnings from overseas subsidiaries	(315)	(230)
Tax losses	1,597	1,297
Held-over gains on incorporation of overseas branches	(336)	(410)
Other temporary differences	160	83

## 11. Dividends

### Accounting policy

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

On 31 March 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its Board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share.

### Ordinary equity shares

	2020		2019	
	Cents per share	\$million	Cents per share	\$million
2019/2018 final dividend declared and paid during the year	–	–	15	495
2020/2019 interim dividend declared and paid during the year	–	–	7	225

Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years.

### 2020 recommended final ordinary equity share dividend

The 2020 ordinary equity share dividend recommended by the Board is 9 cents per share. The financial statements for the year ended 31 December 2020 do not reflect this dividend as this will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2021.

The dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 20 May 2021 to shareholders on the UK register of members at the close of business in the UK on 5 March 2021.

### Preference shares and Additional Tier 1 securities

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

	2020 \$million	2019 \$million
Non-cumulative redeemable preference shares: 7.014 per cent preference shares of \$5 each	53	53
6.409 per cent preference shares of \$5 each	20	30
	73	83
Additional Tier 1 securities: Fixed rate resetting perpetual subordinated contingent convertible securities	322	365
	395	448

## 12. Earnings per ordinary share

### Accounting policy

Basic earnings per ordinary share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, excluding own shares held. Diluted earnings per ordinary share is calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive potential ordinary shares, by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, excluding own shares held.

The Group also measures earnings per share on an underlying basis. This differs from earnings defined in IAS 33 Earnings per share. Underlying earnings is profit/(loss) attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

The table below provides the basis of underlying earnings.

	2020 \$million	2019 \$million
<b>Profit for the period attributable to equity holders</b>	<b>751</b>	2,340
Non-controlling interest	(27)	(37)
Dividend payable on preference shares and AT1 classified as equity	(395)	(448)
<b>Profit for the period attributable to ordinary shareholders</b>	<b>329</b>	1,855
Items normalised:		
Provision for regulatory matters	(14)	226
Restructuring	382	254
Profit from joint venture	–	(48)
Goodwill impairment (Note 9)	489	27
Net loss on sale of businesses (Note 6)	38	–
Tax on normalised items <sup>1</sup>	(83)	152
<b>Underlying profit</b>	<b>1,141</b>	2,466
Basic – Weighted average number of shares (millions)	3,160	3,256
Diluted – Weighted average number of shares (millions)	3,199	3,290
<b>Basic earnings per ordinary share (cents)</b>	<b>10.4</b>	57.0
<b>Diluted earnings per ordinary share (cents)</b>	<b>10.3</b>	56.4
<b>Underlying basic earnings per ordinary share (cents)</b>	<b>36.1</b>	75.7
<b>Underlying diluted earnings per ordinary share (cents)</b>	<b>35.7</b>	75.0

1 No tax is included in respect of the impairment of goodwill as no tax relief is available

## 13. Financial instruments

### Classification and measurement

#### Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

#### Financial assets held at amortised cost and fair value through other comprehensive income

Debt instruments held at amortised cost or held at FVOCI have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI) characteristics. Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements)
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group's management
- How managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected
- The risks that affect the performance of the business model and how those risks are managed
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity

The Group's business model assessment is as follows:

Business model	Business objective	Characteristics	Businesses	Products
<b>Hold to collect</b>	Intent is to originate financial assets and hold them to maturity, collecting the contractual cash flows over the term of the instrument	<ul style="list-style-type: none"> <li>• Providing financing and originating assets to earn interest income as primary income stream</li> <li>• Performing credit risk management activities</li> <li>• Costs include funding costs, transaction costs and impairment losses</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Lending</li> <li>• Corporate Finance</li> <li>• Transaction Banking</li> <li>• Retail Lending</li> <li>• Treasury Markets (Loans and Borrowings)</li> </ul>	<ul style="list-style-type: none"> <li>• Loans and advances</li> <li>• Debt securities</li> </ul>
<b>Hold to collect and sell</b>	Business objective met through both hold to collect and by selling financial assets	<ul style="list-style-type: none"> <li>• Portfolios held for liquidity needs; or where a certain interest yield profile is maintained; or that are normally rebalanced to achieve matching of duration of assets and liabilities</li> <li>• Income streams come from interest income, fair value changes, and impairment losses</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury Markets</li> </ul>	<ul style="list-style-type: none"> <li>• Derivatives</li> <li>• Debt securities</li> </ul>
<b>Fair value through profit or loss</b>	All other business objectives, including trading and managing financial assets on a fair value basis	<ul style="list-style-type: none"> <li>• Assets held for trading</li> <li>• Assets that are originated, purchased, and sold for profit taking or underwriting activity</li> <li>• Performance of the portfolio is evaluated on a fair value basis</li> <li>• Income streams are from fair value changes or trading gains or losses</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Markets</li> <li>• Syndication</li> <li>• All other business lines</li> </ul>	<ul style="list-style-type: none"> <li>• Derivatives</li> <li>• Trading portfolios</li> <li>• Financial Markets reverse repos</li> </ul>

### 13. Financial instruments continued

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Hold to collect and sell") are classified as held at FVOCI.

Both hold to collect business and a hold to collect and sell business model involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

#### Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument-by-instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

#### Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at FVOCI are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

#### Mandatorily classified at fair value through profit or loss

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

Trading, including:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short-term
- Derivatives

Non-trading mandatorily at fair value through profit or loss, including:

- Instruments in a business which has a fair value business model (see the Group's business model assessment) which are not trading or derivatives;
- Hybrid financial assets that contain one or more embedded derivatives;
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

## 13. Financial instruments continued

### Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ('accounting mismatch').

Interest rate swaps have been acquired by the Group with the intention of significantly reducing interest rate risk on certain debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these debt securities have been designated at fair value through profit or loss.

Similarly, to reduce accounting mismatches, the Group has designated certain financial liabilities at fair value through profit or loss where the liabilities either:

- Have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered with the intention of significantly reducing interest rate risk; or
- Are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- Have been acquired to fund trading asset portfolios or assets

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have an embedded derivative where the Group is not able to bifurcate and separately value the embedded derivative component.

### Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

### Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Financial guarantee contracts and any loan commitments issued at below-market interest rates are initially recognised at their fair value as a financial liability, and subsequently measured at the higher of the initial value less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers and their expected credit loss provision. Loan commitments may be designated at fair value through profit or loss where that is the business model under which such contracts are held.

### Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

### 13. Financial instruments continued

#### Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

#### Subsequent measurement

##### Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see Interest income and expense). Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

##### Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in expected credit losses are recognised in the profit or loss and are accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

##### Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value, including contractual interest income or expense, recorded in the net trading income line in the profit or loss unless the instrument is part of a cash flow hedging relationship.

##### Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in profit or loss.

## 13. Financial instruments continued

### Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent, or if less than 10 per cent, the Group will perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

### Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors.

Where derecognition of financial assets is appropriate (see Derecognition), the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit-impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of 'Credit impairment' (see Credit Impairment Policy). Modification gains and losses arising for non-credit reasons are recognised either as part of "Credit impairment" or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income. The movements in the applicable expected credit loss loan positions are disclosed in further detail in Risk Review.

Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9, changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform are treated as changes to a floating interest rate to that instrument, provided that the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis. Where the instrument is measured at amortised cost or FVOCI, this results in a change in the instrument's effective interest rate, with no change in the amortised cost value of the instrument. If the change to the instrument does not meet these criteria, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised effective interest rate.

### 13. Financial instruments continued

#### Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

#### Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

#### Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

#### Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

### 13. Financial instruments continued

The Group's classification of its financial assets and liabilities is summarised in the following tables.

Assets	Notes	Assets at fair value						Assets held at amortised cost \$million	Total \$million
		Trading \$million	Derivatives held for hedging \$million	Non-trading mandatorily at fair value through profit or loss \$million	Designated at fair value through profit or loss \$million	Fair value through other comprehensive income \$million	Total financial assets at fair value \$million		
Cash and balances at central banks		-	-	-	-	-	-	66,712	66,712
<b>Financial assets held at fair value through profit or loss</b>									
Loans and advances to banks <sup>1</sup>		1,552	-	2,325	-	-	3,877	-	3,877
Loans and advances to customers <sup>1</sup>		4,169	-	5,129	79	-	9,377	-	9,377
Reverse repurchase agreements and other similar secured lending	16	-	-	63,405	-	-	63,405	-	63,405
Debt securities, alternative tier one and other eligible bills		24,919	-	425	256	-	25,600	-	25,600
Equity shares		4,223	-	305	-	-	4,528	-	4,528
		34,863	-	71,589	335	-	106,787	-	106,787
Derivative financial instruments	14	67,826	1,641	-	-	-	69,467	-	69,467
Loans and advances to banks <sup>1</sup>	15	-	-	-	-	-	-	44,347	44,347
of which – reverse repurchase agreements and other similar secured lending	16	-	-	-	-	-	-	1,247	1,247
Loans and advances to customers <sup>1</sup>	15	-	-	-	-	-	-	281,699	281,699
of which – reverse repurchase agreements and other similar secured lending	16	-	-	-	-	-	-	2,919	2,919
<b>Investment securities</b>									
Debt securities, alternative tier one and other eligible bills		-	-	-	-	133,381	133,381	19,480	152,861
Equity shares		-	-	-	-	454	454	-	454
		-	-	-	-	133,835	133,835	19,480	153,315
Other assets	20	-	-	-	-	-	-	40,978	40,978
Assets held for sale	21	-	-	-	5	-	5	83	88
<b>Total at 31 December 2020</b>		<b>102,689</b>	<b>1,641</b>	<b>71,589</b>	<b>340</b>	<b>133,835</b>	<b>310,094</b>	<b>453,299</b>	<b>763,393</b>

1 Further analysed in Risk review and Capital review (pages 185 to 283)

## 13. Financial instruments continued

Assets	Notes	Assets at fair value						Assets held at amortised cost \$million	Total \$million
		Trading \$million	Derivatives held for hedging \$million	Non-trading mandatorily at fair value through profit or loss \$million	Designated at fair value through profit or loss \$million	Fair value through other comprehensive income \$million	Total financial assets at fair value \$million		
Cash and balances at central banks		–	–	–	–	–	–	52,728	52,728
<b>Financial assets held at fair value through profit or loss</b>									
Loans and advances to banks <sup>1</sup>		198	–	3,330	–	–	3,528	–	3,528
Loans and advances to customers <sup>1</sup>		2,886	–	4,010	–	–	6,896	–	6,896
Reverse repurchase agreements and other similar secured lending	16	–	–	57,604	–	–	57,604	–	57,604
Debt securities, alternative tier one and other eligible bills		21,877	–	166	278	–	22,321	–	22,321
Equity shares <sup>2</sup>		2,208	–	261	–	–	2,469	–	2,469
		27,169	–	65,371	278	–	92,818	–	92,818
Derivative financial instruments	14	46,424	788	–	–	–	47,212	–	47,212
Loans and advances to banks <sup>1</sup>	15	–	–	–	–	–	–	53,549	53,549
of which – reverse repurchase agreements and other similar secured lending	16	–	–	–	–	–	–	1,341	1,341
Loans and advances to customers <sup>1</sup>	15	–	–	–	–	–	–	268,523	268,523
of which – reverse repurchase agreements and other similar secured lending	16	–	–	–	–	–	–	1,469	1,469
<b>Investment securities</b>									
Debt securities, alternative tier one and other eligible bills		–	–	–	–	129,471	129,471	13,969	143,440
Equity shares		–	–	–	–	291	291	–	291
		–	–	–	–	129,762	129,762	13,969	143,731
Other assets	20	–	–	–	–	–	–	36,161	36,161
Assets held for sale	21	–	–	87	243	–	330	90	420
Total at 31 December 2019		73,593	788	65,458	521	129,762	270,122	425,020	695,142

1 Further analysed in Risk review and Capital review (pages 185 to 283)

2 Prior year figures have been restated as the investments in Private Equity has been reclassified from designated at fair value to Non-Trading FVTPL category to reflect correct classification of portfolio

### 13. Financial instruments continued

	Notes	Liabilities at fair value				Amortised cost \$million	Total \$million
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Total financial liabilities at fair value \$million		
<b>Liabilities</b>							
<b>Financial liabilities held at fair value through profit or loss</b>							
Deposits by banks		-	-	1,249	1,249	-	1,249
Customer accounts		-	-	8,897	8,897	-	8,897
Repurchase agreements and other similar secured borrowing	16	-	-	48,662	48,662	-	48,662
Debt securities in issue	22	-	-	5,811	5,811	-	5,811
Short positions		3,754	-	-	3,754	-	3,754
		3,754	-	64,619	68,373	-	68,373
Derivative financial instruments	14	69,790	1,743	-	71,533	-	71,533
Deposits by banks		-	-	-	-	30,255	30,255
Customer accounts		-	-	-	-	439,339	439,339
Repurchase agreements and other similar secured borrowing	16	-	-	-	-	1,903	1,903
Debt securities in issue	22	-	-	-	-	55,550	55,550
Other liabilities	23	-	-	-	-	47,228	47,228
Subordinated liabilities and other borrowed funds	27	-	-	-	-	16,654	16,654
Total at 31 December 2020		73,544	1,743	64,619	139,906	590,929	730,835

Liabilities	Notes	Liabilities at fair value				Amortised cost \$million	Total \$million
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Total financial liabilities at fair value \$million		
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	1,081	1,081	–	1,081
Customer accounts		–	–	6,947	6,947	–	6,947
Repurchase agreements and other similar secured borrowing	16	–	–	46,283	46,283	–	46,283
Debt securities in issue	22	–	–	8,510	8,510	–	8,510
Short positions		4,153	–	–	4,153	–	4,153
		4,153	–	62,821	66,974	–	66,974
Derivative financial instruments	14	46,906	1,578	–	48,484	–	48,484
Deposits by banks		–	–	–	–	28,562	28,562
Customer accounts		–	–	–	–	405,357	405,357
Repurchase agreements and other similar secured borrowing	16	–	–	–	–	1,935	1,935
Debt securities in issue	22	–	–	–	–	53,025	53,025
Other liabilities	23	–	–	–	–	41,149	41,149
Subordinated liabilities and other borrowed funds	27	–	–	–	–	16,207	16,207
Total at 31 December 2019		51,059	1,578	62,821	115,458	546,235	661,693

## 13. Financial instruments continued

## Interest rate benchmark reform

The Group has elected to early-adopt the 'Interest Rate Benchmark Reform – Phase 2' amendments to IFRS for the year ending 31 December 2020, which apply to a financial instrument when its benchmark interest rate, such as USD LIBOR, is either replaced with an alternative risk-free rate (RFR) or the benchmark itself is reformed so that it depends on actual market transactions instead of panel bank submissions. Please refer to the accounting policy for modified financial instruments on page 331 which explains how the Group accounts for changes to a financial instrument as a result of interest rate benchmark reform.

The Group also applies the 'Interest Rate Benchmark Reform – Phase 1' amendments, and the Phase 2 reliefs contain additional reliefs for hedge accounting. These are discussed in Note 14.

As at 31 December 2020 the Group had the following notional principal exposures to interest rate benchmarks that are expected to be subject to interest rate benchmark reform. The Group has excluded financial instruments maturing before 31 December 2021 as it is assumed that these will not require reform, due to the expectation that the IBOR benchmarks the Group is exposed to will be published until at least this date.

IBOR exposures by benchmark	USD LIBOR \$million	EUR LIBOR \$million	GBP LIBOR \$million	JPY LIBOR \$million	CHF LIBOR \$million	EONIA \$million	SGD SOR \$million	THB FIX \$million	Total IBOR \$million
<b>Assets</b>									
Loans and advances to banks	1,072	–	55	–	–	–	–	–	1,127
Loans and advances to customers	34,143	727	2,861	134	44	–	2,011	33	39,953
Debt securities, AT1 and other eligible bills	3,984	170	1,409	–	–	–	365	–	5,928
	39,199	897	4,325	134	44	–	2,376	33	47,008
<b>Liabilities</b>									
Deposits by banks	399	–	–	–	–	–	–	–	399
Customer accounts	4,239	–	19	189	–	–	2	42	4,491
Repurchase agreements and other secured borrowing	1,195	–	–	–	–	–	–	–	1,195
Debt securities in issue	2,159	–	–	–	–	–	–	–	2,159
Subordinated liabilities and other borrowed funds	160	–	15	–	–	–	–	–	175
	8,152	–	34	189	–	–	2	42	8,419
<b>Derivatives – Foreign exchange contracts</b>									
Currency swaps and options	202,086	–	34,205	14,969	6,634	55	5,125	1,998	265,072
<b>Derivatives – Interest rate contracts</b>									
Swaps	839,653	73	104,763	25,328	13,402	4,850	72,849	27,013	1,087,931
Forward rate agreements and options	21,634	–	523	2,527	–	–	76	55	24,815
Exchange traded futures and options	63,239	–	1,445	–	–	–	–	–	64,684
Equity and stock index options	75	–	2	–	–	–	–	–	77
Credit derivative contracts	4,466	–	–	–	–	–	–	134	4,600
<b>Total IBOR derivative exposure</b>	1,131,153	73	140,938	48,824	20,036	4,905	78,050	29,200	1,447,179
<b>Total IBOR exposure</b>	1,178,504	970	145,297	43,147	20,080	4,905	80,428	29,275	1,502,606

Additionally, the Group had off-balance sheet exposures in respect of partially undrawn credit lines that reference an IBOR benchmark. The table below only includes the undrawn portion of existing facilities that are known to reference at least one IBOR benchmark; it does not include facilities that have yet to be drawn down and not known whether the customer may choose to borrow funds linked to an IBOR benchmark.

Off-balance sheet IBOR exposures	\$million
USD LIBOR	7,176
EUR LIBOR	88
GBP LIBOR	763
CHF LIBOR	56
SGD SOR	206
THB FIX	1
Multi-currency facilities referencing LIBOR	1,352
Total off-balance sheet IBOR exposures	9,642

'Multi-currency facilities referencing LIBOR' are facilities where the customer has a choice of two or more floating rates to draw down on and at least one of the floating rates available is a LIBOR benchmark.

### 13. Financial instruments continued

#### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In practice, for credit mitigation, the Group is able to offset assets and liabilities which do not meet the IAS 32 netting criteria set out below. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other predetermined events.

In addition, the Group also receives and pledges readily realisable collateral for derivative transactions to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sells) and obtains (legally purchases) respectively, highly liquid assets which can be sold in the event of a default.

The following tables set out the impact of netting on the balance sheet. This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

	2020					
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet		Net amount \$million
				Financial instruments \$million	Financial collateral \$million	
<b>Assets</b>						
Derivative financial instruments	111,979	(42,512)	69,467	(47,097)	(10,136)	12,234
Reverse repurchase agreements and other similar secured lending	75,490	(7,919)	67,571	–	(67,571)	–
At 31 December 2020	187,469	(50,431)	137,038	(47,097)	(77,707)	12,234
<b>Liabilities</b>						
Derivative financial instruments	114,045	(42,512)	71,533	(47,097)	(11,757)	12,679
Repurchase agreements and other similar secured borrowing	58,484	(7,919)	50,565	–	(50,565)	–
At 31 December 2020	172,529	(50,431)	122,098	(47,097)	(62,322)	12,679

	2019					
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet		Net amount \$million
				Financial instruments \$million	Financial collateral \$million	
<b>Assets</b>						
Derivative financial instruments	63,854	(16,642)	47,212	(28,659)	(7,824)	10,729
Reverse repurchase agreements and other similar secured lending	63,535	(3,121)	60,414	–	(60,414)	–
At 31 December 2019	127,389	(19,763)	107,626	(28,659)	(68,238)	10,729
<b>Liabilities</b>						
Derivative financial instruments	65,126	(16,642)	48,484	(28,659)	(9,169)	10,656
Repurchase agreements and other similar secured borrowing	51,339	(3,121)	48,218	–	(48,218)	–
At 31 December 2019	116,465	(19,763)	96,702	(28,659)	(57,387)	10,656

Related amounts not offset in the balance sheet comprises:

- Financial instruments not offset in the balance sheet but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over-collateralisation
- Financial instruments where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain
- Financial collateral comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over-collateralisation

### 13. Financial instruments continued

Financial liabilities designated at fair value through profit or loss

	2020 \$million	2019 \$million
Carrying balance aggregate fair value	64,619	62,821
Amount contractually obliged to repay at maturity	64,405	62,505
Difference between aggregate fair value and contractually obliged to repay at maturity	214	316
Cumulative change in fair value accredited to credit risk difference	(43)	17

During 2020, the Group enhanced its valuation methodology for financial liabilities designated at fair value through profit or loss. The financial impact of the revision in methodology is a loss of \$56 million in net trading income and a loss in other comprehensive income of \$78 million. These impacts are treated as a change in accounting estimate.

The net fair value loss on financial liabilities designated at fair value through profit or loss was \$247 million for the year (31 December 2019: net loss of \$1,602 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this Note.

#### Valuation of financial instruments

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison with instruments that have characteristics similar to those of the instruments held by the Group.

The Valuation Control function is responsible for independent price verification, oversight of fair value and appropriate value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

The Valuation and Benchmarks Committee (VBC) is the valuation governance forum consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business, which meets monthly to discuss and approve the independent valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations.

#### Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments is determined using valuation techniques and estimates (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group estimates valuation adjustments in determining the fair value (page 339)
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments (page 341)
- Where the estimated measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

## 13. Financial instruments continued

### Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 341)

#### • Financial instruments held at fair value

- **Debt securities – asset-backed securities:** Asset-backed securities are valued based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third-party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings
- **Debt securities in issue:** These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets
- **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed
- **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternative valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, Over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- **Loans and advances:** These primarily include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets and loans and advances including reverse repurchase agreements that do not have SPPI cash flows or are managed on a fair value basis. These loans are generally bilateral in nature and, where available, their valuation is based on observable clean sales transactions prices or market observable spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
- **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets

### 13. Financial instruments continued

#### • Financial instruments held at amortised cost

The following sets out the Group's basis for establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

- **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
- **Debt securities in issue, subordinated liabilities and other borrowed funds:** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity
- **Deposits and borrowings:** The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar Credit Risk and remaining maturity
- **Investment securities:** For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using input proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or input proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset-backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar Credit Risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and Credit Risk. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical
- **Other assets:** Other assets comprise primarily of cash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short-term in nature or re-price to current market rates frequently

#### Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

	01.01.2020 \$million	Movement during the year \$million	31.12.20 \$million	01.01.2019 \$million	Movement during the year \$million	31.12.19 \$million
Bid-offer valuation adjustment	79	24	103	67	12	79
Credit valuation adjustment	136	53	189	196	(60)	136
Debit valuation adjustment	(43)	(12)	(55)	(143)	100	(43)
Model valuation adjustment	7	(2)	5	6	1	7
Funding valuation adjustment	26	(21)	5	60	(34)	26
Other fair value adjustments	45	(13)	32	59	(14)	45
<b>Total</b>	<b>250</b>	<b>29</b>	<b>279</b>	<b>245</b>	<b>5</b>	<b>250</b>
Income deferrals						
Day 1 and other deferrals	103	35	138	100	3	103
<b>Total</b>	<b>103</b>	<b>35</b>	<b>138</b>	<b>100</b>	<b>3</b>	<b>103</b>

Note: Bracket represents an asset and credit to the income statement

- **Bid-offer valuation adjustment:** Generally, market parameters are marked on a mid-market basis in the revaluation systems, and a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems

### 13. Financial instruments continued

- **Credit valuation adjustment (CVA):** The Group accounts for CVA against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by using estimates of future positive exposure, market-implied probability of default (PD) and recovery rates. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, and the Group has implemented a model to capture this impact for key wrong-way exposures. The Group also captures the uncertainties associated with wrong-way risk in the Group's Prudential Valuation Adjustments framework
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on bond and CDS spreads associated with the Group's issuances and market standard recovery levels. The expected exposure is modelled based on the simulation of the underlying risk factors over the expected life of the deal. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs or benefits that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Other fair value adjustments:** The Group calculates the fair value on the interest rate callable products by calibrating to a set of market prices with differing maturity, expiry and strike of the trades
- **Day one and other deferrals:** In certain circumstances the initial fair value may be based on a valuation technique which differs to the transaction price at the time of initial recognition. However, gains can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated. Other deferrals primarily represent adjustments taken to reflect the specific terms and conditions of certain derivative contracts which affect the termination value at the measurement date

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. Own issued note liabilities are discounted utilising spreads as at the measurement date. These spreads consist of a market level of funding component and an idiosyncratic own credit component. Under IFRS 9 the change in the own credit component (OCA) is reported under other comprehensive income. The Group's OCA reserve will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA reserve will reverse over time as its liabilities mature. The OCA at 31 December 2020 is a loss of \$43 million (31 December 2019: \$17 million gain).

#### Fair value hierarchy – financial instruments held at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- **Level 3:** Fair value measurements are those where inputs which could have a significant effect on the instrument's valuation are not based on observable market data

### 13. Financial instruments continued

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
<b>Financial instruments held at fair value through profit or loss</b>				
Loans and advances to banks	–	3,677	200	3,877
Loans and advances to customers	–	8,659	718	9,377
Reverse repurchase agreements and other similar secured lending	–	62,341	1,064	63,405
Debt securities and other eligible bills	9,453	15,889	258	25,600
Of which:				
Government bonds and treasury bills	8,904	7,929	–	16,833
Issued by corporates other than financial institutions <sup>1</sup>	49	3,880	256	4,185
Issued by financial institutions <sup>1</sup>	500	4,080	2	4,582
Equity shares	3,657	592	279	4,528
Derivative financial instruments	473	68,986	8	69,467
Of which:				
Foreign exchange	111	54,533	3	54,647
Interest rate	36	11,788	2	11,826
Credit	–	1,700	2	1,702
Equity and stock index options	–	109	1	110
Commodity	326	856	–	1,182
<b>Investment securities</b>				
Debt securities and other eligible bills	68,280	65,061	40	133,381
Of which:				
Government bonds and treasury bills	52,771	27,171	40	79,982
Issued by corporates other than financial institutions <sup>1</sup>	6,229	9,498	–	15,727
Issued by financial institutions <sup>1</sup>	9,280	28,392	–	37,672
Equity shares	68	5	381	454
Total financial instruments at 31 December 2020 <sup>2</sup>	81,931	225,210	2,948	310,089
<b>Liabilities</b>				
<b>Financial instruments held at fair value through profit or loss</b>				
Deposits by banks	–	1,103	146	1,249
Customer accounts	–	8,876	21	8,897
Repurchase agreements and other similar secured borrowing	–	48,662	–	48,662
Debt securities in issue	–	5,651	160	5,811
Short positions	2,573	1,181	–	3,754
Derivative financial instruments	413	71,001	119	71,533
Of which:				
Foreign exchange	115	56,968	2	57,085
Interest rate	11	10,387	26	10,424
Credit	–	2,904	86	2,990
Equity and stock index options	–	255	5	260
Commodity	287	487	–	774
Total financial instruments at 31 December 2020 <sup>2</sup>	2,986	136,474	446	139,906

1 Includes covered bonds of \$7,216 million, securities issued by Multilateral Development Banks/International Organisations of \$10,870 million and State-owned agencies and development banks of \$15,606 million

2 The above table does not include held for sale assets of \$5 million and liabilities of \$nil. These are reported in Note 21 together with their fair value hierarchy

There were no significant changes to valuation or levelling approaches in 2020.

There were no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

### 13. Financial instruments continued

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
<b>Financial instruments held at fair value through profit or loss</b>				
Loans and advances to banks	–	3,163	365	3,528
Loans and advances to customers	–	6,453	443	6,896
Reverse repurchase agreements and other similar secured lending	–	57,604	–	57,604
Debt securities and other eligible bills	5,963	16,158	200	22,321
Of which:				
Government bonds and treasury bills	5,656	7,898	–	13,554
Issued by corporates other than financial institutions <sup>1</sup>	7	5,090	200	5,297
Issued by financial institutions <sup>1</sup>	300	3,170	–	3,470
Equity shares	2,241	–	228	2,469
Derivative financial instruments	466	46,729	17	47,212
Of which:				
Foreign exchange	69	25,929	8	26,006
Interest rate	28	19,342	4	19,374
Credit	–	1,231	1	1,232
Equity and stock index options	–	23	4	27
Commodity	369	204	–	573
<b>Investment securities</b>				
Debt securities and other eligible bills	73,699	55,734	38	129,471
Of which:				
Government bonds and treasury bills	54,637	19,664	33	74,334
Issued by corporates other than financial institutions <sup>1</sup>	11,667	14,505	5	26,177
Issued by financial institutions <sup>1</sup>	7,395	21,565	–	28,960
Equity shares	30	4	257	291
Total financial instruments at 31 December 2019 <sup>2</sup>	82,399	185,845	1,548	269,792
<b>Liabilities</b>				
<b>Financial instruments held at fair value through profit or loss</b>				
Deposits by banks	–	1,025	56	1,081
Customer accounts	–	6,907	40	6,947
Repurchase agreements and other similar secured borrowing	–	46,283	–	46,283
Debt securities in issue	–	8,100	410	8,510
Short positions	2,499	1,654	–	4,153
Derivative financial instruments	515	47,912	57	48,484
Of which:				
Foreign exchange	97	26,824	5	26,926
Interest rate	31	18,891	9	18,931
Credit	–	1,892	23	1,915
Equity and stock index options	–	76	20	96
Commodity	387	229	–	616
Total financial instruments at 31 December 2019 <sup>2</sup>	3,014	111,881	563	115,458

1 Includes covered bonds of \$6,137 million (represented from \$3,499 million), securities issued by Multilateral Development Banks/International Organisations of \$11,894 million and State-owned agencies and development banks of \$17,936 million

2 The above table does not include held for sale assets of \$330 million and liabilities of \$nil. These are reported in Note 21 together with their fair value hierarchy

### 13. Financial instruments continued

#### Fair value hierarchy – financial instruments measured at amortised cost

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

	Carrying value \$million	Fair value			
		Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
<b>Assets</b>					
Cash and balances at central banks <sup>1</sup>	66,712	–	66,712	–	66,712
Loans and advances to banks	44,347	–	44,275	4	44,279
of which – reverse repurchase agreements and other similar secured lending	1,247	–	1,265	–	1,265
Loans and advances to customers	281,699	–	29,145	251,991	281,136
of which – reverse repurchase agreements and other similar secured lending	2,919	–	2,922	–	2,922
Investment securities <sup>2</sup>	19,480	–	20,349	7	20,356
Other assets <sup>1</sup>	40,978	–	40,978	–	40,978
Assets held for sale	83	–	25	58	83
At 31 December 2020	453,299	–	201,484	252,060	453,544
<b>Liabilities</b>					
Deposits by banks	30,255	–	30,288	–	30,288
Customer accounts	439,339	–	439,407	–	439,407
Repurchase agreements and other similar secured borrowing	1,903	–	1,903	–	1,903
Debt securities in issue	55,550	25,638	30,441	–	56,079
Subordinated liabilities and other borrowed funds	16,654	16,993	607	–	17,600
Other liabilities <sup>1</sup>	47,228	–	47,228	–	47,228
At 31 December 2020	590,929	42,631	549,874	–	592,505

		Fair value			
	Carrying value \$million	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
<b>Assets</b>					
Cash and balances at central banks <sup>1</sup>	52,728	–	52,728	–	52,728
Loans and advances to banks	53,549	–	53,431	–	53,431
of which – reverse repurchase agreements and other similar secured lending	1,341	–	1,356	–	1,356
Loans and advances to customers	268,523	–	22,829	246,632	269,461
of which – reverse repurchase agreements and other similar secured lending	1,469	–	1,341	130	1,471
Investment securities <sup>2</sup>	13,969	–	14,238 <sup>3</sup>	20	14,261
Other assets <sup>1</sup>	36,161	–	36,161	–	36,161
Assets held for sale	90	–	70	20	90
At 31 December 2019	425,020	–	179,457	246,672	426,132
<b>Liabilities</b>					
Deposits by banks	28,562	–	28,577	–	28,577
Customer accounts	405,357	–	405,361	–	405,361
Repurchase agreements and other similar secured borrowing	1,935	–	1,935	–	1,935
Debt securities in issue	53,025	20,031	33,269	–	53,300
Subordinated liabilities and other borrowed funds	16,207	15,986	803	–	16,789
Other liabilities <sup>1</sup>	41,149	–	41,149	–	41,149
At 31 December 2019	546,235	36,017	511,094	–	547,111

1 The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently

2 Includes Government bonds and Treasury bills of \$ 7,371 million at 31 December 2020 and \$5,973 million at 31 December 2019

3 Fair value of investment securities restated from \$13,107 million to \$14,238 million as a result of an observable price in the market now being used

### 13. Financial instruments continued

#### Loans and advances to customers by client segment<sup>1</sup>

	2020					
	Carrying value			Fair value		
	Stage 3 \$million	Stage 1 and stage 2 \$million	Total \$million	Stage 3 \$million	Stage 1 and stage 2 \$million	Total \$million
Corporate & Institutional Banking	2,441	106,513	108,954	2,487	106,316	108,803
Retail Banking	604	114,941	115,545	610	114,737	115,347
Commercial Banking	601	23,902	24,503	622	23,645	24,267
Private Banking	227	13,321	13,548	228	13,342	13,570
Central & other items	–	19,149	19,149	–	19,149	19,149
At 31 December 2020	3,873	277,826	281,699	3,947	277,189	281,136

	2019 (Restated)					
	Carrying value			Fair value		
	Stage 3 \$million	Stage 1 and stage 2 <sup>2</sup> \$million	Total \$million	Stage 3 \$million	Stage 1 and stage 2 \$million	Total \$million
Corporate & Institutional Banking	1,193	107,459	108,652	1,244	109,996	111,240
Retail Banking	472	106,466	106,938	482	106,939	107,421
Commercial Banking	510	27,584	28,094	541	25,463	26,004
Private Banking	219	14,522	14,741	219	14,471	14,690
Central & other items	–	10,098	10,098	–	10,106	10,106
At 31 December 2019	2,394	266,129	268,523	2,486	266,975	269,461

1 Loans and advances includes reverse repurchase agreements and other similar secured lending: carrying value \$2,919 million and fair value \$2,922 million (31 December 2019: \$1,469 million and \$1,471 million respectively)

2 Corporate & Institutional Banking, Commercial Banking and Retail Banking carrying value numbers have been restated to reflect client transfers between the segments. The changes are in stage 1 and stage 2 only

### 13. Financial instruments continued

#### Fair value of financial instruments

##### Level 3 Summary and significant unobservable inputs

The following table presents the Group's primary Level 3 financial instruments which are held at fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs:

Instrument	Value as at 31 December 2020		Principal valuation technique	Significant unobservable inputs	Range <sup>1</sup>	Weighted average <sup>2</sup>
	Assets \$million	Liabilities \$million				
Loans and advances to Banks	200	–	Discounted cash flows	Price/yield	12.7%–12.9%	12.8%
Loans and advances to customers	718	–	Discounted cash flows	Price/yield	0.9% – 11.5%	4.6%
				Recovery rates	34.2% – 100%	83.4%
Reverse repurchase agreements and other similar secured lending	1,064	–	Discounted cash flows	Repo curve	1.0%–3.2%	2.8%
Debt securities, alternative tier one and other eligible securities	171	–	Discounted cash flows	Price/yield	4.7%–11.5%	10.5%
Government bonds and treasury bills	40	–	Discounted cash flows	Price/yield	2.8% – 5.5%	3.6%
Asset-backed securities	87	–	Discounted cash flows	Price/yield	8.3%–12.0%	11.7%
				Recovery rates	55.0%	55.0%
Equity shares (includes private equity investments)	660	–	Comparable pricing/ yield	EV/EBITDA multiples	3.3x – 14.2x	8.7x
				P/E multiples	N/A	N/A
				P/B multiples	0.5x – 2.0x	0.7x
				P/S multiples	N/A	N/A
				Liquidity discount	20.0%	20.0%
			Discounted cash flows	Discount rates	6.0% – 15.0%	9.1%
			Option pricing model	Equity value based on EV/Revenue multiples	13.5x – 130.9x	114.9x
Derivative financial instruments of which:						
Foreign exchange	3	2	Option pricing model	Foreign exchange option implied volatility	N/A	N/A
			Discounted cash flows	Foreign exchange curves	2.7%–5.6%	4.1%
Interest rate	2	26	Discounted cash flows	Interest rate curves	(5.2)%–18.6%	10.0%
			Option pricing model	Bond option implied volatility	20.0%–30.0%	24.2%
Credit	2	86	Discounted cash flows	Credit spreads	2.0%	2.0%
				Price/yield	0.9%–12.0%	11.2%
Equity and stock index	1	5	Internal pricing model	Equity correlation	20.0% – 90.0%	49.0%
				Equity-FX correlation	(70.0)% – 80.0%	(59.0)%
Deposits by banks	–	146	Discounted cash flows	Credit spreads	1.0% – 1.4%	1.1%
				Bond option implied volatility	N/A	N/A
Customer accounts	–	21	Discounted cash flows	Credit spreads	1.0%	1.0%
				Interest rate curves	(0.4)% – 7.7%	3.9%
				Recovery rates	55.0%	55.0%
Debt securities in issue	–	160	Discounted cash flows	Credit spreads	0.1% – 11.5%	2.3%
			Internal pricing model	Equity correlation	20.0% – 90.0%	49.0%
				Equity-FX correlation	(70.0)% – 80.0%	(59.0)%
Total	2,948	446				

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 2020. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

### 13. Financial instruments continued

#### Level 3 Summary and significant unobservable inputs continued

Instrument	Value as at 31 December 2019		Principal valuation technique	Significant unobservable inputs	Range <sup>1</sup>	Weighted average <sup>2</sup>
	Assets \$million	Liabilities \$million				
Loans and advances to Banks	365	–	Discounted cash flows	Price/yield	1.0%–15.6%	10.8%
Loans and advances to customers	443	–	Discounted cash flows	Price/yield	0.5% – 6.9%	4.2%
				Recovery rates	18.9% – 100%	92.1%
Debt securities, alternative tier one and other eligible securities	184	–	Discounted cash flows	Price/yield	3.8% – 18.7%	11.6%
Government bonds and treasury bills	33	–	Discounted cash flows	Price/yield	2.9% – 5.5%	3.7%
Asset-backed securities	21	–	Discounted cash flows	Price/yield	1.4% – 3.2%	2.7%
Equity shares (includes private equity investments) <sup>3</sup>	485	–	Comparable pricing/ yield	EV/EBITDA multiples	3.5x – 7.3x	4.6x
				P/E multiples	17.4x	17.4x
				P/B multiples	0.6x – 1.0x	0.9x
				P/S multiples	N/A	N/A
				Liquidity discount	10.0% – 20.0%	15.9%
			Discounted cash flows	Discount rates	8.4% – 16.2%	9.5%
Derivative financial instruments of which:						
Foreign exchange	8	5	Option pricing model	Foreign exchange option implied volatility	4.4% – 18.9%	16.7%
			Discounted cash flows	Foreign exchange curves	7.8% – 8.0%	7.9%
Interest rate	4	9	Discounted cash flows	Interest rate curves	5.3% – 19.6%	8.6%
			Option pricing model	Bond option implied volatility	17.0% – 28.0%	24.0%
Credit	1	23	Discounted cash flows	Credit spreads	1.0% – 7.9%	1.1%
Equity and stock index	4	20	Internal pricing model	Equity correlation	1.0% – 90.0%	58.0%
				Equity-FX correlation	(80.0)% – 70.0%	(29.0)%
Deposits by banks	–	56	Discounted cash flows	Credit spreads	1.0% – 1.8%	1.4%
Customer accounts	–	40	Discounted cash flows	Credit spreads	1.0% – 5.8%	2.7%
Debt securities in issue	–	410	Discounted cash flows	Credit spreads	0.1% – 1.4%	0.9%
			Internal pricing model	Equity correlation	1.0% – 90.0%	58.0%
				Equity-FX correlation	(80.0)% – 70.0%	(29.0)%
Total	1,548	563				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 31 December 2019. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value based on the shares' initial offering price

## 13. Financial instruments continued

### Level 3 Summary and significant unobservable inputs continued

The following section describes the significant unobservable inputs identified in the valuation technique table:

- **Comparable price/yield** is a valuation methodology in which the price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset
- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the Credit Risk of an instrument
- **Discount rate** refers to the rate of return used to convert expected cash flows into present value
- **Equity-FX correlation** is the correlation between equity instrument and foreign exchange instrument
- **EV/EBITDA ratio multiples** is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Foreign exchange curves** is the term structure for forward rates and swap rates between currency pairs over a specified period
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point in time
- **Liquidity discounts in the valuation of unlisted investments** primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples** is the ratio of the Market Capitalisation to the net income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple** is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple** is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **Recovery rates** are the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be

### 13. Financial instruments continued

#### Level 3 movement tables – financial assets

The table below analyses movements in Level 3 financial assets carried at fair value.

Assets	Held at fair value through profit or loss					Investment securities			
	Loans and advances to banks \$million	Loans and advances to customers \$million	Reverse repurchase agreements and other similar secured lending \$million	Debt securities, alternative tier one and other eligible bills \$million	Equity shares \$million	Derivative financial instruments \$million	Debt securities, alternative tier one and other eligible bills \$million	Equity shares \$million	Total \$million
At 1 January 2020	365	443	–	200	228	17	38	257	1,548
Total gains/(losses) recognised in income statement	16	(15)	1	(20)	(54)	(6)	–	–	(78)
Net trading income	16	(15)	1	(18)	(54)	(6)	–	–	(76)
Other operating income	–	–	–	(2)	–	–	–	–	(2)
Total gains recognised in other comprehensive income (OCI)	–	–	–	–	–	–	6	22	28
Fair value through OCI reserve	–	–	–	–	–	–	7	19	26
Exchange difference	–	–	–	–	–	–	(1)	3	2
Purchases	321	540	1,165	203	7	115	36	109	2,496
Sales	(164)	(28)	(102)	(237)	(37)	(70)	–	(4)	(642)
Settlements	(416)	(567)	–	(68)	–	(7)	–	–	(1,058)
Transfers out <sup>1</sup>	–	(174)	–	(37)	(1)	(41)	(40)	(3)	(296)
Transfers in <sup>2</sup>	78	519	–	217	136	–	–	–	950
At 31 December 2020	200	718	1,064	258	279	8	40	381	2,948
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2020	–	(6)	–	4	(3)	–	–	–	(5)

1 Transfers out includes loans and advances, derivative financial instruments, debt securities, alternative tier one and other eligible bills and equity shares where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2. Transfers in of \$62 million further relates to Equity Shares moved from Held for Sale

2 Transfers in primarily relate to loans and advances, debt securities, alternative tier one and other eligible bills, and equity shares where the valuation parameters become unobservable during the year

## 13. Financial instruments continued

## Level 3 movement tables – financial assets continued

The table below analyses movements in Level 3 financial assets carried at fair value.

Assets	Held at fair value through profit or loss					Investment securities			Total \$million
	Loans and advances to banks \$million	Loans and advances to customers \$million	Reverse repurchase agreements and other similar secured lending \$million	Debt securities, alternative tier one and other eligible bills \$million	Equity shares \$million	Derivative financial instruments \$million	Debt securities, alternative tier one and other eligible bills \$million	Equity shares \$million	
At 1 January 2019	632	492	–	317	327	12	412	230	2,422
Total (losses)/gains recognised in income statement	(25)	(31)	–	(14)	(26)	(15)	2	–	(109)
Net trading income	(25)	(31)	–	(14)	(26)	(15)	–	–	(111)
Other operating income	–	–	–	–	–	–	2	–	2
Total (losses)/gains recognised in other comprehensive income (OCI)	–	–	–	–	–	–	(341)	5	(336)
Fair value through OCI reserve	–	–	–	–	–	–	(4)	12	8
Exchange difference	–	–	–	–	–	–	(337)	(7)	(344)
Purchases	826	133	–	106	139	109	156	26	1,495
Sales	–	(8)	–	(248)	(153)	(26)	(1)	(7)	(443)
Settlements	(1,068)	(253)	–	(3)	–	(5)	(34)	–	(1,363)
Transfers out <sup>1</sup>	–	(6)	–	(86)	(134)	(75)	(161)	–	(462)
Transfers in <sup>2</sup>	–	116	–	128	75	17	5	3	344
At 31 December 2019	365	443	–	200	228	17	38	257	1,548
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2019	–	–	–	(1)	–	(1)	–	–	(2)

1 Transfers out includes debt securities, alternative tier one and other eligible bills, equity shares, derivative financial instruments and loans and advances where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2. Transfers out further relates to \$74 million equity shares held for sale

2 Transfers in primarily relate to debt securities, alternative tier one and other eligible bills, loans and advances, equity shares and derivative financial instruments where the valuation parameters become unobservable during the year

### 13. Financial instruments continued

#### Level 3 movement tables – financial liabilities

	2020				
	Deposits by banks \$million	Customer accounts \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
At 1 January 2020	56	40	410	57	563
Total losses/(gains) recognised in income statement – net trading income	7	(1)	(10)	12	8
Issues	136	90	557	201	984
Settlements	(53)	(116)	(575)	(118)	(862)
Transfers out <sup>1</sup>	–	–	(223)	(53)	(276)
Transfers in <sup>2</sup>	–	8	1	20	29
At 31 December 2020	146	21	160	119	446
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2020	–	1	–	1	2

	2019				
	Deposits by banks \$million	Customer accounts \$million	Debt securities in issue \$million	Derivative financial instruments <sup>3</sup> \$million	Total \$million
At 1 January 2019	4	–	439	65	508
Total(gains)/losses recognised in income statement – net trading income	(1)	(2)	22	54	73
Issues	53	41	592	436	1,122
Settlements	–	–	(522)	(642)	(1,164)
Transfers out <sup>1</sup>	–	–	(121)	(13)	(134)
Transfers in <sup>2</sup>	–	1	–	157	158
At 31 December 2019	56	40	410	57	563
Total unrealised (gains)/losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2019	–	(2)	16	2	16

- 1 Transfers out during the year primarily relate to debt securities in issue and derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities
- 2 Transfers in during the year primarily relate to derivative financial instruments, customer accounts and debt securities in issue where the valuation parameters become unobservable during the year
- 3 Prior period movements have been restated on account of restatement done during 2019 due to change in observability parameters

### 13. Financial instruments continued

#### Sensitivities in respect of the fair values of Level 3 assets and liabilities

Sensitivity analysis is performed on products with significant unobservable inputs. The Group applies a 10 per cent increase or decrease on the values of these unobservable inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analysis performed on a set of reference prices based on the composition of the Group's Level 3 inventory as the measurement date. Favourable and unfavourable changes (which show the balance adjusted for input change) are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. The Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Fair value through other comprehensive income		
	Net exposure \$million	Favourable changes \$million	Unfavourable changes \$million	Net exposure \$million	Favourable changes \$million	Unfavourable changes \$million
<b>Financial instruments held at fair value</b>						
Loans and advances	918	947	867	-	-	-
Reverse repurchase agreements and other similar secured lending	1,064	1,089	1,040	-	-	-
Asset-backed securities	87	94	80	-	-	-
Debt securities, alternative tier one and other eligible bills	171	183	159	40	40	39
Equity shares	279	307	251	381	418	345
Derivative financial instruments	(111)	(98)	(126)	-	-	-
Customer accounts	(21)	(18)	(24)	-	-	-
Deposits by banks	(146)	(146)	(146)	-	-	-
Debt securities in issue	(160)	(154)	(167)	-	-	-
At 31 December 2020	2,081	2,204	1,934	421	458	384

#### Financial instruments held at fair value

Loans and advances	808	820	787	-	-	-
Asset-backed securities	21	21	21	-	-	-
Debt securities, alternative tier one and other eligible bills	179	189	170	38	38	38
Equity shares	228	255	201	257	283	231
Derivative financial instruments	(40)	(34)	(46)	-	-	-
Customer accounts	(40)	(40)	(40)	-	-	-
Deposits by banks	(56)	(56)	(56)	-	-	-
Debt securities in issue	(410)	(379)	(441)	-	-	-
At 31 December 2019	690	776	596	295	321	269

The reasonably possible alternatives could have increased or decreased the fair values of financial instruments held at fair value through profit or loss and those classified as fair value through other comprehensive income by the amounts disclosed below.

Financial instruments	Fair value changes	2020 \$million	2019 \$million
Held at fair value through profit or loss	Possible increase	123	86
	Possible decrease	(147)	(94)
Fair value through other comprehensive income	Possible increase	37	26
	Possible decrease	(37)	(26)

## 14. Derivative financial instruments

### Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivatives are initially recognised and subsequently measured at fair value, with revaluation gains recognised in profit or loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### Hedge accounting

Under certain conditions, the Group may designate a recognised asset or liability, a firm commitment, highly probable forecast transaction or net investment of a foreign operation into a formal hedge accounting relationship with a derivative that has been entered to manage interest rate and/or foreign exchange risks present in the hedged item. The Group continues to apply the 'Phase 1' hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement and has early adopted the 'Phase 2' amendments to IFRS in respect of interest rate benchmark reform. There are three categories of hedge relationships:

- Fair value hedge: to manage the fair value of interest rate and/or foreign currency risks of recognised assets or liabilities or firm commitments
- Cash flow hedge: to manage interest rate or foreign exchange risk of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction
- Net investment hedge: to manage the structural foreign exchange risk of an investment in a foreign operation

The Group formally documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This is described in more detail in the categories of hedges below.

The Group assesses, both at hedge inception and on a quarterly basis, whether the derivatives designated in hedge relationships are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedges are considered to be highly effective if all the following criteria are met:

- At inception of the hedge and throughout its life, the hedge is prospectively expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk
- Actual results of the hedge are within a range of 80–125%. This is tested using regression analysis
- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 80%
- In the case of the hedge of a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that are expected to affect reported profit or loss. The Group assumes that any interest rate benchmarks on which hedged item cash flows are based are not altered by IBOR reform

The Group discontinues hedge accounting in any of the following circumstances:

- The hedging instrument is not, or has ceased to be, highly effective as a hedge
- The hedging instrument has expired, is sold, terminated or exercised
- The hedged item matures, is sold or repaid
- The forecast transaction is no longer deemed highly probable
- The Group elects to discontinue hedge accounting voluntarily

For interest rate benchmarks deemed in scope of IBOR reform, if the actual result of a hedge is outside the 80–125% range, but the hedge passes the prospective assessment, then the Group will not de-designate the hedge relationship.

Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9 and IAS 39, the Group may change hedge designations and corresponding documentation without the hedge being discontinued where there is a change in interest rate benchmark of the hedged item, hedging instrument or designated hedged risk. Permitted changes include the right to:

- Redefine the description of the hedged item and/or hedging instrument
- Redefine the hedged risk to reference an alternative risk-free rate
- Change the method for assessing hedge effectiveness due to modifications required by IBOR reform
- Elect, on a hedge-by-hedge basis, to reset the cumulative fair value changes in the assessment of retrospective hedge effectiveness to zero

A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform.

## 14. Derivative financial instruments continued

**Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in net trading income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the remaining term to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement. For financial assets classified as fair value through other comprehensive income, the hedge accounting adjustment attributable to the hedged risk is included in net trading income to match the hedging derivative.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are initially recognised in other comprehensive income, accumulating in the cash flow hedge reserve within equity. These amounts are subsequently recycled to the income statement in the periods when the hedged item affects profit or loss. Both the derivative fair value movement and any recycled amount are recorded in the 'Cashflow hedges' line item in other comprehensive income.

The Group assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the net trading income immediately.

If a cash flow hedge is discontinued, the amount accumulated in the cash flow hedge reserve is released to the income statement as and when the hedged item affects the income statement.

For interest rate benchmarks deemed in scope of IBOR reform, the Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges even though there is uncertainty arising from these reforms with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than IBOR reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

**Net investment hedge**

Hedges of net investments are accounted for in a similar manner to cash flow hedges, with gains and losses arising on the effective portion of the hedges recorded in the line 'Exchange differences on translation of foreign operations' in other comprehensive income, accumulating in the translation reserve within equity. These amounts remain in equity until the net investment is disposed of. The ineffective portion of the hedges is recognised in the net trading income immediately.

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. Notional principal amounts are the amounts of principal underlying the contract at the reporting date.

**Derivatives**

	2020			2019		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Foreign exchange derivative contracts:</b>						
Forward foreign exchange contracts	3,018,866	37,505	39,181	2,290,781	16,281	16,396
Currency swaps and options	1,423,520	17,142	17,904	806,226	9,725	10,530
Exchange traded futures and options	–	–	–	–	–	–
	4,442,386	54,647	57,085	3,097,007	26,006	26,926
<b>Interest rate derivative contracts:</b>						
Swaps	3,165,532	52,755	50,982	4,046,209	34,011	33,351
Forward rate agreements and options	606,357	1,350	1,770	284,973	1,826	2,061
Exchange traded futures and options	261,372	233	184	359,031	179	161
	4,033,261	54,338	52,936	4,690,213	36,016	35,573
Credit derivative contracts	140,437	1,702	2,990	80,972	1,232	1,915
Equity and stock index options	6,018	110	260	3,412	27	96
Commodity derivative contracts	67,664	1,182	774	79,458	573	616
Gross total derivatives	8,689,766	111,979	114,045	7,951,062	63,854	65,126
Offset	–	(42,512)	(42,512)	–	(16,642)	(16,642)
Total derivatives	8,689,766	69,467	71,533	7,951,062	47,212	48,484

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business.

## 14. Derivative financial instruments continued

The Group applies balance sheet offsetting only in the instance where we are able to demonstrate legal enforceability of the right to offset (e.g. via legal opinion) and the ability and intention to settle on a net basis (e.g. via operational practice).

The Group has met the criteria to offset the derivative asset and liability balances and related variation margin for trades cleared on behalf of clients with LCH SwapClear. This applies to both trades between the Group and the clients and between the Group and LCH SwapClear. The impact of this as at 31 December 2020 is a decrease in the derivative assets and derivative liabilities of \$15.4 billion. Prior periods have not been restated as the effect would not be material. The impact at 31 December 2019 would have been a decrease in the derivative assets and derivative liabilities of \$8.7 billion.

The Group has also met the criteria to derecognise initial margin for trades cleared on behalf of clients with LCH SwapClear. The impact of this as at 31 December 2020 is a decrease in other assets and other liabilities of \$1.4 billion. Prior periods have not been restated as the effect would not be material. The impact at 31 December 2019 would have been a decrease in other assets and other liabilities of \$3.2 billion.

The Group may enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, including derivative such as interest rate swaps, interest rate futures and cross currency swaps to manage interest rate and currency risks of the Group. These derivatives are measured at fair value, with fair value changes recognised in net trading income: refer to Market risk (page 234).

The Derivatives and Hedging sections of the Risk review and Capital review (page 215) explain the Group's risk management of derivative contracts and application of hedging.

### Derivatives held for hedging

The Group enters into derivative contracts for the purpose of hedging interest rate, currency and structural foreign exchange risks inherent in assets, liabilities and forecast transactions. The table below summarises the notional principal amounts and carrying values of derivatives designated in hedge accounting relationships at the reporting date.

	2020			2019		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Derivatives designated as fair value hedges:</b>						
Interest rate swaps	70,846	1,500	712	69,121	617	589
Currency swaps	4,136	25	179	8,405	47	774
	<b>74,982</b>	<b>1,525</b>	<b>891</b>	<b>77,526</b>	<b>664</b>	<b>1,363</b>
<b>Derivatives designated as cash flow hedges:</b>						
Interest rate swaps	9,347	83	129	9,277	53	74
Forward foreign exchange contracts	164	21	–	289	6	20
Currency swaps	9,935	12	340	5,254	34	51
	<b>19,446</b>	<b>116</b>	<b>469</b>	<b>14,820</b>	<b>93</b>	<b>145</b>
<b>Derivatives designated as net investment hedges:</b>						
Forward foreign exchange contracts	5,376	–	383	5,103	31	70
Total derivatives held for hedging	<b>99,804</b>	<b>1,641</b>	<b>1,743</b>	<b>97,449</b>	<b>788</b>	<b>1,578</b>

### Fair value hedges

The Group issues various long-term fixed rate debt issuances that are measured at amortised cost, including some denominated in foreign currency, such as unsecured senior and subordinated debt (see Notes 22 and 27). The Group also holds various fixed rate debt securities such as government and corporate bonds, including some denominated in foreign currency (see Note 13). These assets and liabilities held are exposed to changes in fair value due to movements in market interest and foreign currency rates.

The Group uses interest rate swaps to exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match floating rates paid on funding. The Group further uses cross currency swaps to match the currency of the issued debt or held asset with that of the entity's functional currency.

Hedge ineffectiveness from fair value hedges is driven by cross currency basis risk. The amortisation of fair value hedge adjustments for hedged items no longer designated is recognised in net trading income. In future periods hedge relationships linked to an interest rate benchmark deemed in scope of benchmark reform may experience ineffectiveness due to market participants' expectations for when the change from the existing IBOR benchmark to an alternative risk-free rate will occur, since the transition may occur at different times for the hedged item and hedging instrument.

At 31 December 2020 the Group held the following interest rate and cross currency swaps as hedging instruments in fair value hedges of interest and currency risk.

## 14. Derivative financial instruments continued

## Fair value hedges continued

## Hedging instruments and ineffectiveness

	2020				
	Notional \$million	Carrying amount		Change in fair value used to calculate hedge ineffectiveness \$million	Ineffectiveness recognised in profit or loss \$million
		Asset \$million	Liability \$million		
<b>Interest rate<sup>1</sup></b>					
Interest rate swaps – issued notes	29,598	1,475	14	858	17
Interest rate swaps – loans and advances	2,535	2	38	(27)	–
Interest rate swaps – debt securities and other eligible bills	38,713	23	660	(934)	3
<b>Interest and currency risk<sup>1</sup></b>					
Cross currency swaps – subordinated notes issued	3,329	17	146	267	5
Cross currency swaps – debt securities and other eligible bills	807	8	33	(70)	(2)
Total at 31 December 2020	74,982	1,525	891	94	23

1 Interest rate swaps are designated in hedges of the fair value of interest rate risk attributable to the hedged item. Cross currency swaps are used to hedge both interest rate and currency risks. All of the hedging instruments are derivatives, with changes in fair value including hedge ineffectiveness recorded within net trading income

	2019				
	Notional \$million	Carrying amount		Change in fair value used to calculate hedge ineffectiveness \$million	Ineffectiveness recognised in profit or loss \$million
		Asset \$million	Liability \$million		
<b>Interest rate<sup>1</sup></b>					
Interest rate swaps – issued notes	22,029	559	44	511	–
Interest rate swaps – loans and advances	1,410	1	24	(22)	(1)
Interest rate swaps – debt securities and other eligible bills	45,682	57	521	(589)	12
<b>Interest and currency risk<sup>1</sup></b>					
Cross currency swaps – subordinated notes issued	5,451	17	751	32	6
Cross currency swaps – debt securities and other eligible bills	2,954	30	23	(18)	1
Total at 31 December 2019	77,526	664	1,363	(86)	18

1 Interest rate swaps are designated in hedges of the fair value of interest rate risk attributable to the hedged item. Cross currency swaps are used to hedge both interest rate and currency risks. All of the hedging instruments are derivatives, with changes in fair value including hedge ineffectiveness recorded within net trading income

## Hedged items in fair value hedges

	2020					
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in the value used for calculating hedge ineffectiveness \$million	Cumulative balance of fair value adjustments from de-designated hedge relationships <sup>1</sup> \$million
	Asset \$million	Liability \$million	Asset \$million	Liability \$million		
Issued notes	–	33,737	–	1,096	(1,103)	856
Debt securities and other eligible bills	40,663	–	577	–	1,005	(92)
Loans and advances to customers	2,561	–	32	–	27	–
Total at 31 December 2020	43,224	33,737	609	1,096	(71)	764

	2019					
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in fair value used for calculating hedge ineffectiveness \$million	Cumulative balance of fair value adjustments from de-designated hedge relationships <sup>1</sup> \$million
	Asset \$million	Liability \$million	Asset \$million	Liability \$million		
Issued notes	–	27,921	–	271	(537)	611
Debt securities and other eligible bills	49,190	–	373	–	620	(120)
Loans and advances to customers	1,431	–	22	–	21	–
Total at 31 December 2019	50,621	27,921	395	271	104	491

1 This represents a credit/(debit) to the balance sheet value

## 14. Derivative financial instruments continued

### Income statement impact of fair value hedges

	2020 Income/ (expense) \$million	2019 Income/ (expense) \$million
Change in fair value of hedging instruments	94	(86)
Change in fair value of hedged risks attributable to hedged items	(71)	104
Net ineffectiveness gain to net trading income	23	18
Amortisation loss to net interest income	(31)	(5)

### Cash flow hedges

The Group has exposure to market movements in future interest cash flows on portfolios of customer accounts, debt securities and loans and advances to customers. The amounts and timing of future cash flows, representing both principal and interest flows, are projected on the basis of contractual terms and other relevant factors, including estimates of prepayments and defaults.

The hedging strategy of the Group involves using interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts and currency swaps to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. This is done on both a micro basis whereby a single interest rate or cross currency swap is designated in a separate relationship with a single hedged item (such as a floating rate loan to a customer), and on a portfolio basis whereby each hedging instrument is designated against a group of hedged items that share the same risk (such as a group of customer accounts).

The hedged risk is determined as the variability of future cash flows arising from changes in the designated benchmark interest rate, e.g. one-month or three-month LIBOR.

### Hedging instruments and ineffectiveness

	2020						
	Notional \$million	Carrying amount		Change in fair value used to calculate hedge ineffectiveness \$million	Gain/(loss) recognised in OCI \$million	Ineffectiveness gain/(loss) recognised in net trading income \$million	Amount reclassified from reserves to income \$million
		Asset \$million	Liability \$million				
<b>Interest rate risk</b>							
Interest rate swaps	9,347	83	129	(45)	(45)	–	–
<b>Currency risk</b>							
Forward foreign exchange contract	164	21	–	14	14	–	–
Cross currency swaps	9,935	12	340	(261)	(261)	–	–
Total as at 31 December 2020	19,446	116	469	(292)	(292)	–	–
	2019						
	Notional \$million	Asset \$million	Liability \$million	Change in fair value used to calculate hedge ineffectiveness \$million	Gain/(loss) recognised in OCI \$million	Ineffectiveness gain/(loss) recognised in net trading income \$million	Amount reclassified from reserves to income \$million
<b>Interest rate risk</b>							
Interest rate swaps	9,277	53	74	(87)	(87)	–	–
<b>Currency risk</b>							
Forward foreign exchange contract	289	6	20	6	6	–	–
Cross currency swaps	5,254	34	51	(5)	(5)	–	(2)
Total as at 31 December 2019	14,820	93	145	(86)	(86)	–	(2)

**14. Derivative financial instruments** continued**Hedged items in cash flow hedges**

	2020		
	Change in fair value used for calculating hedge ineffectiveness \$million	Cash flow hedge reserve \$million	Cumulative balance in the cash flow hedge reserve from de-designated hedge relationships \$million
Customer accounts	105	(110)	(8)
Debt securities and other eligible bills	92	16	–
Loans and advances to customers	(45)	34	1
Forecast cashflow currency hedge	(14)	21	–
Intragroup lending currency hedge	169	5	–
Intragroup borrowing currency hedge	(15)	2	–
Total at 31 December 2020	292	(32)	(7)

	2019		
	Change in fair value used for calculating hedge ineffectiveness \$million	Cash flow hedge reserve \$million	Cumulative balance in the cash flow hedge reserve from de-designated hedge relationships \$million
Customer accounts	86	(58)	(4)
Debt securities and other eligible bills	(3)	1	–
Loans and advances to customers	(28)	(10)	(4)
Forecast cashflow currency hedge	40	–	–
Intragroup lending currency hedge	(9)	(6)	–
Total at 31 December 2019	86	(73)	(8)

**Impact of cash flow hedges on profit and loss and other comprehensive income**

	2020 Income/ (expense) \$million	2019 Income/ (expense) \$million
Cash flow hedge reserve balance as at 1 January	(59)	(10)
Loss recognised in other comprehensive income on effective portion of changes in fair value of hedging instruments	(25)	(64)
Gain transferred to net trading income on hedging instruments no longer in a hedging relationship	–	10
Gain reclassified to income statement when hedged item affected net profit	17	11
Taxation charge relating to cash flow hedges	15	(6)
Cash flow hedge reserve balance as at 31 December	(52)	(59)

**Net investment hedges**

Foreign currency exposures arise from investments in subsidiaries that have a different functional currency from that of the presentation currency of the Group. This risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and the Group's presentation currency, which causes the value of the investment to vary.

The Group's policy is to hedge these exposures only when not doing so would be expected to have a significant impact on the regulatory ratios of the Group and its banking subsidiaries. The Group uses foreign exchange forwards to manage the effect of exchange rates on its net investments in foreign subsidiaries.

## 14. Derivative financial instruments continued

### Hedging instruments and ineffectiveness

	2020						
	Notional \$million	Carrying amount		Change in fair value used to calculate hedge ineffectiveness \$million	Changes in the value of the hedging instrument recognised in OCI \$million	Ineffectiveness recognised in profit or loss \$million	Amount reclassified from reserves to income \$million
		Asset \$million	Liability \$million				
Derivative forward currency contracts <sup>1</sup>	5,376	–	383	(286)	(286)	–	–
2019							
	Notional \$million	Asset \$million	Liability \$million	Change in fair value used to calculate hedge ineffectiveness \$million	Changes in the value of the hedging instrument recognised in OCI \$million	Ineffectiveness recognised in profit or loss \$million	Amount reclassified from reserves to income \$million
Derivative forward currency contracts <sup>1</sup>	5,103	31	70	98	98	–	–

<sup>1</sup> These derivative forward currency contracts have a maturity of less than one year. The hedges are rolled on a periodic basis

### Hedged items in net investment hedges

	2020		
	Change in the value used for calculating hedge ineffectiveness \$million	Translation reserve \$million	Balances remaining in the translation reserve from hedging relationships for which hedge accounting is no longer applied \$million
Net investments	286	(383)	–
2019			
	Change in the value used for calculating hedge ineffectiveness \$million	Translation reserve \$million	Balances remaining in the translation reserve from hedging relationships for which hedge accounting is no longer applied \$million
Net investments	(98)	98	–

### Impact of net investment hedges on other comprehensive income

	2020 Income/ (expense) \$million	2019 Income/ (expense) \$million
Gains/(losses) recognised in other comprehensive income	(287)	191

## 14. Derivative financial instruments continued

## Maturity of hedging instruments

		2020			
		Less than one month	More than one month and less than one year	One to five years	More than five years
<b>Fair value hedges</b>					
<b>Interest rate swap</b>					
Notional	\$million	2,334	13,908	40,768	13,836
Average fixed interest rate	USD	1.44%	1.28%	1.47%	1.64%
	EUR	–	1.86%	1.49%	1.72%
<b>Cross currency swap</b>					
Notional	\$million	837	1,384	1,915	–
Average fixed interest rate (to USD)	EUR	0.25%	1.63%	3.43%	–
	JPY	(0.12)%	–	(0.23)%	–
Average exchange rate	EUR/USD	0.82	0.74	0.79	–
	JPY/USD	109.93	–	107.91	–
<b>Cash flow hedges</b>					
<b>Interest rate swap</b>					
Notional	\$million	–	3,428	4,686	1,233
Average fixed interest rate	HKD	–	1.46%	0.62%	–
	USD	–	0.96%	1.80%	1.32%
<b>Cross currency swap</b>					
Notional	\$million	–	7,822	2,084	29
Average fixed interest rate	HKD	–	1.15%	–	–
	KRO	–	0.79%	–	–
	TWD <sup>1</sup>	–	(0.63)%	–	–
	JPY	–	(0.21)%	(0.16)%	–
Average exchange rate	HKD/USD	–	7.75	–	–
	KRO/USD	–	1,174.75	–	–
	TWD <sup>1</sup> /USD	–	29.88	–	–
	JPY/USD	–	107.54	107.12	–
<b>Forward foreign exchange contracts</b>					
Notional	\$million	27	137	–	–
Average exchange rate	GBP/USD	0.84	0.84	–	–
<b>Net investment hedges</b>					
<b>Foreign exchange derivatives</b>					
Notional	\$million	5,376	–	–	–
Average exchange rate	CNY <sup>1</sup> /USD	7.07	–	–	–
	KRW <sup>1</sup> /USD	1,197.02	–	–	–
	TWD <sup>1</sup> /USD	28.89	–	–	–

1 Offshore currency

## 14. Derivative financial instruments continued

### Maturity of hedging instruments

		2019			
		Less than one month	More than one month and less than one year	One to five years	More than five years
<b>Fair value hedges</b>					
<b>Interest rate swap</b>					
Notional	\$million	433	12,032	46,229	10,427
Average fixed interest rate	USD	2.78%	2.50%	2.47%	4.05%
<b>Cross currency swap</b>					
Notional	\$million	92	4,267	3,379	667
Average fixed interest rate (to USD)	EUR	–	4.00%	2.61%	–
	GBP	–	5.38%	4.71%	4.38%
	JPY	(0.16)%	(0.17)%	–	–
Average exchange rate	EUR/USD	–	0.74	0.77	–
	GBP/USD	–	0.55	0.63	0.62
	JPY/USD	107.90	109.90	–	–
<b>Cash flow hedges</b>					
<b>Interest rate swap</b>					
Notional	\$million	193	4,440	3,891	753
Average fixed interest rate	HKD	1.91%	1.95%	1.80%	–
	USD	–	2.72%	1.65%	2.46%
<b>Cross currency swap</b>					
Notional	\$million	403	4,121	730	–
Average fixed interest rate	CNY <sup>1</sup>	3.22%	3.49%	3.94%	–
	HKD	–	2.52%	–	–
	INR <sup>1</sup>	–	4.32%	3.85%	–
	KRW <sup>1</sup>	–	1.25%	–	–
Average exchange rate	CNY <sup>1</sup> /USD	6.86	6.93	7.08	–
	HKD/USD	–	7.84	–	–
	INR <sup>1</sup> /USD	–	69.43	68.85	–
	KRW <sup>1</sup> /USD	–	1,201.23	–	–
<b>Forward foreign exchange contracts</b>					
Notional	\$million	196	93	–	–
Average exchange rate	INR <sup>1</sup> /USD	81.20	–	–	–
	INR/USD	81.01	–	–	–
	GBP/USD	0.80	0.79	–	–
<b>Net investment hedges</b>					
<b>Foreign exchange derivatives</b>					
Notional	\$million	5,103	–	–	–
Average exchange rate	CNY/USD	6.90	–	–	–
	KRW/USD	1,188.90	–	–	–
	TWD/USD	30.56	–	–	–

1 Offshore currency

## 14. Derivative financial instruments continued

### Interest rate benchmark reform

The Group applies the Phase 1 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7' which allow the Group to assume that the interest rate benchmark on which cash flows for the hedged item and/or hedging instrument are based is altered as a result of IBOR reform for the following activities:

- Prospective hedge assessment
- Determining whether a cash flow or forecast transaction for a cash flow hedge is highly probable. However, the Group otherwise assesses whether the cash flows are considered highly probable
- Determining when cumulative balances in the cash flow hedge reserve from de-designated hedges should be recycled to the income statement

The Group will not de-designate a hedge relationship of a benchmark in scope of IBOR reform if the retrospective hedge result is outside the required 80-125% range but, the hedge passes the prospective assessment. Any hedge ineffectiveness continues to be recorded in net trading income.

For hedges of non-contractually specified benchmark portions of an interest rate (such as fair value hedges of interest rate risk on fixed rate debt instruments) the Group only assesses whether the designated benchmark is separately identifiable at hedge inception. The choice of designated benchmark is not revisited for existing hedge relationships.

In applying these amendments, the Group has made the following key assumptions for the period end, to be reviewed on an ongoing basis:

- The interest rate benchmarks applicable to the Group that are in scope of the IFRS amendments are all LIBORs, EONIA, Singapore Swap Offer Rate (SGD SOR) and Thai Baht Interest Rate Fixing (THB FIX)
- EURIBOR is not in scope of the IFRS amendments because its revised methodology incorporates market transaction data, hence the benchmark is expected to continue to exist in future reporting periods
- The Group believes it is too early to reliably estimate when interest rate benchmark uncertainty will be resolved for all benchmarks assumed to be in scope of the amendments. It therefore assumes that the uncertainty arising from interest rate benchmark reform will be present until 31 December 2021, at which time the amendments to IFRS no longer apply

The Group has established an IBOR Transition Programme that is overseen by the Group's Chief Operating Officer, and updates a number of committees including the Board Risk Committee and Group Risk Committee regularly updated. The programme comprises a series of business and function workstreams, with oversight and coordination of the specific areas and risks provided by a central project team. The key objectives of these workstreams include identifying all contracts in scope of benchmark reform, upgrading internal systems to support business in the alternative RFR product suite, identifying and communicating to customers with whom repricing and/or re-papering IBOR-referenced contracts is required and executing the necessary change in contracts. Workstreams actively participate in industry-wide working groups to ensure they are kept informed of the latest developments and are consistent with the approaches of other market participants.

As at 31 December 2020, the following populations of derivative instruments designated in fair value or cash flow hedge accounting relationships were linked to IBOR reference rates:

	Fair value hedges		Cash flow hedges		Total \$million	Weighted average exposure Years
	Notional designated up to 31 December 2021 \$million	Notional designated beyond 31 December 2021 \$million	Notional designated up to 31 December 2021 \$million	Notional designated beyond 31 December 2021 \$million		
<b>Interest rate swaps</b>						
USD LIBOR	9,454	36,024	345	2,733	48,556	3.2
GBP LIBOR	268	1,720	89	–	2,077	10.9
JPY LIBOR	552	1,785	–	–	2,337	3.0
SGD SOR	360	123	–	–	483	1.2
	10,634	39,652	434	2,733	53,453	3.5
<b>Cross currency swaps</b>						
USD LIBOR vs Fixed rate foreign currency	2,221	1,915	–	–	4,136	1.3
<b>Total notional of hedging instruments in scope of IFRS amendments as at 31 December 2020</b>	<b>12,855</b>	<b>41,567</b>	<b>434</b>	<b>2,733</b>	<b>57,589</b>	<b>3.4</b>

## 14. Derivative financial instruments continued

	Fair value hedges		Cash flow hedges		Total \$million	Weighted average exposure Years
	Notional designated up to 31 December 2021 \$million	Notional designated beyond 31 December 2021 \$million	Notional designated up to 31 December 2021 \$million	Notional designated beyond 31 December 2021 \$million		
<b>Interest rate swaps</b>						
USD LIBOR	26,159	25,622	950	2,559	55,290	2.7
GBP LIBOR	613	4,049	–	–	4,662	5.5
JPY LIBOR	1,429	569	–	–	1,998	2.4
SGD SOR	563	132	–	–	695	1.7
	28,764	30,372	950	2,559	62,645	2.9
<b>Cross currency swaps</b>						
USD LIBOR vs Fixed rate foreign currency	6,216	2,189	–	–	8,405	2.7
<b>Total notional of hedging instruments in scope of IFRS amendments as at 31 December 2019</b>						
	34,980	32,561	950	2,559	71,050	2.9

The Group's primary exposure is to USD LIBOR due to the extent of fixed rate debt security assets and issued notes denominated in USD that are designated in fair value hedge relationships. Where fixed rate instruments are in other currencies, cross currency swaps are used to achieve an equivalent floating USD exposure.

## 15. Loans and advances to banks and customers

### Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy

	2020 \$million	2019 \$million
Loans and advances to banks	44,364	53,558
Expected credit loss	(17)	(9)
	44,347	53,549
Loans and advances to customers	288,312	274,306
Expected credit loss	(6,613)	(5,783)
	281,699	268,523
<b>Total loans and advances to banks and customers</b>	<b>326,046</b>	<b>322,072</b>

The Group has outstanding residential mortgage loans to Korea residents of \$22.1 billion (31 December 2019: \$17.8 billion) and Hong Kong residents of \$32 billion (31 December 2019: \$29.9 billion).

Analysis of loans and advances to customers by geographic region and client segment together with their related impairment provisions are set out within the Risk review and Capital review (page 198).

## 16. Reverse repurchase and repurchase agreements including other similar lending and borrowing

### Accounting policy

The Group purchases securities (a reverse repurchase agreement – ‘reverse repo’) typically with financial institutions subject to a commitment to resell or return the securities at a predetermined price. These securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership, however they are recorded off-balance sheet as collateral received. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost, unless it is managed on a fair value basis or designated at fair value through profit or loss. In the majority of cases through the contractual terms of a reverse repo arrangement, the Group as the transferee of the security collateral has the right to sell or repledge the asset concerned.

The Group also sells securities (a repurchase agreement – ‘repo’) subject to a commitment to repurchase or redeem the securities at a predetermined price. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership and these securities are disclosed as pledged collateral. Consideration received (or cash collateral received) is accounted for as a financial liability at amortised cost, unless it is either mandatorily classified as fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. The Group is obliged to return equivalent securities.

Repo and reverse repo transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos, either by way of a Global Master Repurchase Agreement (GMRA), or through a securities sale and Total Return Swap (TRS) continue to be recognised on the balance sheet as the Group retains substantially the associated risks and rewards of the securities (the TRS is not recognised). The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the Group cannot pledge these to obtain funding.

### Reverse repurchase agreements and other similar secured lending

	2020 \$million	2019 \$million
Banks	19,452	19,610
Customers	48,119	40,804
	67,571	60,414
Of which:		
Fair value through profit or loss	63,405	57,604
Banks	18,205	18,269
Customers	45,200	39,335
Held at amortised cost	4,166	2,810
Banks	1,247	1,341
Customers	2,919	1,469

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:

	2020 \$million	2019 \$million
Securities and collateral received (at fair value)	99,676	86,308
Securities and collateral which can be repledged or sold (at fair value)	99,238	85,415
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	46,209	44,530

## 16. Reverse repurchase and repurchase agreements including other similar lending and borrowing

continued

### Repurchase agreements and other similar secured borrowing

	2020 \$million	2019 \$million
Banks	6,647	7,789
Customers	43,918	40,429
	50,565	48,218
Of which:		
Fair value through profit or loss	48,662	46,283
Banks	6,107	7,401
Customers	42,555	38,882
Held at amortised cost	1,903	1,935
Banks	540	388
Customers	1,363	1,547

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions:

	2020				
	Fair value through profit or loss \$million	Fair value through other comprehensive income \$million	Amortised cost \$million	Off-balance sheet \$million	Total \$million
<b>Collateral pledged against repurchase agreements</b>					
<b>On-balance sheet</b>					
Debt securities and other eligible bills	2,664	2,108	355	–	5,127
<b>Off-balance sheet</b>					
Repledged collateral received	–	–	–	46,209	46,209
At 31 December 2020	2,664	2,108	355	46,209	51,336

	2019				
	Fair value through profit or loss \$million	Fair value through other comprehensive income \$million	Amortised cost \$million	Off-balance sheet \$million	Total \$million
<b>Collateral pledged against repurchase agreements</b>					
<b>On-balance sheet</b>					
Debt securities and other eligible bills	1,036	2,137	1,023	–	4,196
<b>Off-balance sheet</b>					
Repledged collateral received	–	–	–	44,530	44,530
At 31 December 2019	1,036	2,137	1,023	44,530	48,726

## 17. Goodwill and intangible assets

### Accounting policy

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in Intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected cash flows of the relevant cash-generating units (CGUs) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to CGUs for the purpose of impairment testing. CGUs represent the lowest level within the Group which generate separate cash inflows and at which the goodwill is monitored for internal management purposes. These are equal to or smaller than the Group's reportable segments (as set out in Note 2) as the Group views its reportable segments on a global basis. The major CGUs to which goodwill has been allocated are set out in the CGU table (page 368).

#### Significant accounting estimates and judgements

The carrying amount of goodwill is based on the application of judgements including the basis of goodwill impairment calculation assumptions. Judgement is also applied in determination of cash-generating units.

Estimates include forecasts used for determining cash flows for CGUs, the appropriate long term growth rates to use and discount rates which factor in country risk-free rates and applicable risk premiums. These estimates are periodically assessed for appropriateness. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and is subject to potential change over time.

#### Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

#### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Internally generated software represents substantially all of the total software capitalised. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over a three to five-year time period. On an annual basis software assets' residual values and useful lives are reviewed, including assessing for indicators of impairment. Indicators of impairment include loss of business relevance, obsolescence of asset, exit of the business to which the software relates, technological changes, change in use of the asset, reduction in useful life, plans to reduce usage or scope.

For capitalised software, judgement is required to determine which costs relate to research (and therefore expensed) and which costs relate to development (capitalised). Further judgement is required to determine the technical feasibility of completing the software such that it will be available for use. Estimates are used to determine how the software will generate probable future economic benefits, these estimates include: cost savings, income increases, balance sheet improvements, improved functionality or improved asset safeguarding.

## 17. Goodwill and intangible assets continued

	2020				2019			
	Goodwill \$million	Acquired intangibles \$million	Computer software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Computer software \$million	Total \$million
<b>Cost</b>								
At 1 January	3,079	461	3,239	6,779	3,116	510	2,835	6,461
Exchange translation differences	27	16	60	103	(10)	(5)	26	11
Additions	–	–	790	790	–	1	753	754
Disposals	–	–	(4)	(4)	–	(1)	(3)	(4)
Impairment	(489)	–	–	(489)	(27)	–	–	(27)
Amounts written off	–	(4)	(403)	(407)	–	(44)	(372)	(416)
Classified as held for sale	–	–	–	–	–	–	–	–
At 31 December	2,617	473	3,682	6,772	3,079	461	3,239	6,779
<b>Provision for amortisation</b>								
At 1 January	–	431	1,058	1,489	–	458	947	1,405
Exchange translation differences	–	15	21	36	–	(5)	6	1
Amortisation	–	5	515	520	–	9	436	445
Impairment charge	–	–	17	17	–	–	12	12
Disposals	–	–	(4)	(4)	–	(1)	–	(1)
Amounts written off	–	–	(349)	(349)	–	(30)	(343)	(373)
At 31 December	–	451	1,258	1,709	–	431	1,058	1,489
<b>Net book value</b>	<b>2,617</b>	<b>22</b>	<b>2,424</b>	<b>5,063</b>	<b>3,079</b>	<b>30</b>	<b>2,181</b>	<b>5,290</b>

At 31 December 2020, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$3,317 million (31 December 2019: \$2,828 million), of which \$489 million was recognised in 2020 (31 December 2019: \$27 million).

### Goodwill

#### Testing of goodwill for impairment

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. Indicators of impairment include changes in the economic performance and outlook of the region including geopolitical changes, changes in market value of regional investments, large credit defaults and strategic decisions to exit certain regions. The recoverable amounts for all the CGUs were measured based on value-in-use (ViU). The calculation of ViU for each CGU is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by management up to 2025. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using discount rates which reflect market rates appropriate to the CGU.

The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

## 17. Goodwill and intangible assets continued

## Goodwill continued

	2020			2019		
	Goodwill \$million	Discount rates per cent	Long-term forecast GDP growth rates per cent	Goodwill \$million	Discount rates per cent	Long-term forecast GDP growth rates per cent
<b>Cash-generating unit</b>						
<b>Country CGUs</b>						
<b>Greater China &amp; North Asia</b>	<b>934</b>			900		
Hong Kong	359	9.7	2.7	358	9.2	2.4
Taiwan	575	8.6	2.1	542	10.6	2.0
<b>Africa &amp; Middle East</b>	<b>303</b>			512		
Pakistan	183	15.0	5.0	188	21.0	4.0
UAE	–	–	–	204	7.1	2.5
Others (4) <sup>1</sup>	120	8.1–14.3	2.8–5.8	120	8.3–16.6	2.5–4.9
<b>ASEAN &amp; South Asia</b>	<b>414</b>			706		
India	–	–	–	259	16.4	7.3
Singapore	345	10.3	3.0	342	10.4	1.9
Others <sup>2</sup>	69	12.8–13.4	6.9–7.2	105	11.7–15.4	3.3–7.3
<b>Global CGUs</b>	<b>966</b>			961		
Global Private Banking	84	10.0	3.6	84	9.1	3.5
Global Corporate & Institutional Banking	882	10.0	3.0	877	9.1	3.5
	<b>2,617</b>			3,079		

1 Bahrain, Ghana, Jordan and Qatar

2 Bangladesh and Vietnam, Indonesia and Brunei goodwill was written off in 2020

Four country CGUs; India, UAE, Indonesia and Brunei have had all the goodwill allocated to them written off, totalling \$489 million. This was primarily due to lower economic growth forecasts, higher discount rates and forward-looking cash flows reflecting lower interest rate environments. As a result, the carrying amount of each CGU, which included goodwill, was greater than the recoverable amount.

In view of the increased economic uncertainty caused by the COVID-19 pandemic, the Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The following CGUs are considered sensitive to the key variables and any individual movements on the estimates (cashflow, discount rate and GDP growth rate) up to the levels disclosed below would eliminate the current headroom.

CGU	2020													
	Sensitivities													
				GDP		Discount rates		Cashflow		Cashflow	Cashflow	Cashflow	Downside scenario	Extreme downside scenario
	Base case			+1%	-1%	+1%	-1%	+10%	-10%	+20%	-20%	-30%	GDP -1% DR +1% CF -10%	GDP -1% DR +1% CF -20%
	Goodwill	Head-room	Discount rate	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room	Head-room
	\$million	\$million		\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Taiwan	575	359	8.6%	2.1%	652	144	84	734	620	97	882	(165)	(426)	(276)
Global Corporate & Institutional Banking	882	3,845	10.0%	3.0%	7,233	1,304	546	8,245	7,369	322	10,893	(3,202)	(6,726)	(4,150)
														(6,938)

The table above represents reasonably possible scenarios that could occur if either; economic factors (which drive GDP rates and discount rates); country-specific cash flows; or a combination of both are different from the assumptions used in the goodwill impairment assessment at 31 December 2020.

For there to be no headroom, the discount rate will need to increase by 1.37 per cent and 1.19 per cent, for Taiwan and Global Corporate & Institutional Banking (CIB) respectively. Similarly, the GDP rates will need to decrease by 1.87 per cent, 1.63 per cent and cash flows would need to decrease by 13.71 per cent, 10.91 per cent for Taiwan and Global CIB respectively.

## 17. Goodwill and intangible assets continued

### Acquired intangibles

These primarily comprise those items recognised as part of the acquisitions of Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, American Express Bank and ABSA's custody business in Africa. Maintenance intangible assets represent the value in the difference between the contractual right under acquired leases to receive aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

The acquired intangibles are amortised over periods from four years to a maximum of 16 years. The constituents are as follows:

	2020 \$million	2019 \$million
<b>Acquired intangibles comprise:</b>		
Aircraft maintenance	6	10
Core deposits	–	1
Customer relationships	7	12
Licences	9	7
<b>Net book value</b>	<b>22</b>	<b>30</b>

## 18. Property, plant and equipment

### Accounting policy

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings comprise mainly branches and offices. Freehold land is not depreciated although it is subject to impairment testing.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings • up to 50 years
- Leasehold improvements life of lease • up to 50 years
- Equipment and motor vehicles • three to 15 years
- Aircraft • up to 18 years
- Ships • up to 15 years

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in Note 19.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### Significant accounting estimates and judgements

The carrying amount of the Group's aircraft leasing portfolio is based on the application of judgement and estimates to determine the most appropriate recoverable amount for each aircraft when assessing for impairment. Estimates involve the appropriate cash flows, discount rates and residual values used in determining a value-in-use for aircraft, and judgement is required in determining the appropriate observable third-party valuations to use for assessing current market value.

## 18. Property, plant and equipment continued

	2020					
	Premises \$million	Equipment \$million	Operating lease assets \$million	Leased premises assets \$million	Leased equipment assets \$million	Total \$million
<b>Cost or valuation</b>						
At 1 January	2,058	800	4,461	1,493	23	8,835
Exchange translation differences	40	6	(2)	11	4	59
Additions <sup>1</sup>	36	121	952	155	6	1,270
Disposals and fully depreciated assets written off <sup>2</sup>	(83)	(53)	(178)	(82)	(2)	(398)
Transfers to assets held for sale	(3)	–	–	–	–	(3)
As at 31 December	2,048	874	5,233	1,577	31	9,763
<b>Depreciation</b>						
Accumulated at 1 January	737	518	1,067	286	7	2,615
Exchange translation differences	13	6	–	–	–	19
Charge for the year	73	122	229	300	7	731
Impairment charge <sup>3</sup>	–	–	132	–	–	132
Attributable to assets sold, transferred or written off <sup>2</sup>	(52)	(52)	(92)	(50)	(2)	(248)
Transfers to assets held for sale	(1)	–	–	–	–	(1)
Accumulated at 31 December	770	594	1,336	536	12	3,248
<b>Net book amount at 31 December</b>	<b>1,278</b>	<b>280</b>	<b>3,897</b>	<b>1,041</b>	<b>19</b>	<b>6,515</b>

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the year of \$1,270 million on page 300

2 Disposals for property, plant and equipment during the year of \$178 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the year and the net book value disposed

3 Aircraft have been impaired due to a decrease in the market values, particularly wide-body variants

	2019					
	Premises \$million	Equipment \$million	Operating lease assets \$million	Leased premises assets <sup>3</sup> \$million	Leased equipment assets <sup>3</sup> \$million	Total \$million
<b>Cost or valuation</b>						
At 1 January	2,070	766	6,323	1,408	13	10,580
Exchange translation differences	(31)	(17)	(5)	(35)	–	(88)
Additions	96 <sup>1</sup>	123 <sup>1</sup>	299 <sup>1</sup>	128	10	656
Disposals and fully depreciated assets written off	(62) <sup>2</sup>	(72) <sup>2</sup>	(694) <sup>2</sup>	(8)	–	(836)
Transfers to assets held for sale	(15)	–	(1,462)	–	–	(1,477)
As at 31 December	2,058	800	4,461	1,493	23	8,835
<b>Depreciation</b>						
Accumulated at 1 January	706	494	1,469	–	1	2,670
Exchange translation differences	(7)	(10)	(5)	7	–	(15)
Charge for the year	77	106	263	283	6	735
Impairment charge	1	–	121	–	–	122
Attributable to assets sold, transferred or written off	(35) <sup>2</sup>	(72) <sup>2</sup>	(155) <sup>2</sup>	(4)	–	(266)
Transfers to assets held for sale	(5)	–	(626)	–	–	(631)
Accumulated at 31 December	737	518	1,067	286	7	2,615
<b>Net book amount at 31 December</b>	<b>1,321</b>	<b>282</b>	<b>3,394</b>	<b>1,207</b>	<b>16</b>	<b>6,220</b>

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the period \$518 million on page 300

2 Disposals for property, plant and equipment during the period \$566 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the period and the net book value disposed

3 Leased premises assets and leased equipment assets were newly recognised on 1 January 2019 due to the adoption of IFRS 16 Leases. The Group applied the modified retrospective transition approach, such that the right-of-use asset recognised equalled the lease liability, adjusted for prepayments and accruals recognised under IAS 17 as of 31 December 2018

## 18. Property, plant and equipment continued

### Operating lease assets

The operating lease assets subsection of property, plant and equipment is the Group's aircraft leasing business, consisting of 114 commercial aircraft, of which 107 are narrow-body and 7 wide-body, leased to clients under operating leases. The leases are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to the ownership of the assets, and rental income from operating lease assets is disclosed in Note 6. At 31 December 2020, these assets had a net book value of \$3,897 million (31 December 2019: \$3,394 million).

Under these leases the lessee is responsible for the maintenance and servicing of the aircraft during the lease term while the Group receives rental income and assumes the risks of the residual value of the aircraft at the end of the lease. Initial lease terms range in length up to 12 years, while the average remaining lease term at 31 December 2020 is approximately six years. By varying the lease terms the effects of changes in cyclical market conditions at the time aircraft become eligible for re-lease are mitigated. The Group will look at entering into a lease extension with existing lessees well in advance of lease expiry in order to minimise the risk of aircraft downtime and aircraft transition costs. Aircraft may also be sold from time to time to manage the composition and average age of the fleet.

A series of stress sensitivities conducted on the narrow-body portfolio highlight the two biggest risks remain either an increase in the discount rate in conjunction with further market value decreases, as the majority of the leased portfolio is now valued on a VIU basis, or a substantial number of airline clients defaulting. A sensitivity test was performed on the narrow-body portfolio assuming a discount rate increase of 50 basis points and a future market value decrease of 10 per cent, which resulted in a possible increase in impairment of \$46 million.

A further sensitivity test considered that the lessees with lower credit ratings defaulted on their current leases. This scenario would result in a possible increase in impairment of \$38 million.

During 2020 the Group offered payment concessions to customers as a result of the COVID-19 pandemic, allowing them to defer lease payments for between three and nine months. As of 31 December 2020 the outstanding amount of deferred lease payments was \$19 million. For customers who have not defaulted on their obligations, deferrals do not affect income recognition provided the total lease rentals and lease expiry date are unchanged. For customers who have defaulted, any income not covered by collateral is provided against. The provision is reversed on receipt of the deferred payment.

The table below gives a maturity analysis of undiscounted lease payments receivable in future periods:

	2020 Minimum lease receivables under operating leases falling due: \$million	2019 Minimum lease receivables under operating leases falling due: \$million
Within one year	478	473
One to two years	436	451
Two to three years	374	403
Three to four years	328	337
Four to five years	251	82
After five years	697	789
	<b>2,564</b>	<b>2,535</b>

## 19. Leased assets

### Accounting policy

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable in the economic environment of the lease. The liability is recognised in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognised in 'Property, plant and equipment'. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in 'Depreciation and amortisation', and interest on the lease liability is recognised in 'Interest expense'.

The judgements in determining lease balances are the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. On initial recognition, the Group considers a range of characteristics such as premises function, regional trends and the term remaining on the lease to determine whether it is reasonably certain that a contractual right to extend a lease will be exercised. Where a change in assumption is confirmed by the local property management team, a remeasurement is performed in the Group-managed vendor system.

The estimates were the determination of incremental borrowing rates in the respective economic environments. The Group uses third-party broker quotes to estimate its USD cost of senior unsecured borrowing, then uses cross-currency swap pricing information to determine the equivalent cost of borrowing in other currencies. If it is not possible to estimate an incremental borrowing rate through this process, other proxies such as local government bond yields are used.

The Group primarily enters lease contracts that grant it the right to use premises such as office buildings and retail branches.

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiations of market rental rates as permitted by those contracts and changes to payments due to rent being contractually linked to an inflation index. In general the remeasurement of a lease liability under these circumstances leads to an equal change to the right-of-use asset balance, with no immediate effect on the income statement.

The total cash outflow during the year for premises and equipment leases was \$352 million (2019: \$397 million).

The total expense during the year in respect of leases with a term less than or equal to 12 months was less than \$1 million (2019: \$20 million).

The right-of-use asset balances and depreciation charges are disclosed in Note 18. The lease liability balances are disclosed in Note 23 and the interest expense on lease liabilities is disclosed in Note 3.

### Maturity analysis

The maturity profile for lease liabilities associated with leased premises and equipment assets is as follows:

	2020				
	One year or less \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years \$million	Total \$million
Other liabilities – lease liabilities	368	280	559	188	1,395
restated 2019 <sup>1</sup>					
	One year or less \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years \$million	Total \$million
Other liabilities – lease liabilities	364	335	626	325	1,650

<sup>1</sup> Prior year values have been restated to reflect undiscounted contractual cash flows that are allocated to the periods in which the Group is required to pay them

## 20. Other assets

### Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy.

Commodities represent physical holdings where the Group has title and exposure to the Market Risk associated with the holding.

Commodities are fair valued with the fair value derived from observable spot or short-term futures prices from relevant exchanges.

Other assets include:

	2020 \$million	2019 \$million
Financial assets held at amortised cost (Note 13):		
Hong Kong SAR Government certificates of indebtedness (Note 23) <sup>1</sup>	7,295	6,911
Cash collateral	11,757	9,169
Acceptances and endorsements <sup>2</sup>	5,868	5,518
Unsettled trades and other financial assets	16,058	14,563
	40,978	36,161
Non-financial assets:		
Commodities <sup>3</sup>	7,239	5,465
Other assets	471	396
	48,688	42,022

1 The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

3 Commodities are carried at fair value and classified as Level 2

## 21. Assets held for sale and associated liabilities

### Accounting policy

Financial instruments can be reclassified as held for sale if they are non-current assets or if they are part of a disposal group; however, in these circumstances financial instruments continue to be measured per the requirements of IFRS 9 Financial Instruments. Refer to Note 13 Financial instruments for the relevant accounting policy.

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

- a) Their carrying amounts will be recovered principally through sale;
- b) They are available for immediate sale in their present condition; and
- c) Their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets are measured in accordance with the applicable accounting policies related to the asset or liability before reclassification as held for sale.

The assets below have been presented as held for sale following the approval of Group management and the transactions are expected to complete in 2020.

Following a decision by the Board of directors to exit the ship leasing business within CIB, the shipping portfolio has been moved to 'Held for sale'.

The financial assets reported below are classified under Level 1 \$nil (31 December 2019: \$70 million), Level 2 \$25 million (31 December 2019: nil) and Level 3 \$63 million (31 December 2019: \$260 million).

**21. Assets held for sale and associated liabilities** continued**Assets held for sale**

	2020 \$million	2019 \$million
Financial assets held at fair value through profit or loss	5	330
Loans and advances to customers	5	–
Equity shares	–	330
Financial assets held at amortised cost	83	90
Loans and advances to customers	83	32
Debt securities held at amortised cost	–	58
Interests in joint venture	–	800
Property, plant and equipment	358	833
Aircraft	–	49
Vessels	354	769
Others	4	15
	446	2,053

**Interests in joint venture**

On the 20 May 2020 the Group completed the sale of its 44.56 per cent equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Limited for cash consideration of IDR 17 trillion (\$1,072 million).

The profit on sale is as follows:

	2020 \$million
Cash received	1,072
Less: Investment in joint venture	(800)
Gain on carrying value	272
Less: Translation and other reserve recycling and transaction costs <sup>1</sup>	(266)
<b>Net gain on disposal</b>	<b>6</b>

<sup>1</sup> Includes \$246 million exchange differences on translation of foreign operations

**Liabilities held for sale**

	2020 \$million	2019 \$million
Other liabilities	–	9
	–	9

## 22. Debt securities in issue

### Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy.

	2020			2019		
	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	21,020	34,530	55,550	22,242	30,783	53,025
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (Note 13)	–	5,811	5,811	–	8,510	8,510
Total debt securities in issue	21,020	40,341	61,361	22,242	39,293	61,535

In 2020, the Company issued a total of \$6.8 billion senior notes for general business purposes of the Group as shown below:

Securities	\$million
\$2,000 million fixed rate senior notes due 2026 (callable 2025)	2,000
\$2,000 million fixed rate senior notes due 2031 (callable 2030)	2,000
\$1,000 million fixed rate senior notes due 2023 (callable 2022)	1,000
EUR 750 million fixed rate senior notes due 2028 (callable 2027)	917
\$500 million floating rate senior notes due 2023 (callable 2022)	500
HKD 1,081 million fixed rate senior notes due 2023 (callable 2022)	139
\$100 million zero coupon callable bond due 2050 (callable 2025)	100
\$80 million zero coupon callable bond due 2050 (callable 2023)	80
JPY 5,500 million fixed rate senior notes due 2023 (callable 2022)	53
\$50 million zero coupon callable bond due 2050 (callable 2023)	50
<b>Total senior notes issued</b>	<b>6,839</b>

In 2019, the Company issued a total of \$6.1 billion senior notes for general business purposes of the Group as shown below:

Securities	\$million
\$1,500 million callable floating rate senior notes due 2022 (callable 2021)	1,500
\$1,250 million callable fixed rate senior notes due 2022 (callable 2021)	1,250
\$1,000 million callable fixed rate senior notes due 2025 (callable 2024)	1,000
\$1,000 million callable fixed rate senior notes due 2030 (callable 2029)	1,000
EUR 500 million callable fixed rate senior notes due 2027 (callable 2026)	567
AUD 600 million callable fixed rate senior notes due 2025 (callable 2024)	417
AUD 400 million callable fixed rate senior notes due 2025 (callable 2024)	278
\$100 million zero coupon callable bond due 2049 (callable 2024)	100
<b>Total senior notes issued</b>	<b>6,112</b>

Where a debt instrument is callable, the issuer has the right to call.

## 23. Other liabilities

### Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy for financial liabilities, Note 19 Leased assets for the accounting policy for leases, and Note 31 Share-based payments for the accounting policy for cash-settled share-based payments.

	2020 \$million	2019 \$million
Financial liabilities held at amortised cost (Note 13)		
Notes in circulation <sup>1</sup>	7,295	6,911
Acceptances and endorsements <sup>2</sup>	5,868	5,518
Cash collateral	10,136	7,824
Property leases <sup>3</sup>	1,127	1,275
Equipment leases <sup>3</sup>	20	20
Unsettled trades and other financial liabilities	22,782	19,601
	47,228	41,149
Non-financial liabilities		
Cash-settled share-based payments	41	50
Other liabilities	635	384
	47,904	41,583

1 Hong Kong currency notes in circulation of \$7,295 million (31 December 2019: \$6,911 million) that are secured by the Government of Hong Kong SAR certificates of indebtedness of the same amount included in Other assets (Note 20)

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

3 Other financial liabilities include the present value of lease liabilities, as required by IFRS 16 from 1 January 2019; refer to Note 19

## 24. Provisions for liabilities and charges

### Accounting policy

The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Where a liability arises based on participation in a market at a specified date, the obligation is recognised in the financial statements on that date and is not accrued over the period.

### Significant accounting estimates and judgements

The recognition and measurement of provisions for liabilities and charges requires significant judgement and the use of estimates about uncertain future conditions or events.

Estimates include the best estimate of the probability of outflow of economic resources, cost of settling a provision and timing of settlement. Judgements are required for inherently uncertain areas such as legal decisions (including external advice obtained), and outcome of regulator reviews.

	2020			2019		
	Provision for credit commitments \$million	Other provisions \$million	Total \$million	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January	317	132	449	281	1,049	1,330
Exchange translation differences	(50)	(3)	(53)	5	4	9
Transfer	–	9	9	–	–	–
Charge against profit	103	22	125	35	239	274
Provisions utilised	(3)	(61)	(64)	(4)	(1,160)	(1,164)
<b>At 31 December</b>	<b>367</b>	<b>99</b>	<b>466</b>	<b>317</b>	<b>132</b>	<b>449</b>

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations.

Other provisions consist mainly of provisions for regulatory settlements and legal claims, the nature of which are described in Note 26 (page 378).

## 25. Contingent liabilities and commitments

### Accounting policy

#### Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Financial guarantee contracts and any loan commitments issued at below-market interest rates are initially recognised at their fair value as a financial liability, and subsequently measured at the higher of the initial value less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers and their expected credit loss provision. Loan commitments may be designated at fair value through profit or loss where that is the business model under which such contracts are held. Notional values of financial guarantee contracts and loan commitments are disclosed in the table below.

Financial guarantees, trade credits and irrevocable letters of credit are the notional values of contracts issued by the Group's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date. Transaction Banking will issue contracts to clients and counterparties of clients, whereby in the event the holder of the contract is not paid, the Group will reimburse the holder of the contract for the actual financial loss suffered. These contracts have various legal forms such as letters of credit, guarantee contracts and performance bonds. The contracts are issued to facilitate trade through export and import business, provide guarantees to financial institutions where the Group has a local presence, as well as guaranteeing project financing involving large construction projects undertaken by sovereigns and corporates. The contracts may contain performance clauses which require the counterparty performing services or providing goods to meet certain conditions before a right to payment is achieved, however the Group does not guarantee this performance. The Group will only guarantee the credit of the counterparty paying for the services or goods.

Commitments are where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer under prespecified terms and conditions in the form of loans, overdrafts, future guarantees whether cancellable or not and the Group has not made payments at the balance sheet date; those instruments are included in these financial statements as commitments. Commitments and contingent liabilities are generally considered on demand as the Group may have to honour them, or the client may draw down at any time.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.

The table below shows the contract or underlying principal amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2020 \$million	Restated 2019 \$million
<b>Financial guarantees and trade credits</b>		
Financial guarantees, trade credits and irrevocable letters of credit	53,832	46,714 <sup>1</sup>
	53,832	46,714
<b>Commitments</b>		
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	68,848	64,450
Less than one year	24,500	19,520 <sup>2</sup>
Unconditionally cancellable	60,055	57,224 <sup>2</sup>
	153,403	141,194
<b>Capital commitments</b>		
Contracted capital expenditure approved by the directors but not provided for in these accounts <sup>3</sup>	135	419

1 Financial guarantees, trade credits and irrevocable letters of credit: separate disclosure as individual line items in 2019 as follows: Guarantees and irrevocable letters of credit \$37,007 million, Other contingent liabilities \$5,425 million, Documentary credits and short-term trade related transactions \$4,282 million

2 Undrawn formal standby facilities, credit lines and other commitments to lend: Less than one year – restated from \$34,925 million to \$19,520 million. Unconditionally cancellable – restated from \$41,819 million to \$57,224 million. Certain non-revolving facilities have now been classified as unconditionally cancellable

3 Of which the Group has commitments totalling \$110 million to purchase aircraft for delivery in 2021 (31 December 2019: \$400 million). No pre-delivery payments have been made in respect of these commitments (2019: \$ nil)

The Group's share of contingent liabilities and commitments relating to joint ventures is \$ nil (31 December 2019: \$251 million). On 20 May 2020 the Group completed the sale of its 44.56 per cent equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Limited. Please refer to Note 21 for further details. As set out in Note 26, the Group has contingent liabilities in respect of certain legal and regulatory matters for which it is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

## 26. Legal and regulatory matters

### Accounting policy

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established. These uncertainties also mean that it is not possible to give an aggregate estimate of contingent liabilities arising from such legal and regulatory matters.

The Group receives legal claims against it in a number of jurisdictions and is subject to regulatory and enforcement investigations and proceedings from time to time. Apart from the matters described below, the Group currently considers none of the ongoing claims, investigations or proceedings to be material. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters currently not considered to be material may not ultimately be material to the Group's results in a particular reporting period depending on, among other things, the amount of the loss resulting from the matter(s) and the results otherwise reported for such period.

The Group is a defendant in a number of lawsuits that have been filed since 2014 in the United States District Courts for the Southern and Eastern Districts of New York, against a number of banks on behalf of plaintiffs who are, or are relatives of, victims of various terrorist attacks in Iraq. The plaintiffs allege that the defendant banks aided and abetted the unlawful conduct of US sanctioned parties in breach of the US Anti-Terrorism Act. One lawsuit has been withdrawn by the plaintiffs and the courts have ruled in favour of the banks' motions to dismiss in five of the lawsuits. Following those rulings, in one lawsuit the plaintiffs appealed against the dismissal and a ruling on their appeal is awaited. Appeals are also expected by the plaintiffs in three of the other dismissed lawsuits. The remaining lawsuits are still at an early procedural stage and have been stayed pending the outcomes of the appeals in the dismissed cases.

In January 2020, a shareholder derivative complaint was filed in the New York State Court against 45 current and former directors and senior officers of the Group. It is alleged that the individuals breached their duties to the Group and caused a waste of corporate assets by permitting the conduct that gave rise to the costs and losses to the Group related to legacy conduct and control issues. Standard Chartered PLC, Standard Chartered Holdings Limited and Standard Chartered Bank are each named as "nominal defendants" in the complaint. The case is at an early procedural stage. On 23 December 2020, the Group filed a motion to dismiss the complaint.

In October 2020, a claim was filed in the English High Court by 249 shareholders against Standard Chartered PLC alleging untrue and/or misleading statements were made, and/or there were omissions in information published by Standard Chartered PLC in its rights issue prospectuses of 2008, 2010 and 2015 and/or public statements regarding the Group's historic sanctions, anti-money laundering and financial crime compliance issues. The case is at an early stage.

Based on the facts currently known, it is not possible for the Group to predict the outcome of these lawsuits.

## 27. Subordinated liabilities and other borrowed funds

### Accounting policy

Subordinated liabilities and other borrowed funds are classified as financial instruments. Refer to Note 13 Financial instruments for the accounting policy.

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements. Where a debt instrument is callable, the issuer has the right to call.

	2020 \$million	2019 \$million
<b>Subordinated loan capital – issued by subsidiary undertakings</b>		
£675 million 5.375 per cent undated step-up subordinated notes (callable 2020) <sup>1</sup>	–	298
£200 million 7.75 per cent subordinated notes (callable 2022) <sup>1</sup>	52	53
\$750 million 5.875 per cent subordinated notes due 2020 <sup>2</sup>	–	754
\$700 million 8.0 per cent subordinated notes due 2031 <sup>1</sup>	454	429
	<b>506</b>	<b>1,534</b>
<b>Subordinated loan capital – issued by the Company<sup>3</sup></b>		
Primary capital floating rate notes:		
\$400 million floating rate undated subordinated notes	16	16
\$300 million floating rate undated subordinated notes (Series 2)	69	69
\$400 million floating rate undated subordinated notes (Series 3)	50	50
\$200 million floating rate undated subordinated notes (Series 4)	26	26
£150 million floating rate undated subordinated notes	16	16
£900 million 5.125 per cent subordinated notes due 2034	930	855
\$2 billion 5.7 per cent subordinated notes due 2044	2,370	2,379
\$2 billion 3.95 per cent subordinated notes due 2023	2,066	2,009
\$1 billion 5.7 per cent subordinated notes due 2022	1,001	1,002
\$1 billion 5.2 per cent subordinated notes due 2024	1,141	1,069
\$750 million 5.3 per cent subordinated notes due 2043	785	786
€1.25 billion 4 per cent subordinated notes due 2025 (callable 2020)	–	1,421
€750 million 3.625 per cent subordinated notes due 2022	955	884
€500 million 3.125 per cent subordinated notes due 2024	646	585
SGD 700 million 4.4 per cent subordinated notes due 2026 (callable 2021)	530	525
\$1.25 billion 4.3 per cent subordinated notes due 2027	1,310	1,214
\$1 billion 3.516 per cent subordinated notes due 2030 (callable 2025)	997	996
\$500 million 4.886 per cent subordinated notes due 2033 (callable 2028)	499	499
£ 96.035m 7.375% Non-Cumulative Irredeemable Preference Shares (reclassified as Debt)	134	134
£ 99.250m 8.25% Non-Cumulative Irredeemable Preference Shares (reclassified as Debt)	138	138
€1 billion 2.5 per cent subordinated debt 2030	1,217	–
\$1.25 billion 3.265 per cent subordinated notes due 2036	1,252	–
	<b>16,148</b>	<b>14,673</b>
<b>Total for Group</b>	<b>16,654</b>	<b>16,207</b>

1 Issued by Standard Chartered Bank

2 Issued by Standard Chartered Bank (Hong Kong) Limited

3 In the balance sheet of the Company the amount recognised is \$16,069 million (2019: \$14,588 million), with the difference being the effect of hedge accounting achieved on a Group basis

**27. Subordinated liabilities and other borrowed funds** continued

	2020				
	USD \$million	GBP \$million	EUR \$million	Others \$million	Total \$million
Fixed rate subordinated debt	11,875	1,254	2,818	530	16,477
Floating rate subordinated debt	161	16	–	–	177
<b>Total</b>	<b>12,036</b>	<b>1,270</b>	<b>2,818</b>	<b>530</b>	<b>16,654</b>

	2019				
	USD \$million	GBP \$million	EUR \$million	Others \$million	Total \$million
Fixed rate subordinated debt	11,137	1,478	2,890	525	16,030
Floating rate subordinated debt	161	16	–	–	177
<b>Total</b>	<b>11,298</b>	<b>1,494</b>	<b>2,890</b>	<b>525</b>	<b>16,207</b>

**Redemptions and repurchases during the year**

On 24 June 2020, Standard Chartered Bank (Hong Kong) Limited exercised its right to redeem USD 750 million 5.875 per cent subordinated notes 2020.

On 14 July 2020, Standard Chartered Bank exercised its right to redeem the remaining GBP 275 million of GBP 675 million 5.375 per cent undated step-up subordinated notes (callable 2020).

On 21 October 2020, Standard Chartered PLC exercised its right to redeem GBP 1250 million 4 per cent subordinated debt 2025 (callable 2020).

**Issuance during the year**

On 9 June 2020, Standard Chartered PLC issued EUR 1,000 million 2.5 per cent subordinated debt 2030 (callable 2025).

On 19 November 2020, Standard Chartered PLC issued USD 1250 million 3.265 per cent subordinated notes due 2036.

**28. Share capital, other equity instruments and reserves****Accounting policy**

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid.

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

	Number of ordinary shares millions	Ordinary share capital <sup>1</sup> \$million	Ordinary share premium \$million	Preference share premium <sup>2</sup> \$million	Total share capital and share premium \$million	Other equity instruments \$million
At 1 January 2019	3,308	1,654	3,963	1,494	7,111	4,961
Shares issued	4	2	23	–	25	–
Cancellation of shares including share buy-back	(116)	(58)	–	–	(58)	–
Additional Tier 1 equity securities	–	–	–	–	–	552
<b>At 31 December 2019</b>	<b>3,196</b>	<b>1,598</b>	<b>3,986</b>	<b>1,494</b>	<b>7,078</b>	<b>5,513</b>
Cancellation of shares including share buy-back	(40)	(20)	–	–	(20)	–
Additional Tier 1 equity issuance	–	–	–	–	–	992
Additional Tier 1 redemption	–	–	–	–	–	(1,987)
<b>At 31 December 2020</b>	<b>3,156</b>	<b>1,578</b>	<b>3,986</b>	<b>1,494</b>	<b>7,058</b>	<b>4,518</b>

1 Issued and fully paid ordinary shares of 50 cents each

2 Includes preference share capital of \$75,000

## 28. Share capital, other equity instruments and reserves continued

### Share buy-back

On 28 February 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of \$0.50 each. Nominal value of share purchases was \$20 million, and the total consideration paid was \$242 million. The total number of shares purchased was 40,029,585 representing 1.25 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On 31 March 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its Board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share and to suspend the buy-back programme.

Share buy-back of 2020	Number of ordinary shares	Average price paid per share £	Aggregate price paid £	Aggregate price paid \$
Mar – 2020	40,029,585	4.89428	195,916,167	241,705,472

### Ordinary share capital

In accordance with the Companies Act 2006 the Company does not have authorised share capital. The nominal value of each ordinary share is 50 cents.

During the period nil shares were issued under employee share plans.

### Preference share capital

At 31 December 2020, the Company has 15,000 \$5 non-cumulative redeemable preference shares in issue, with a premium of \$99,995 making a paid-up amount per preference share of \$100,000. The preference shares are redeemable at the option of the Company and are classified in equity.

The available profits of the Company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends payable (on approval of the board) and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

### Other equity instruments

On 2 April 2015, Standard Chartered PLC issued \$2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising \$1,987 million after issue costs. This security was redeemed on its first optional redemption date of 2 April 2020. On 18 August 2016, Standard Chartered PLC issued \$2,000 million fixed rate resetting perpetual subordinated contingent convertible securities as AT1 securities, raising \$1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued \$1,000 million fixed rate resetting perpetual subordinated contingent convertible securities as AT1 securities, raising \$992 million after issue costs. On 3 July 2019, Standard Chartered PLC issued SGD 750 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising \$552 million after issue costs. On 26 June 2020, Standard Chartered PLC issued \$1,000 million fixed rate resetting perpetual subordinated AT1 securities, raising \$ 992 million after issue costs. All issuances are made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption. Any redemption is subject to Standard Chartered PLC giving notice to the relevant regulator and the regulator granting permission to redeem
- The interest rate in respect of the securities issued on 26 June 2020 for the period from (and including) the issue date to (but excluding) 26 July 2025 is a fixed rate of 6 per cent per annum. The first reset date for the interest rate is 26 July 2025 and each date falling five years, or an integral multiple of five years, after the first reset date.
- Interest on the securities are accounted for as a dividend and it is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price detailed in the table below, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 645 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

**28. Share capital, other equity instruments and reserves continued**

Issuance date	Nominal value	Fixed coupon	Interest payment dates	First reset dates*	Conversion price per ordinary share
18 August 2016	USD 2,000 million	7.5%	2 April, 2 October	2 April 2022	USD 7.732
18 January 2017	USD 1,000 million	7.75%	2 April, 2 October	2 April 2023	USD 7.732
3 July 2019	SGD 750 million	5.375%	3 April, 3 October	3 October 2024	SGD 10.909
26 June 2020	USD 1,000 million	6%	26 January, 26 July	26 January 2026	USD 5.331

\* Subsequent reset dates are each date falling five years, or an integral multiple of five years, after the first reset date.

The securities rank behind the claims against Standard Chartered PLC of (a) unsubordinated creditors; (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, *pari passu* with, or junior to, the claims of holders of the AT1 securities in a winding-up occurring prior to the conversion trigger.

**Reserves**

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- The amounts in the 'Capital and Merger Reserve' represent the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of Korea (\$1.9 billion) and Taiwan (\$1.2 billion) acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, primarily for capital maintenance requirements and for the shares issued in 2009 by way of an accelerated book build, the proceeds of which were used in the ordinary course of business of the Group. The funding raised by the 2008, 2010 and 2015 rights issues and 2009 share issue was fully retained within the Company. Of the 2015 funding, \$1.5 billion was used to subscribe to additional equity in Standard Chartered Bank, a wholly owned subsidiary of the Company. Apart from the Korea, Taiwan and Standard Chartered Bank funding, the merger reserve is considered realised and distributable.
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments, the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings
- Fair value through other comprehensive income (FVOCI) debt reserve represents the unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of expected credit losses and taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.
- FVOCI equity reserve represents unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of taxation. Gains and losses are recorded in this reserve and never recycled to the income statement
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur
- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions, own shares held (treasury shares) and share buy-backs

A substantial part of the Group's reserves is held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

As at 31 December 2020, the distributable reserves of Standard Chartered PLC (the Company) were \$14.3 billion (31 December 2019: \$14.3 billion). These comprised retained earnings and \$12.6 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

## 28. Share capital, other equity instruments and reserves continued

### Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust ('2004 Trust') and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust ('1995 Trust'). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust		2004 Trust <sup>1</sup>		Total	
	2020	2019	2020	2019	2020	2019
Shares purchased during the period	<b>2,999,210</b>	646,283	<b>14,359,481</b>	24,065,354	<b>17,358,691</b>	24,711,637
Market price of shares purchased (\$million)	<b>22</b>	5	<b>86</b>	201	<b>108</b>	206
Shares transferred between trusts	<b>(2,999,210)</b>	(3,001,103)	<b>2,999,210</b>	3,001,103	<b>-</b>	-
Shares held at the end of the period	<b>-</b>	-	<b>6,119,666</b>	5,113,455	<b>6,119,666</b>	5,113,455
Maximum number of shares held during the period					<b>11,262,818</b>	15,070,923

<sup>1</sup> Note that 1,489,139 shares were purchased by the trustee of the 2004 Trust using \$10 million participant savings as part of Sharesave exercises

### Changes in share capital and other equity instruments of Standard Chartered PLC subsidiaries

The table below details the transactions in equity instruments (including convertible and hybrid instruments) of the Group's subsidiaries, including issuances, conversions, redemptions, purchase or cancellation. This is required under the Hong Kong Listing requirements, appendix 16 paragraph 10.

Name and registered address	Country of incorporation	Description of shares	Issued/(redeemed) capital	Issued/(redeemed) Shares	Proportion of shares held (%)
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom					
Standard Chartered Bank	United Kingdom	\$1.00 Ordinary shares	\$300,000,000	300,000,000	100
Standard Chartered Holdings Limited	United Kingdom	\$2.00 Ordinary shares	\$370,000,000	185,000,000	100
Standard Chartered I H Limited	United Kingdom	\$1.00 Ordinary shares	\$70,000,000	70,000,000	100
Standard Chartered UK Holdings Limited	United Kingdom	£10.00 Ordinary shares	£56,164,330	5,616,433	100
The following companies have the address of TMF Group, 8th Floor, 20 Farringdon Street, London, EC4A 4AB, United Kingdom.					
Zodia Custody Limited	United Kingdom	\$1.00 Ordinary shares	\$3,000,000	3,000,000	100
Zodia Holdings Limited	United Kingdom	\$1.00 Ordinary shares	\$4,999,999	4,999,999	100
The following company has the address of Avenida Brigadeiro Faria Lima, no 3.477, 6º andar, conjunto 62 – Torre Norte, Condomínio Patio Victor Malzoni, CEP 04538-133, São Paulo, Brazil					
Standard Chartered Participacoes Ltda	Brazil	BRL1.00 Ordinary shares	BRL(241,371,991)	(241,371,991)	100
The following company has the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands					
Sirat Holdings Limited	Cayman Islands	\$0.01 Preference shares	\$(3)	(300)	100

## 28. Share capital, other equity instruments and reserves continued

Name and registered address	Country of incorporation	Description of shares	Issued/(redeemed) capital	Issued/(redeemed) Shares	Proportion of shares held (%)
The following company have the address of Units 61-65 (Office use only), Self-numbered Room 01-04, Room 901, No 6, Zhujiang East Road, Tianhe District, Guangzhou City, Guangdong Province, China					
Standard Chartered (Guangzhou) Business Management Co.Ltd.	China	\$ Ordinary shares	\$13,000,000	13,000,000	100
Standard Chartered Global Business Services (Guangzhou) Co.Ltd.	China	\$ Ordinary shares	\$3,000,000	3,000,000	100
The following company has the address of Standard Chartered Bank Ghana Limited, 87, Independence Avenue, Post Office Box 678, Accra, Ghana					
Standard Chartered Wealth Management Limited Company	Ghana	GHS Ordinary shares	GHS100,000	100,000	100
The following company has the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong					
Marina Leasing Limited	Hong Kong	\$ Ordinary shares	\$36,000,000	36,000,000	100
The following company has the address of 3/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong					
Standard Chartered Private Equity Limited	Hong Kong	\$ Ordinary shares	\$(573,000,000)	(573,000,000)	100
The following company has the address of 21/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong					
Standard Chartered Asia Limited	Hong Kong	\$ Ordinary shares	\$(612,000,000)	(612,000,000)	100
The following company has the address of 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong					
Mox Bank Limited	Hong Kong	HKD Ordinary shares	HKD46,920,000	46,920,000	65.1
The following company has the address of Second Floor, Indiquebe Edge, Khata No. 571/630/6/4, Sy.No.6/4, Ambalipura Village, Varthur Hobli, Marathahalli Sub-Division, Ward No. 150, Bengaluru, 560102, India.					
Standard Chartered Research and Technology India Private Limited	India	INR10.00 A Equity shares	INR41,555,370	4,155,537	100
		INR10.00 Preference shares	INR189,923,900	18,992,390	100
The following company has the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands					
Marina Lilac Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	\$49,990	49,990	100
The following company has the address of c/o Ocorian Corporate Services (Mauritius) Ltd, 6th Floor, Tower A, 1 Cybercity, Ebene, 72201, Mauritius					
Standard Chartered Private Equity (Mauritius) Limited	Mauritius	\$ Redeemable preference shares	\$(21,584,069)	(21,584,069)	100
The following company has the address of Rondo Daszyńskiego 2B, 00-843 , Warsaw, Poland					

## 28. Share capital, other equity instruments and reserves continued

Name and registered address	Country of incorporation	Description of shares	Issued/(redeemed) capital	Issued/(redeemed) Shares	Proportion of shares held (%)
Standard Chartered Global Business Services spółka z ograniczona odpowiedzialnoscia	Poland	PLN50.00 Ordinary shares	PLN4,923,100	98,462	100
The following company has the address of 9 & 11, Lightfoot Boston Street, Freetown, Sierra Leone					
Standard Chartered Bank Sierra Leone Limited	Sierra Leone	SLL1.00 Ordinary shares	SLL34,564,477,113	34,564,477,113	80.7
The following company has the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore					
Marina Poise Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	\$13,142	13,142	100
The following company has the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore					
SC Bank Solutions (Singapore) Limited	Singapore	SGD Ordinary shares	SGD50,000,000	50,000,000	100
The following companies have the address of 80 Robinson Road, #02-00, 068898, Singapore					
Autumn Life Pte. Ltd.	Singapore	\$ Ordinary shares	\$4,500,000	4,500,000	100
Cardspal Pte. Ltd.	Singapore	\$ Ordinary shares	\$3,240,000	3,240,000	100
Nexco Pte. Ltd.	Singapore	\$ Ordinary shares	\$1	1	100
The following company has the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands					
Standard Chartered Principal Finance (Cayman) Limited	Cayman Islands	\$0.0001 Ordinary shares	\$140	1,400,000	100
The following company has the address of 20 Adelaide Street, Suite 1105, Toronto ON M5C 2T6 Canada					
Standard Chartered (Canada) Limited	Canada	CAD1.00 Ordinary shares	CAD10	10	100

Please see Note 22 Debt securities in issue for issuances and redemptions of senior notes.

Please see Note 27 Subordinated liabilities and other borrowed funds for issuance and redemptions of subordinated liabilities and AT1 securities.

Please see Note 40 Related undertakings of the Group for subsidiaries liquidated, dissolved or sold during the year.

## 29. Non-controlling interests

### Accounting policy

Non-controlling interests are measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

	\$million
At 1 January 2019	273
Income in equity attributable to non-controlling interests	(17)
Other profits attributable to non-controlling interests	37
Comprehensive income for the year	20
Distributions	(35)
Other increases <sup>1</sup>	55
At 31 December 2019	313
Income in equity attributable to non-controlling interests	(12)
Other profits attributable to non-controlling interests	27
Comprehensive income for the year	15
Distributions	(20)
Other increases <sup>2</sup>	17
At 31 December 2020	325

1 Comprises \$72 million of non-controlling interest in Mox Bank Limited offset by \$17 million disposal of non-controlling interest of Phoon Huat Ltd, Sirat Holdings Limited and Ori Private Limited

2 \$17 million movement related to non-controlling interest from Mox Bank Limited

## 30. Retirement benefit obligations

### Accounting policy

The Group operates pension and other post-retirement benefit plans around the world, which can be categorised into defined contribution plans and defined benefit plans. For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a statutory or contractual basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense, the cost of the accrual of new benefits, benefit enhancements (or reductions) and administration expenses met directly from plan assets are recognised in the income statement in the period in which they were incurred.

### Significant accounting estimates and judgements

There are many factors that affect the measurement of the retirement benefit obligations. This measurement requires the use of estimates, such as discount rates, inflation, pension increases, salary increases, and life expectancies which are inherently uncertain. Discount rates are determined by reference to market yields at the end of the reporting period on high-quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations. This is the approach adopted across our geographies. Where there are inflation-linked bonds available (e.g. United Kingdom and the eurozone), the Group derives inflation based on the market on those bonds, with the market yield adjusted in respect of the United Kingdom to take account of the fact that liabilities are linked to Consumer Price Index inflation, whereas the reference bonds are linked to Retail Price Index inflation. Where no inflation-linked bonds exist, we determine inflation assumptions based on a combination of long-term forecasts and short-term inflation data. Salary growth assumptions reflect the Group's long-term expectations, taking into account future business plans and macroeconomic data (primarily expected future long-term inflation). Demographic assumptions, including mortality and turnover rates, are typically set based on the assumptions used in the most recent actuarial funding valuation, and will generally use industry standard tables, adjusted where appropriate to reflect recent historic experience and/or future expectations. The sensitivity of the liabilities to changes in these assumptions is shown in the Note below.

### 30. Retirement benefit obligations continued

Retirement benefit obligations comprise:

	2020 \$million	2019 \$million
Defined benefit plans obligation	434	458
Defined contribution plans obligation	9	11
Net obligation	443	469

Retirement benefit charge comprises:

	2020 \$million	2019 \$million
Defined benefit plans	81	73
Defined contribution plans	277	299
Charge against profit (Note 7)	358	372

The Group operates over 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, as part of the Group's commitment to financial wellbeing for employees, to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as Longevity Risk.

The material holdings of government and corporate bonds shown on page 389 partially hedge movements in the liabilities resulting from interest rate and inflation changes. Setting aside movements from other drivers such as currency fluctuation, the reductions in discount rates in most geographies over 2020 have led to higher liabilities. These have been largely offset by increases in the value of bonds held and good stock market performance. These movements are shown as actuarial losses versus gains respectively in the tables below. Contributions into a number of plans in excess of the amounts required to fund benefits accruing have also helped to reduce the net deficit over the year.

The disclosures required under IAS 19 have been calculated by independent qualified actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2020.

#### UK Fund

The Standard Chartered Pension Fund (the 'UK Fund') is the Group's largest pension plan, representing 63 per cent (31 December 2019: 60 per cent) of total pension liabilities. The UK Fund is set up under a trust that is legally separate from the Bank (its formal sponsor) and, as required by UK legislation, at least one-third of the trustee directors are nominated by members; the remainder are appointed by the Bank. The trustee directors have a fiduciary duty to members and are responsible for governing the UK Fund in accordance with its Trust Deed and Rules.

The UK Fund was closed to new entrants from 1 July 1998 and closed to the accrual of new benefits from 1 April 2018: all employees are now offered membership of a defined contribution plan.

The financial position of the UK Fund is regularly assessed by an independent qualified actuary. The funding valuation as at 31 December 2017 was completed in December 2018 by the then Scheme Actuary, A Zegleman of Willis Towers Watson, using assumptions different from those on page 388, and agreed with the UK Fund trustee. It showed that the UK Fund was 89% funded at that date revealing a past service deficit of \$210 million (£159 million). To repair the deficit, four annual cash payments of \$42.2 million (£32.9 million) were agreed, with three of these having been paid in December 2018, December 2019 and December 2020. The agreement allows that if the funding position improves to being at or near a surplus in future years the payments due in December 2021 will be reduced or eliminated. In addition, an escrow account of \$150 million (£110 million) exists to provide security for future contributions. The 31 December 2020 funding valuation is currently underway and may conclude by altering, or adding to, the cash payment due in 2021. Its analysis of mortality experience has driven the small adjustment to life expectancy assumptions shown below.

The Group is not required to recognise any additional liability under IFRIC 14 or the 2015 exposure draft of proposed amendments to it, as the Bank has control of any pension surplus under the Trust Deed and Rules.

#### Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan, United Arab Emirates (UAE) and the United States of America (US). Plans in Germany, Hong Kong, India, Korea, Taiwan and UAE remain open for accrual of future benefits.

### 30. Retirement benefit obligations continued

#### Key assumptions

The principal financial assumptions used at 31 December 2020 were:

	Funded plans			
	UK Fund		Overseas Plans <sup>1</sup>	
	2020 %	2019 %	2020 %	2019 %
Discount rate	1.4	2.0	0.3 – 2.8	0.7 – 3.4
Price Inflation	2.2	2.1	1.0 – 3.0	1.0 – 3.0
Salary increases	n/a	n/a	2.9 – 4.0	3.0 – 4.0
Pension increases	2.1	2.1	1.3 – 2.7	1.4 – 3.0

<sup>1</sup> The range of assumptions shown is for the main defined benefit overseas plans in Germany, Hong Kong, Jersey, Korea, Taiwan, UAE and the US. These comprise around 85 per cent of the total liabilities of overseas defined benefit plans

	Unfunded plans			
	US post-retirement medical		Other <sup>1</sup>	
	2020 %	2019 %	2020 %	2019 %
Discount rate	2.8	3.4	1.4 – 6.3	1.5 – 7.0
Price inflation	2.5	2.5	2.0 – 4.0	2.0 – 4.0
Salary increases	N/A	N/A	3.5 – 7.0	3.5 – 7.0
Pension increases	N/A	N/A	0.0 – 2.1	0.0 – 2.1
Post-retirement medical rate	7% in 2020 reducing by 0.5% per annum to 5% in 2024	8% in 2019 reducing by 1% per annum to 5% in 2022		N/A

<sup>1</sup> The range of assumptions shown is for the main unfunded plans in Bahrain, India, Korea, Thailand, UAE and the UK. They comprise around 95 per cent of the total liabilities of other unfunded plans

The principal non-financial assumptions are those made for UK life expectancy. The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 27 years (31 December 2019: 28 years) and a female member for 30 years (31 December 2019: 29 years) and a male member currently aged 40 will live for 29 years (31 December 2019: 31 years) and a female member for 31 years (31 December 2019: 30 years) after their 60th birthdays.

Both financial and non-financial assumptions can be expected to change in the future, which would affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate increased by 25 basis points the liability would reduce by approximately \$75 million for the UK Fund (31 December 2019: \$65 million) and \$40 million for the other plans (31 December 2019: \$35 million)
- If the rate of inflation increased by 25 basis points the liability, allowing for the consequent impact on pension and salary increases would increase by approximately \$50 million for the UK Fund (31 December 2019: \$45 million) and \$25 million for the other plans (31 December 2019: \$25 million)
- If the rate salaries increase compared to inflation increased by 25 basis points the liability would increase by nil for the UK Fund (31 December 2019: nil) and approximately \$15 million for the other plans (31 December 2019: \$15 million)
- If longevity expectations increased by one year the liability would increase by approximately \$70 million for the UK Fund (31 December 2019: \$60 million) and \$20 million for the other plans (31 December 2019: \$15 million)

Although this analysis does not take account of the full distribution of cash flows expected, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

### 30. Retirement benefit obligations continued

#### Profile of plan obligations

	Funded plans		Unfunded plans	
	UK Fund	Overseas	Post-retirement medical	Other
Duration of the defined benefit obligation (in years)	15	11	10	11
(Duration of the defined benefit obligation – 2019)	16	11	10	12
Benefits expected to be paid from plans				
Benefits expected to be paid during 2021	86	60	1	17
Benefits expected to be paid during 2022	88	79	1	15
Benefits expected to be paid during 2023	90	77	1	15
Benefits expected to be paid during 2024	92	80	1	15
Benefits expected to be paid during 2025	94	78	1	16
Benefits expected to be paid during 2026 to 2030	499	516	5	79

Fund values:

The fair value of assets and present value of liabilities of the plans attributable to defined benefit members were:

	2020				2019			
	Funded plans		Unfunded plans		Funded plans		Unfunded plans	
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million
At 31 December								
Equities	118	374	N/A	N/A	102	349	N/A	N/A
Government bonds	844	189	N/A	N/A	956	196	N/A	N/A
Corporate bonds	508	129	N/A	N/A	189	121	N/A	N/A
Absolute Return Fund	94	–	N/A	N/A	158	–	N/A	N/A
Hedge funds <sup>1</sup>	89	–	N/A	N/A	100	–	N/A	N/A
Insurance linked funds <sup>1</sup>	36	–	N/A	N/A	37	–	N/A	N/A
Property	74	9	N/A	N/A	75	32	N/A	N/A
Derivatives	20	4	N/A	N/A	13	3	N/A	N/A
Cash and equivalents	141	297	N/A	N/A	77	163	N/A	N/A
Others <sup>1</sup>	10	21	N/A	N/A	8	31	N/A	N/A
Total fair value of assets <sup>2</sup>	1,934	1,023	N/A	N/A	1,715	895	N/A	N/A
Present value of liabilities	(1,982)	(1,147)	(16)	(246)	(1,832)	(1,010)	(16)	(210)
Net pension plan obligation	(48)	(124)	(16)	(246)	(117)	(115)	(16)	(210)

1 Unquoted assets

2 Self-investment is monitored closely and is less than \$1 million of Standard Chartered equities and bonds for 2020 (31 December 2019: <\$1 million). Self-investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

**30. Retirement benefit obligations** continued

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	
<b>2020</b>					
Current service cost <sup>1</sup>	–	50	–	7	57
Past service cost and curtailments <sup>2</sup>	–	–	–	14	14
Settlement cost	–	–	–	–	–
Interest income on pension plan assets	(32)	(28)	–	–	(60)
Interest on pension plan liabilities	35	29	1	5	70
<b>Total charge to profit before deduction of tax</b>	<b>3</b>	<b>51</b>	<b>1</b>	<b>26</b>	<b>81</b>
Net gain on plan assets <sup>3</sup>	(160)	(81)	–	–	(241)
Losses on liabilities	131	88	(1)	22	240
Total (gains)/losses recognised directly in statement of comprehensive income before tax	(29)	7	(1)	22	(1)
Deferred taxation	–	(9)	–	–	(9)
<b>Total (gains)/losses after tax</b>	<b>(29)</b>	<b>(2)</b>	<b>(1)</b>	<b>22</b>	<b>(10)</b>

1 Includes administrative expenses paid out of plan assets of \$2 million (31 December 2019: \$2 million)

2 Past service costs arose primarily due to recognition of a legacy UK long-term sick plan which has been clarified as technically representing a defined benefit

3 The actual return on the UK Fund assets was a gain of \$192 million and on overseas plan assets was a gain of \$109 million

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	
<b>2019</b>					
Current service cost <sup>1</sup>	–	49	–	12	61
Past service cost and curtailments <sup>2</sup>	–	2	–	(1)	1
Settlement cost	–	–	–	–	–
Interest income on pension plan assets	(43)	(26)	–	–	(69)
Interest on pension plan liabilities	44	29	1	6	80
Total charge to profit before deduction of tax	1	54	1	17	73
Net gain on plan assets <sup>3</sup>	(86)	(88)	–	–	(174)
Losses on liabilities	196	77	(2)	27	298
Total losses/(gains) recognised directly in statement of comprehensive income before tax	110	(11)	(2)	27	124
Deferred taxation	5	–	–	–	5
Total losses/(gains) after tax	115	(11)	(2)	27	129

1 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2018: \$2 million)

2 Past service costs arose primarily due to plan changes in Thailand and US, and were largely offset by past service credits due to plan changes in UAE

3 The actual return on the UK Fund assets was a gain of \$129 million and on overseas plan assets was a gain of \$114 million

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprise:

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	
Deficit at 1 January 2020	(117)	(115)	(16)	(210)	(458)
Contributions	44	63	–	16	123
Current service cost <sup>1</sup>	–	(50)	–	(7)	(57)
Past service cost and curtailments	–	–	–	(14)	(14)
Settlement costs and transfers impact <sup>2</sup>	–	(5)	–	–	(5)
Net interest on the net defined benefit asset/liability	(3)	(1)	(1)	(5)	(10)
Actuarial gains/(losses)	29	(7)	1	(22)	1
Exchange rate adjustment	(1)	(9)	–	(4)	(14)
<b>Deficit at 31 December 2020<sup>3</sup></b>	<b>(48)</b>	<b>(124)</b>	<b>(16)</b>	<b>(246)</b>	<b>(434)</b>

1 Includes administrative expenses paid out of plan assets of \$2 million (31 December 2019: \$1 million)

2 Impact of transfers relates to a gratuity plan in India which was included within IAS 19 disclosures for the first time this year. Previously, a separate provision for these liabilities was included on the balance sheet

3 The deficit total of \$434 million is made up of plans in deficit of \$476 million (31 December 2019: \$486 million) net of plans in surplus with assets totalling \$42 million (31 December 2019: \$28 million)

### 30. Retirement benefit obligations continued

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprise:

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	
Deficit at 1 January 2019	(50)	(129)	(17)	(190)	(386)
Contributions	44	73	–	20	137
Current service cost <sup>1</sup>	–	(49)	–	(12)	(61)
Past service cost and curtailments	–	(2)	–	1	(1)
Settlement costs and transfers impact	–	–	–	–	–
Net interest on the net defined benefit asset/liability	(1)	(3)	(1)	(6)	(11)
Actuarial (losses)/gains	(110)	11	2	(27)	(124)
Exchange rate adjustment	–	(16)	–	4	(12)
Deficit at 31 December 2019 <sup>2</sup>	(117)	(115)	(16)	(210)	(458)

1 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2018: \$2 million)

2 The deficit total of \$458 million is made up of plans in deficit of \$486 million (31 December 2018: \$421 million) net of plans in surplus with assets totalling \$28 million (31 December 2018: \$35 million)

The Group's expected contribution to its defined benefit pension plans in 2021 is \$120 million.

	2020			2019		
	Assets \$million	Obligations \$million	Total \$million	Assets \$million	Obligations \$million	Total \$million
At 1 January 2020	2,610	(3,068)	(458)	2,410	(2,796)	(386)
Contributions <sup>1</sup>	123	–	123	137	–	137
Current service cost <sup>2</sup>	–	(57)	(57)	–	(61)	(61)
Past service cost and curtailments	–	(14)	(14)	–	(1)	(1)
Settlement costs & impact of transfers <sup>3</sup>	19	(24)	(5)	(7)	7	–
Interest cost on pension plan liabilities	–	(70)	(70)	–	(80)	(80)
Interest income on pension plan assets	60	–	60	69	–	69
Benefits paid out <sup>2</sup>	(161)	161	–	(165)	165	–
Actuarial gains/(losses) <sup>4</sup>	241	(240)	1	174	(298)	(124)
Exchange rate adjustment	65	(79)	(14)	(8)	(4)	(12)
<b>At 31 December 2020</b>	<b>2,957</b>	<b>(3,391)</b>	<b>(434)</b>	<b>2,610</b>	<b>(3,068)</b>	<b>(458)</b>

1 Includes employee contribution of nil (31 December 2019: nil)

2 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2019: \$1 million)

3 Impact of transfers relates to a gratuity plan in India which was included within IAS 19 Disclosures for the first time this year. Previously, a separate provision for these liabilities was included elsewhere on the balance sheet

4 Actuarial loss on obligation comprises \$256 million loss (31 December 2019: \$267 million loss) from financial assumption changes, \$21 million gain (31 December 2019: \$4 million loss) from demographic assumption changes and \$5 million loss (31 December 2019: \$18 million loss) from experience

## 31. Share-based payments

### Accounting policy

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services (measured by the fair value of the awards granted) received in exchange for the grant of the shares and awards 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 three-year awards granted in 2021 in respect of 2020 performance, which vest in 2022-24, is recognised as an expense over the period from 1 January 2020 to the vesting dates in 2022-24. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and awards 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 for the number of shares and awards that are expected to vest.

At each balance sheet date, the Group revises its estimates of the number of shares and awards that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy service conditions and non-market vesting conditions 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 awards in the form of options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy service conditions or market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

The Group operates a number of share-based arrangements for its executive directors and employees. Details of the share-based payment charge are set out below.

	2020 <sup>1</sup>			2019 <sup>1</sup>		
	Cash \$million	Equity \$million	Total \$million	Cash \$million	Equity \$million	Total \$million
Deferred share awards	(1)	59	58	13	88	101
Other share awards	(1)	75	74	12	53	65
Total share-based payments	(2)	134	132	25	141	166

1 No forfeiture assumed

### 2011 Standard Chartered Share Plan (the '2011 Plan')

The 2011 Plan was approved by shareholders in May 2011 and is the Group's main share plan. Since approval, it has been used to deliver various types of share awards:

- Long term incentive plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) and return on tangible equity (RoTE) (in the case of both RoE and RoTE, with a Common Equity Tier 1 (CET1) underpin); strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures

Under the 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is one year.

## 31. Share-based payments continued

### Valuation – LTIP awards

The vesting of awards granted in both 2020 and 2019 is subject to relative TSR performance measures and achievement of a strategic scorecard. The vesting of awards granted in 2019 and 2020 are subject to the satisfaction of RoTE (subject to a capital CET1 underpin). The fair value of the TSR component is calculated using the probability of meeting the measures over a three-year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoTE and strategic measures in the scorecard, to determine the accounting charge.

No dividend equivalents accrue for the LTIP awards made in 2019 or 2020 and the fair value takes this into account, calculated by reference to market consensus dividend yield.

	2020	2019
Grant date	09 March	11 March
Share price at grant date (£)	5.20	6.11
Vesting period (years)	3–7	3–7
Expected dividend yield (%)	4.2	4.2
Fair value (RoTE) (£)	1.40, 1.34	2.02, 2.02
Fair value (TSR) (£)	0.75, 0.72	0.97, 0.91
Fair value (Strategic) (£)	1.40, 1.34	2.02, 2.02

### Valuation – deferred shares and restricted shares

The fair value for deferred awards which are not granted to material risk-takers is based on 100 per cent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends. For awards granted to material risk-takers in 2020, the fair value of awards takes into account the lack of dividend equivalents, calculated by reference to market consensus dividend yield.

#### Deferred share awards

Grant date	2020					
	22 June		30 March		9 March	
Share price at grant date (£)	4.27		4.67		5.20	
	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
Vesting period (years)						
1–3 years	NA	4.27	NA, 4.2	4.67, 4.13	NA, 4.2, 4.2	5.20, 4.79, 4.59
1–5 years	–	–	4.2	4.04	4.2, 4.2	4.59, 4.50
3–7 years	–	–	–	–	4.2, 4.2	4.23, 4.06

2019					
Grant date	24 June		11 March		
Share price at grant date (£)	7.03		6.11		
	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	
Vesting period (years)					
1–3 years	N/A, 4.2, 4.2	7.03, 6.47, 6.21	N/A, 4.2, 4.2	6.11, 5.62, 5.40	
1–5 years	–	–	4.2, 4.2	5.29, 5.40	
3–7 years	–	–	4.2, 4.2	4.77, 4.97	

## 31. Share-based payments continued

### Other restricted share awards

Grant date	2020							
	26 November		30 September		22 June		9 March	
Share price at grant date (£)	4.71		3.52		4.27		5.20	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	4.2	4.34, 4.52	4.2	3.38	4.2	4.10	4.2	4.99
2 years	4.2	4.16, 4.34	4.2	3.24	4.2	3.93	4.2	4.79
2-3 years	–	–	–	–	–	–	–	–
3 years	4.2	4.16	4.2	3.11	4.2	3.77	4.2	4.59
4 years	4.2	4.00	4.2	2.98	4.2	3.62	4.2	4.41
5 years	–	–	–	–	4.2	3.48	4.2	4.23

Grant date	2019							
	28 November		1 October		24 June		11 March	
Share price at grant date (£)	7.04		6.84		7.03		6.11	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	4.2	6.75	4.2	6.57	4.2	6.74	4.2	5.86, 5.62, 5.74
2 years	4.2	6.48	4.2	6.30	4.2	6.47	4.2	5.62, 5.40
2-3 years	–	–	–	–	–	–	–	–
3 years	4.2	6.22	4.2	6.05	4.2	6.21	4.2	5.40
4 years	–	–	4.2	5.80	4.2	5.96	4.2	5.18
5 years	–	–	4.2	5.57	4.2	5.72	–	–

### All Employee Sharesave Plans

#### 2013 Sharesave Plan

Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may save up to £250 per month over three years to purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 2013 Sharesave Plan and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries, where possible, the Group offers an equivalent cash-based plan to its employees.

The 2013 Sharesave Plan was approved by shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is two years.

#### Valuation – Sharesave:

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

#### All Employee Sharesave Plan (Sharesave)

	2020	2019
Grant date	30 September	1 October
Share price at grant date (£)	3.52	6.84
Exercise price (£)	3.14	4.98
Vesting period (years)	3	3
Expected volatility (%)	31.8	25.3
Expected option life (years)	3.33	3.33
Risk-free rate (%)	(0.07)	0.26
Expected dividend yield (%)	4.2	4.2
Fair value (£)	0.69	1.62

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 calculated by reference to market consensus dividend yield.

## 31. Share-based payments continued

### Limits

An award shall not be granted under the 2011 Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares allocated in the period of 10 calendar years ending with that calendar year under the 2011 Plan and under any other discretionary share plan operated by Standard Chartered PLC to exceed such number as represents 5 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

An award shall not be granted under the 2011 Plan or 2013 Sharesave Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares allocated in the period of 10 calendar years ending with that calendar year under the 2011 Plan or 2013 Sharesave Plan and under any other employee share plan operated by Standard Chartered PLC to exceed such number as represents 10 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

An award shall not be granted under the 2011 Plan or 2013 Sharesave Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares which may be issued or transferred pursuant to awards then outstanding under the 2011 Plan or 2013 Sharesave Plan as relevant to exceed such number as represents 10 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

The number of Standard Chartered PLC ordinary shares which may be issued pursuant to awards granted under the 2011 Plan in any 12-month period must not exceed such number as represents 1 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time. The number of Standard Chartered PLC ordinary shares which may be issued pursuant to awards granted under the 2013 Sharesave Plan in any 12-month period must not exceed such number as represents 1 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

### Reconciliation of share award movements for the year to 31 December 2020

	2011 Plan <sup>1</sup>		PSP <sup>1</sup>	Sharesave	Weighted average Sharesave exercise price (£)
	LTIP	Deferred/ Restricted shares			
Outstanding at 1 January 2020	20,912,679	28,235,461	–	12,602,842	5.28
Granted <sup>2,3</sup>	3,086,220	23,452,802	–	7,373,729	–
Lapsed	(824,269)	(657,697)	–	(3,228,307)	5.37
Exercised	(256,388)	(11,487,018)	–	(156,560)	5.30
Outstanding at 31 December	22,918,242	39,543,548	–	16,591,704	4.31
Total number of securities available for issue under the plan	22,918,242	39,543,548	–	16,591,704	4.31
Percentage of the issued shares this represents as at 31 December	0.7%	1.3%	–	0.5%	
Exercisable as at 31 December	27,810	2,395,136	–	1,549,597	6.16
Range of exercise prices (£) <sup>3</sup>	–	–	–	3.14 – 6.20	–
Intrinsic value of vested but not exercised options (\$ million)	0.18	15.23	–	0.02	
Weighted average contractual remaining life (years)	6.28	8.36	–	2.47	
Weighted average share price for awards exercised during the period (£)	4.28	4.55	–	6.76	

1 Employees do not contribute towards the cost of these awards

2 22,007,464 (DRSA/RSA) granted on 9 March 2020, 189,991 (DRSA/RSA) granted as notional dividend on 6 March 2020, 3,025,163 (LTIP) granted on 9 March 2020, 56,805 (LTIP) granted as notional dividend on 6 March 2020, 86,319 (DRSA/RSA) granted on 30 March 2020, 214,754 (DRSA/RSA) granted on 22 June 2020, 4,252 (LTIP) granted as notional dividend on 25 August 2020, 503,520 (DRSA/RSA) granted on 30 September 2020, 7,373,729 (Sharesave) granted on 30 September 2020, 450,754 (DRSA/RSA) granted on 26 November 2020

3 For Sharesave granted in 2020 the exercise price is £3.14 per share, which was a 20% discount to the closing share price on 28 August 2020. The closing share price on 28 August 2020 was £3.924

**31. Share-based payments** continued**Reconciliation of share award movements for the year to 31 December 2019**

	2011 Plan <sup>1</sup>				Weighted average Sharesave exercise price (£)
	LTIP	Deferred/ Restricted shares	PSP <sup>1</sup>	Sharesave	
Outstanding at 1 January 2019	27,003,333	26,612,980	4,270	13,724,361	5.48
Granted <sup>2,3</sup>	2,777,179	15,140,609	–	5,025,310	–
Lapsed	(2,824,549)	(1,441,046)	–	(1,821,467)	5.50
Exercised	(6,043,284)	(12,077,082)	(4,270)	(4,325,362)	5.49
Outstanding at 31 December	20,912,679	28,235,461	–	12,602,842	5.28
Total number of securities available for issue under the plan	20,912,679	28,235,461	–	12,602,842	
Percentage of the issued shares this represents as at 31 December	0.7%	0.9%	–	0.4%	
Exercisable as at 31 December	53,986	2,539,752	–	1,231,333	5.30
Range of exercise prices (£) <sup>3</sup>	–	–	–	4.98 – 6.20	
Intrinsic value of vested but not exercised options (\$ million)	0.51	24.13	–	3.06	
Weighted average contractual remaining life (years)	6.85	8.25	–	2.44	
Weighted average share price for awards exercised during the period (£)	6.37	6.33	6.95	6.72	

1. Employees do not contribute towards the cost of these awards

2. 14,346,920 (DRSA/RSA) granted on 11 March 2019, 186,955 (DRSA/RSA) granted as notional dividend on 8 March 2019, 2,530,325 (LTIP) granted on 11 March 2019, 232,895 (LTIP) granted as notional dividend on 8 March 2019, 278,813 (DRSA/RSA) granted on 24 June 2019, 74,125 (DRSA/RSA) granted as notional dividend on 9 August 2019, 13,959 (LTIP) granted as notional dividend on 9 August 2019, 151,751 (RSA) granted on 1 October 2019, 5,025,310 (Sharesave) granted on 1 October 2019 and 102,045 (RSA) granted on 28 November 2019

3. For Sharesave granted in 2019 the exercise price is £4.98 per share, which was a 20% discount to the closing share price on 30 August 2019. The closing share price on 30 August 2019 was £6.22

**32. Investments in subsidiary undertakings, joint ventures and associates****Accounting policy****Subsidiaries**

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, and has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to reassessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are deconsolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement.

**Associates and joint arrangements**

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations), or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. The Group did not have any contractual interest in joint operations.

**An associate is an entity over which the Group has significant influence.**

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. At each balance sheet date, the Group assesses whether there is any objective evidence of impairment in the investment in associates and joint ventures. Such evidence includes a significant or prolonged decline in the fair value of the Group's investment in an associate or joint venture below its cost, among other factors.

## 32. Investments in subsidiary undertakings, joint ventures and associates continued

### Significant accounting estimates and judgements

The Group applies judgement in determining if it has control, joint control or significant influence over subsidiaries, joint ventures and associates respectively. These judgements are based upon identifying the relevant activities of counterparties, being those activities that significantly affect the entities' returns, and further making a decision of if the Group has control over those entities, joint control, or has significant influence (being the power to participate in the financial and operating policy decisions but not control them).

These judgements are at times determined by equity holdings, and the voting rights associated with those holdings. However, further considerations including but not limited to board seats, advisory committee members and specialist knowledge of some decision-makers are also taken into account. Further judgement is required when determining if the Group has de-facto control over an entity even though it may hold less than 50 per cent of the voting shares of that entity. Judgement is required to determine the relative size of the Group's shareholding when compared to the size and dispersion of other shareholders.

Impairment testing of investments in associates and joint ventures is performed if there is a possible indicator of impairment. Judgement is used to determine if there is objective evidence of impairment. Objective evidence may be observable data such as losses incurred on the investment when applying the equity method, the granting of concessions as a result of financial difficulty, or breaches of contracts/regulatory fines of the associate or joint venture. Further judgement is required when considering broader indicators of impairment such as losses of active markets or ratings downgrades across key markets in which the associate or joint venture operate.

Impairment testing is based on estimates including forecasting the expected cash flows from the investments, growth rates, terminal values and the discount rate used in calculation of the present values of those cash flows. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement.

### Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see Note 17 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if: (i) they arise within 12 months of the acquisition date (or relate to acquisitions completed before 1 January 2014); and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and, if applicable, prior year amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary, which do not result in a loss of control, are treated as transactions between equity holders and are reported in equity. Where a business combination is achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement.

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Investments in subsidiary undertakings	2020 \$million	2019 \$million
As at 1 January	58,037	34,853
Additions <sup>1</sup>	1,370	23,184
Disposal <sup>2</sup>	(2,000)	–
As at 31 December	57,407	58,037

1 Includes internal Additional Tier 1 issuances of \$1 billion by Standard Chartered Bank (Hong Kong) Limited. (31 December 2019: Includes internal Additional Tier 1 issuances of \$900 million by Standard Chartered Bank (Hong Kong) Limited and \$500 million and SGD750 million by Standard Chartered Bank (Singapore) Limited)

2 Redemption of Additional Tier 1 capital of \$2 billion by Standard Chartered Bank

**32. Investments in subsidiary undertakings, joint ventures and associates** continued

At 31 December 2020, the principal subsidiary undertakings, all indirectly held except for Standard Chartered Bank (Hong Kong) Limited, and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered Bank (China) Limited, China <sup>1</sup>	China	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.87
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.32

1 Under PRC law, registered as 'Standard Chartered Bank (China) Limited, China'

A complete list of subsidiary undertaking is included in Note 40.

The Group does not have any material non-controlling interests in any of its subsidiaries except the 25.68 per cent non-controlling interest in Standard Chartered Bank Kenya Limited. This contributes \$13 million (31 December 2019: \$20 million) of the profit attributable to non-controlling interests and \$111 million (31 December 2019: \$111 million) of the equity attributable to non-controlling interests.

While the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory framework within which the banking subsidiaries operate. These frameworks require banking operations to keep certain levels of regulatory capital, liquid assets, exposure limits and comply with other required ratios. These restrictions are summarised below:

**Regulatory and liquidity requirements**

The Group's subsidiaries are required to maintain minimum capital, leverage ratios, liquidity and exposure ratios which therefore restrict the ability of these subsidiaries to distribute cash or other assets to the parent company.

The subsidiaries are also required to maintain balances with central banks and other regulatory authorities in the countries in which they operate. At 31 December 2020, the total cash and balances with central banks was \$67 billion (31 December 2019: \$53 billion) of which \$7 billion (31 December 2019: \$10 billion) is restricted.

**Statutory requirements**

The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits to the parent company, generally to maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends to the Group. Certain subsidiaries are also subject to local exchange control regulations which provide for restrictions on exporting capital from the country other than through normal dividends.

## 32. Investments in subsidiary undertakings, joint ventures and associates continued

### Contractual requirements

The encumbered assets in the balance sheet of the Group's subsidiaries are not available for transfer around the Group. Encumbered assets are disclosed in Risk review and Capital review (page 240).

Share of profit from investment in associates and joint ventures comprises:

	2020 \$million	2019 \$million
(Loss)/profit from investment in joint ventures	(3)	48
Profit from investment in associates	154	252
Total	151	300

	2020 \$million	2019 \$million
<b>Interests in associates and joint ventures</b>		
As at 1 January	1,908	2,307
Exchange translation difference	123	15
Additions	52	64
Share of profits	151	300
Dividend received	–	(3)
Disposals	(35)	–
Share of FVOCI and Other reserves	(37)	25
Transfer to held for sale assets <sup>1</sup>	–	(800)
As at 31 December	2,162	1,908

1 Refer to Note 21 Assets held for sale and associated liabilities where our joint venture PT Bank Permata Tbk (Permata) is disclosed

A complete list of the Group's interest in associates is included in Note 40. The Group's principal associate is:

Associate	Nature of activities	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	Banking	China	16.26

The Group's investment in China Bohai Bank is less than 20 per cent but it is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. This influence is through board representation and the provision of technical expertise to Bohai. The Group applies the equity method of accounting for investments in associates.

The Group's ownership percentage decreased to 16.26 per cent from 19.99 per cent as a result of the IPO which was completed on the 16 July 2020 in which the Group did not participate. A \$35 million loss was recognised on the dilution of the Group's ownership percentage as the IPO price was based on the net asset value of Bohai at 31 December 2019.

The Group has recognised 19.99 per cent of Bohai's earnings through the date of the IPO after which it has recognised 16.26 per cent of Bohai's earnings. Bohai has a statutory year end of 31 December, but Bohai publishes their results after the Group. For the year ended 31 December 2019, the Group was on a one-month lag in recognising its share of Bohai's earnings. For the year ended 31 December 2020, the Group recognised Bohai's results through 30 September 2020 (10 months of earnings, including December 2019). The Group will continue on a three-month lag in recognising its share of Bohai's earnings going forward.

### Impairment testing

At 31 December 2020, the listed equity value of Bohai is below the carrying amount of the investment in associate. As a result, the Group has performed an impairment test on the carrying amount, which confirmed that there was no impairment at 31 December 2020 as the recoverable amount as determined by a value-in-use ('VIU') calculation was higher than the carrying value.

	VIU \$million	Carrying amount \$million	Fair value \$million
Bohai	2,943	2,025	1,888

## 32. Investments in subsidiary undertakings, joint ventures and associates continued

### Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of Bohai, determined by a VIU calculation, with its carrying amount. The VIU calculation uses three primary inputs, being;

- Discounted short to medium term cash flow projections based on management's best estimates of future earnings available to ordinary shareholders;
- A discount rate representing the risk-free rate and company risk premiums, and;
- A long term sustainable growth rate which is used to extrapolate in perpetuity those expected short to medium term earnings to derive a terminal value.

From the estimated cash flows a capital maintenance haircut is taken in order for Bohai to meet its target regulatory capital requirements over the forecast period. This haircut takes into account movements in risk-weighted assets and the total capital required, including retained earnings to meet the target capital ratios.

The key assumptions used in the VIU calculation:

	%
Discount rate	10.00
Long term growth rate	5.00
Capital requirement adequacy ratio	7.50

Carrying amount \$million	Base case				Sensitivities 2020					
	VIU \$million	Headroom \$million	Discount Rate	GDP	GDP		Discount rates		Cash flows	
					+1%	-1%	+1%	-1%	+10%	-10%
					Headroom \$million	Headroom \$million	Headroom \$million	Headroom \$million	Headroom \$million	Headroom \$million
2,025	2,943	918	10%	5%	1,460	557	480	1,573	1,353	483

The following table sets out the summarised financial statements of China Bohai Bank prior to the Group's share of the associates being applied:

	30 Sep 2020 \$million	30 Nov 2019 \$million
Total assets	202,537	156,429
Total liabilities	187,024	147,407
Other equity instruments	3,053	2,865
Operating income	3,474	3,769
Net profit	950	1,163
Other comprehensive income	(121)	(63)

### 33. Structured entities

#### Accounting policy

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Contractual arrangements determine the rights and therefore relevant activities of the structured entity. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their activities. Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group has power over the contractual relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure.

In determining whether to consolidate a structured entity to which assets have been transferred, the Group takes into account its ability to direct the relevant activities of the structured entity. These relevant activities are generally evidenced through a unilateral right to liquidate the structured entity, investment in a substantial proportion of the securities issued by the structured entity or where the Group holds specific subordinate securities that embody certain controlling rights. The Group may further consider relevant activities embedded within contractual arrangements such as call options which give the practical ability to direct the entity, special relationships between the structured entity and investors, and if a single investor has a large exposure to variable returns of the structured entity.

Judgement is required in determining control over structured entities. The purpose and design of the entity is considered, along with a determination of what the relevant activities are of the entity and who directs these. Further judgements are made around which investor is exposed to, and absorbs the variable returns of the structured entity. The Group will have to weigh up all of these facts to consider whether the Group, or another involved party is acting as a principal in its own right or as an agent on behalf of others. Judgement is further required in the ongoing assessment of control over structured entities, specifically if market conditions have an effect on the variable return exposure of different investors.

The Group has involvement with both consolidated and unconsolidated structured entities, which may be established by the Group as a sponsor or by a third-party.

**Interests in consolidated structured entities:** A structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination in the accounting policy above.

The following table presents the Group's interests in consolidated structured entities.

	2020 \$million	2019 \$million
Aircraft and ship leasing	4,388	4,312
Principal and other structured finance	365	816
<b>Total</b>	<b>4,753</b>	<b>5,128</b>

#### Interests in unconsolidated structured entities:

Unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below presents the carrying amount of the assets recognised in the financial statements relating to variable interests held in unconsolidated structured entities, the maximum exposure to loss relating to those interests and the total assets of the structured entities. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the structured entity. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees, the maximum exposure to loss is the notional amount of potential future losses.

	2020					2019				
	Asset-backed securities \$million	Structured finance \$million	Principal Finance funds \$million	Other activities \$million	Total \$million	Asset-backed securities \$million	Structured finance \$million	Principal Finance funds \$million	Other activities \$million	Total \$million
<b>Group's interest – assets</b>										
Financial assets held at fair value through profit or loss	1,002	–	197	271	1,470	1,055	–	105	181	1,341
Loans and advances/Investment securities at amortised cost	8,270	3,081	267	–	11,618	4,939	2,020	343	251	7,553
Investment securities (fair value through other comprehensive income)	2,912	–	–	–	2,912	3,158	–	–	–	3,158
Other assets	–	–	34	–	34	–	–	289	–	289
Total assets	12,184	3,081	498	271	16,034	9,152	2,020	737	432	12,341
Off-balance sheet	69	914	67	–	1,050	65	572	109	–	746
Group's maximum exposure to loss	12,253	3,995	565	271	17,084	9,217	2,592	846	432	13,087
Total assets of structured entities	198,622	10,410	2,424	276	211,732	153,948	6,594	3,028	7,976	171,546

### 33. Structured entities continued

The main types of activities for which the Group utilises unconsolidated structured entities cover synthetic credit default swaps for managed investment funds (including specialised Principal Finance funds), portfolio management purposes, structured finance and asset-backed securities. These are detailed as follows:

- **Asset-backed securities (ABS):** The Group also has investments in asset-backed securities issued by third-party sponsored and managed structured entities. For the purpose of market making and at the discretion of ABS trading desk, the Group may hold an immaterial amount of debt securities from structured entities originated by credit portfolio management. This is disclosed in the ABS column above

Portfolio management (Group sponsored entities): For the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing structured entities. This credit protection creates credit risk which the structured entity and subsequently the end investor absorbs. The referenced assets remain on the Group's balance sheet as they are not assigned to these structured entities. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not derecognised from the Group's balance sheet. The Group does not hold any equity interests in the structured entities, but may hold an insignificant amount of the issued notes for market making purposes. This is disclosed in the ABS section above. The proceeds of the notes' issuance are typically held as cash collateral in the issuer's account operated by a trustee or invested in AAA-rated government-backed securities to collateralise the structured entities swap obligations to the Group, and to repay the principal to investors at maturity. The structured entities reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the structured entities write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All funding is committed for the life of these vehicles and the Group has no indirect exposure in respect of the vehicles' liquidity position. The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the structured entities have Standard Chartered branding.

- **Structured finance:** Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more structured entities, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to real estate financing and the provision of aircraft leasing and ship finance.
- **Principal Finance Fund:** The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure, real estate and private equity.
- **Other activities:** Other activities include structured entities created to support margin financing transactions, the refinancing of existing credit and debt facilities, as well as setting up of bankruptcy remote structured entities.

### 34. Cash flow statement

#### Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2020 \$million	2019 \$million	2020 \$million	2019 \$million
Amortisation of discounts and premiums of investment securities	(588)	(818)	–	–
Interest expense on subordinated liabilities	637	756	606	688
Interest expense on senior debt securities in issue	639	677	559	606
Other non-cash items	686	792	(36)	(75)
Pension costs for defined benefit schemes	81	73	–	–
Share-based payment costs	132	166	–	–
Impairment losses on loans and advances and other credit risk provisions	2,325	908	–	–
Dividend income from subsidiaries	–	–	(1,110)	(17,979)
Other impairment	587	163	–	–
Net gain on derecognition of investment in associate	(6)	–	–	–
Profit from associates and joint ventures	(151)	(300)	–	–
<b>Total</b>	<b>4,342</b>	<b>2,417</b>	<b>19</b>	<b>(16,760)</b>

### 34. Cash flow statement continued

#### Change in operating assets

	Group		Company	
	2020 \$million	2019 \$million	2020 \$million	2019 \$million
Increase in derivative financial instruments	(21,640)	(1,603)	(742)	(220)
Increase in debt securities, treasury bills and equity shares held at fair value through profit or loss	(5,385)	(5,579)	(8,281)	(4,502)
Increase in loans and advances to banks and customers	(5,361)	(19,108)	–	–
Net decrease/(increase) in prepayments and accrued income	588	(199)	–	–
Net (increase)/decrease in other assets	(6,266)	(8,944) <sup>1</sup>	572	(751)
<b>Total</b>	<b>(38,064)</b>	<b>(35,433)</b>	<b>(8,451)</b>	<b>(5,473)</b>

1 Aircraft and shipping purchases and disposals re-presented as cash flows from investing activities. This was previously presented under operating activities

#### Change in operating liabilities

	Group		Company	
	2020 \$million	2019 \$million	2020 \$million	2019 \$million
Increase/(decrease) in derivative financial instruments	22,399	1,290	(378)	(390)
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	28,087	27,850	6,630	1,131
(Decrease)/increase in accruals and deferred income	(845)	(15)	67	(18)
Net increase/(decrease) in other liabilities	4,796	810	96	(4,905)
<b>Total</b>	<b>54,437</b>	<b>29,935</b>	<b>6,415</b>	<b>(4,182)</b>

#### Changes in liabilities arising from financing activities

	Group		Company	
	2020 \$million	2019 \$million	2020 \$million	2019 \$million
<b>Subordinated debt (including accrued interest):</b>				
Opening balance	16,445	15,227	14,737	13,648
Proceeds from the issue	2,473	1,000	2,473	1,000
Interest paid	(601)	(603)	(537)	(547)
Repayment	(2,446)	(23)	(1,402)	–
Foreign exchange movements	170	(2)	166	(14)
Fair value changes	255	227	243	147
Other	596	619	552	503
<b>Closing balance</b>	<b>16,892</b>	<b>16,445</b>	<b>16,232</b>	<b>14,737</b>
<b>Senior debt (including accrued interest):</b>				
Opening balance	23,889	21,998	19,849	17,361
Proceeds from the issue	9,953	9,169	2,193	6,012
Interest paid	(627)	(797)	(575)	(740)
Repayment	(4,305)	(7,692)	(2,106)	(3,780)
Foreign exchange movements	622	(1)	468	(1)
Fair value changes	574	360	426	283
Other	(117)	852	634	714
<b>Closing balance</b>	<b>29,989</b>	<b>23,889</b>	<b>20,889</b>	<b>19,849</b>

### 35. Cash and cash equivalents

#### Accounting policy

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

The following balances with less than three months' maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents.

	Group		Company	
	2020 \$million	2019 \$million	2020 \$million	2019 \$million
Cash and balances at central banks	66,712	52,728	–	–
Less: restricted balances	(7,341)	(9,843)	–	–
Treasury bills and other eligible bills	10,500	10,078	–	–
Loans and advances to banks	25,762	21,556	–	–
Trading securities	2,241	2,935	–	–
Amounts owed by and due to Subsidiary undertakings	–	–	12,283	11,622
<b>Total</b>	<b>97,874</b>	<b>77,454</b>	<b>12,283</b>	<b>11,622</b>

### 36. Related party transactions

#### Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report.

IAS 24 Related party disclosures requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC, the Court directors of Standard Chartered Bank and the persons discharging managerial responsibilities (PDMR) of Standard Chartered PLC.

	2020 \$million	2019 \$million
Salaries, allowances and benefits in kind	35	37
Share-based payments	26	28
Bonuses paid or receivable	1	4
<b>Total</b>	<b>62</b>	<b>69</b>

#### Transactions with directors and others

At 31 December 2020, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (Hong Kong Listing Rules) about loans to directors were as follows:

	2020		2019	
	Number	\$million	Number	\$million
Directors <sup>1</sup>	3	–	3	–

<sup>1</sup> Outstanding loan balances were below \$50,000

The loan transactions provided to the directors of Standard Chartered PLC were a connected transaction under Chapter 14A of the Hong Kong Listing Rules. It was fully exempt as financial assistance under Rule 14A.87(1), as it was provided in our ordinary and usual course of business and on normal commercial terms.

As at 31 December 2020, Standard Chartered Bank had created a charge over \$89 million (31 December 2019: \$86 million) of cash assets in favour of the non-consolidated independent trustee of its employer financed retirement benefit scheme.

## 36. Related party transactions continued

### Company

The Company has received \$904 million (31 December 2019: \$1006 million) of net interest income from its subsidiaries. The Company issues debt externally and lends proceeds to Group companies.

The Company has an agreement with Standard Chartered Bank that in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

	2020			2019		
	Standard Chartered Bank \$million	Standard Chartered Bank (Hong Kong) Limited \$million	Others <sup>1</sup> \$million	Standard Chartered Bank \$million	Standard Chartered Bank (Hong Kong) Limited \$million	Others <sup>1</sup> \$million
<b>Assets</b>						
Due from subsidiaries	11,706	45	356	11,068	32	346
Derivative financial instruments	846	126	–	212	17	–
Debt securities	18,092	4,686	1,151	13,665	3,953	548
<b>Total assets</b>	<b>30,644</b>	<b>4,857</b>	<b>1,507</b>	<b>24,945</b>	<b>4,002</b>	<b>894</b>
<b>Liabilities</b>						
Due to subsidiaries	212	–	–	26	–	–
Derivative financial instruments	347	–	13	738	–	–
<b>Total liabilities</b>	<b>559</b>	<b>–</b>	<b>13</b>	<b>764</b>	<b>–</b>	<b>–</b>

1 Others include Standard Chartered Bank (Singapore) Limited, Standard Chartered Holdings Limited and Standard Chartered IH Limited

### Associate and joint ventures

The following transactions with related parties are on an arm's length basis:

	2020 \$million	2019 \$million
<b>Assets</b>		
Loans and advances	5	2
Debt securities	–	79
<b>Total assets</b>	<b>5</b>	<b>81</b>
<b>Liabilities</b>		
Deposits	1,061	225
Derivative liabilities	5	–
<b>Total liabilities</b>	<b>1,066</b>	<b>225</b>
Loan commitments and other guarantees <sup>1</sup>	55	53

1 The maximum loan commitments and other guarantees during the year was \$55 million

On 26 March 2020, the Group entered into an investment agreement and shareholders' agreement with Clifford Capital Holdings Pte. Ltd (a related party of the Group), the special purpose vehicles wholly owned by Temasek (namely, Kovan Investments Pte. Ltd. and Aranda Investments Pte. Ltd.), DBS Bank Ltd., Sumitomo Mitsui Banking Corporation, Prudential Assurance Company Singapore (Pte) Limited, and John Hancock Life Insurance Company (U.S.A.), with Asian Development Bank subsequently joining as a party. This transaction is considered to be a related party transaction under IAS 24. This transaction also constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules and has complied with the requirements of that Chapter. Further details of the transaction are set out on page 170.

Other than as disclosed in the Annual Report, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Hong Kong Listing Rules.

## 37. Post balance sheet events

On 14 January 2021, Standard Chartered PLC issued \$1,250 million fixed rate Additional Tier 1 (AT1) securities. On 14 January 2021, Standard Chartered PLC also issued \$1,500 million 0.991 per cent senior debt due 2025 and \$1,500 million 1.456 per cent senior debt due 2027.

Following the publication of recent PRA guidance, the Board has recommended a final ordinary dividend for 2020 of 9 cents a share or \$284 million. The Board has also decided to carry out a share buy-back for up to a maximum consideration of \$254 million to further reduce the number of ordinary shares in issue by cancelling the repurchased shares.

Nine vessels within the ship leasing business, disclosed as held for sale at year end, were sold in January 2021.

### 38. Auditor's remuneration

Auditor's remuneration is included within other general administration expenses. The amounts paid by the Group to their principal auditor, Ernst & Young LLP and its associates (together Ernst & Young LLP), are set out below. All services are approved by the Group Audit Committee and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

	2020 \$million	2019 \$million
Audit fees for the Group statutory audit	11.0	10.0
Fees payable to EY/KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries	9.9	8.4
Total audit fees	20.9	18.4
Audit-related assurance services	5.1	7.6
Other assurance services	2.1	0.1
Other non-audit services	0.1	–
Corporate finance transaction services	0.4	0.6
<b>Total fees payable</b>	<b>28.6</b>	<b>26.7</b>

The following is a description of the type of services included within the categories listed above:

- Audit fees for the Group statutory audit are in respect of fees payable to Ernst & Young LLP for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC
- Audit-related fees consist of fees such as those for services required by law or regulation to be provided by the auditor, reviews of interim financial information, reporting on regulatory returns, reporting to a regulator on client assets and extended work performed over financial information and controls authorised by those charged with governance
- Other assurance services include agreed-upon-procedures in relation to statutory and regulatory filings
- Corporate finance transaction services are fees payable to Ernst & Young LLP for issuing comfort letters

Expenses for costs incurred and disbursements made in respect of their role as auditor, were reimbursed to EY. Such expenses since their appointment on 31 March 2020, did not exceed 1% of total fees charged above.

### 39. Standard Chartered PLC (Company)

#### Group reorganisation

The Board of the Group approved in 2018 an in principle group reorganisation which would result in Standard Chartered Bank (SCB) transferring its ordinary shares in Standard Chartered Bank (Hong Kong) Limited (SCB HK), Standard Chartered Bank (China) Limited (SCB China), Standard Chartered NEA Limited (SC NEA) and Standard Chartered Bank (Taiwan) Limited (SCB TW) to other entities within the Standard Chartered PLC Group.

On 4 March 2019, SCB transferred via a dividend in specie its ordinary shares in SCB HK to Standard Chartered Holdings Limited (SCH). SCH in turn transferred via a dividend in specie 100% of the ordinary shares of SCB HK to Standard Chartered PLC (SC PLC), the Group's ultimate parent.

On 1 June 2019, the Company transferred its shareholding in SCB China to SCB HK in exchange for ordinary shares in SCB HK. On 3 June 2019, the Company transferred via dividend in specie such SCB HK shares to SCH and in turn, SCH transferred via dividend in specie such SCB HK shares to SC PLC.

On 1 October 2019, the Company transferred its ordinary shares in SC NEA, the holding company of Standard Chartered Bank Korea Limited, to SCB HK, and on the same day, its ordinary shares in SCB TW to SC NEA.

All of the transfers were done on a fair value basis in the Standard Chartered PLC (Company) accounts. The result of these transfers was an increase in Investment in Subsidiaries and corresponding dividend income of \$20,989 million. This resulted in an increase to retained earnings but no change to distributable reserves.

## 39. Standard Chartered PLC (Company) continued

### Classification and measurement of financial instruments

	2020				2019			
	Derivatives held for hedging \$million	Amortised cost \$million	Non-trading mandatorily at fair value through profit or loss \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Non-trading mandatorily at fair value through profit or loss \$million	Total \$million
<b>Financial assets</b>								
Derivatives	971	–	–	971	229	–	–	229
Investment securities	–	11,146	12,783	23,929	–	13,665	4,502 <sup>1</sup>	18,167
Amounts owed by subsidiary undertakings	–	12,283	–	12,283	–	11,622	–	11,622
<b>Total</b>	<b>971</b>	<b>23,429</b>	<b>12,783</b>	<b>37,183</b>	<b>229</b>	<b>25,287</b>	<b>4,502</b>	<b>30,018</b>

1 Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (Singapore) Limited issued Loss Absorbing Capacity (LAC) eligible debt securities

Instruments classified as amortised cost are recorded in Stage 1.

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank and Standard Chartered Bank (Hong Kong) Limited.

Debt securities comprise corporate securities issued by Standard Chartered Bank and have a fair value equal to carrying value of \$11,146 million (31 December 2019: \$13,665 million).

In 2020 and 2019, amounts owed by Subsidiary undertakings have a fair value equal to carrying value.

	2020				2019			
	Derivatives held for hedging \$million	Amortised cost \$million	Designated at fair value through profit or loss \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Designated at fair value through profit or loss \$million	Total \$million
<b>Financial liabilities</b>								
Derivatives	360	–	–	360	738	–	–	738
Debt securities in issue	–	20,701	5,266	25,967	–	19,713	112	19,825
Subordinated liabilities and other borrowed funds	–	14,783	1,286	16,069	–	14,588	–	14,588
Amounts owed to subsidiary undertakings	–	212	–	212	–	26	–	26
<b>Total</b>	<b>360</b>	<b>35,696</b>	<b>6,552</b>	<b>42,608</b>	<b>738</b>	<b>34,327</b>	<b>112</b>	<b>35,177</b>

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is \$21,231 million (31 December 2019: \$20,030 million) and have fair value equal to carrying value.

The fair value of subordinated liabilities and other borrowed funds is \$15,792 million (31 December 2019: \$15,238 million).

### Derivative financial instruments

	2020			2019		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Derivatives</b>						
<b>Foreign exchange derivative contracts:</b>						
Forward foreign exchange	3,300	126	125	–	17	–
Currency swaps	3,895	17	186	5,114	–	642
Other foreign exchange (OTC)	–	–	–	1,564	34	–
<b>Interest rate derivative contracts:</b>						
Swaps	14,677	777	–	13,201	178	96
Forward rate agreements and options	394	51	49	–	–	–
<b>Total</b>	<b>22,266</b>	<b>971</b>	<b>360</b>	<b>19,879</b>	<b>229</b>	<b>738</b>

**39. Standard Chartered PLC (Company) continued****Credit risk****Maximum exposure to credit risk**

	2020 \$million	2019 \$million
Derivative financial instruments	971	229
Debt securities	23,929	18,167
Amounts owed by subsidiary undertakings	12,283	11,622
<b>Total</b>	<b>37,183</b>	<b>30,018</b>

In 2020 and 2019, amounts owed by Subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2020 and 2019, the Company had no impaired debt securities. The debt securities held by the Company are issued by Standard Chartered Bank (Hong Kong) Limited and by Standard Chartered Bank (Singapore) Limited, subsidiary undertaking with credit ratings of A+/A/A1.

There is no material expected credit loss on these instruments as they are Stage 1 assets, short term in nature and of a high quality.

**Liquidity risk**

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

	2020								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Derivative financial instruments	136	-	-	-	21	3	326	485	971
Investment securities	-	-	-	-	-	4,247	4,770	14,912	23,929
Amount owed by subsidiary undertakings	574	600	1,355	975	-	2,370	3,300	3,109	12,283
Investments in Subsidiary undertakings	-	-	-	-	-	-	-	57,407	57,407
Other assets	-	-	-	-	-	-	-	9	9
<b>Total assets</b>	<b>710</b>	<b>600</b>	<b>1,355</b>	<b>975</b>	<b>21</b>	<b>6,620</b>	<b>8,396</b>	<b>75,922</b>	<b>94,599</b>
<b>Liabilities</b>									
Derivative financial instruments	138	-	114	-	-	10	50	48	360
Senior debt	1,000	-	1,230	436	-	2,760	9,950	10,591	25,967
Amount owed to subsidiary undertakings	-	-	-	-	-	-	-	212	212
Other liabilities	179	126	92	12	10	-	-	46	465
Subordinated liabilities and other borrowed funds	-	-	-	-	-	1,956	3,710	10,403	16,069
<b>Total liabilities</b>	<b>1,317</b>	<b>126</b>	<b>1,436</b>	<b>448</b>	<b>10</b>	<b>4,726</b>	<b>13,710</b>	<b>21,300</b>	<b>43,073</b>
<b>Net liquidity gap</b>	<b>(607)</b>	<b>474</b>	<b>(81)</b>	<b>527</b>	<b>11</b>	<b>1,894</b>	<b>(5,314)</b>	<b>54,622</b>	<b>51,526</b>

### 39. Standard Chartered PLC (Company) continued

#### Liquidity risk continued

	2019								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Derivative financial instruments	34	–	1	–	–	8	52	134	229
Investment securities	–	–	–	–	–	–	7,024	11,143	18,167
Amount owed by subsidiary undertakings	–	5	2,104	–	–	1,025	5,249	3,239	11,622
Investments in Subsidiary undertakings	–	–	–	–	–	–	–	58,037	58,037
Other assets	–	–	–	–	–	–	–	15	15
<b>Total assets</b>	34	5	2,105	–	–	1,033	12,325	72,568	88,070
<b>Liabilities</b>									
Derivative financial instruments	–	–	3	–	286	229	127	93	738
Senior debt	–	–	2,104	–	–	2,547	7,734	7,328	19,713
Other debt securities in issue	–	–	–	–	–	–	–	–	–
Amount owed to subsidiary undertakings	–	–	–	–	–	–	–	26	26
Other liabilities	298	86	68	7	20	–	–	36	515
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	5,478	9,110	14,588
<b>Total liabilities</b>	298	86	2,175	7	306	2,776	13,339	16,593	35,580
<b>Net liquidity gap</b>	(264)	(81)	(70)	(7)	(306)	(1,743)	(1,014)	55,975	52,490

#### Financial liabilities on an undiscounted basis

	2020								Total \$million
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	
Derivative financial instruments	138	–	114	–	–	10	50	48	360
Debt securities in issue	1,000	11	1,517	446	317	3,350	11,225	11,783	29,649
Subordinated liabilities and other borrowed funds	–	–	239	–	359	2,567	5,069	14,700	22,934
Other liabilities	–	–	–	–	–	–	–	36	36
<b>Total liabilities</b>	<b>1,138</b>	<b>11</b>	<b>1,870</b>	<b>446</b>	<b>676</b>	<b>5,927</b>	<b>16,344</b>	<b>26,567</b>	<b>52,979</b>

	2019								Total \$million
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	
Derivative financial instruments	–	–	3	–	286	229	127	93	738
Debt securities in issue	–	18	2,331	18	250	3,030	8,879	8,145	22,671
Subordinated liabilities and other borrowed funds	–	–	221	26	361	618	7,002	14,166	22,394
Other liabilities	172	86	68	7	20	–	–	13	366
<b>Total liabilities</b>	<b>172</b>	<b>104</b>	<b>2,623</b>	<b>51</b>	<b>917</b>	<b>3,877</b>	<b>16,008</b>	<b>22,417</b>	<b>46,169</b>

## 40. Related undertakings of the Group

As at 31 December 2020, the Group's interests in related undertakings are disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Funding (Jersey) Limited, Stanchart Nominees Limited, Standard Chartered Holdings Limited and Standard Chartered Nominees Limited are directly held subsidiaries, all other related undertakings are held indirectly. Unless otherwise stated, the principal country of operation of each subsidiary is the same as its country of incorporation. Note 32 details undertakings that have a significant contribution to the Group's net profit or net assets.

### Subsidiary undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
FinVentures UK Limited	United Kingdom	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
SC (Secretaries) Limited	United Kingdom	£1.00 Ordinary shares	100
SC Transport Leasing 1 Limited	United Kingdom	£1.00 Ordinary shares	100
SC Transport Leasing 2 Limited	United Kingdom	£1.00 Ordinary shares	100
SC Ventures Innovation Investment L.P.	United Kingdom	Limited Partnership interest	100
SCMB Overseas Limited	United Kingdom	£0.10 Ordinary shares	100
Stanchart Nominees Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Africa Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Bank	United Kingdom	\$0.01 Non-Cumulative Irredeemable Preference shares	100
		\$5.00 Non-Cumulative Redeemable Preference shares	100
		\$1.00 Ordinary shares	100
Standard Chartered Foundation <sup>1</sup>	United Kingdom	Guarantor	100
Standard Chartered Health Trustee (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Holdings Limited	United Kingdom	\$2.00 Ordinary shares	100
Standard Chartered I H Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 2 Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 3 Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered NEA Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Nominees Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Nominees (Private Clients UK) Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Overseas Holdings Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Securities (Africa) Holdings Limited	United Kingdom	\$1.00 Ordinary shares	100
Standard Chartered Trustees (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered UK Holdings Limited	United Kingdom	£10.00 Ordinary shares	100
The SC Transport Leasing Partnership 1	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 2	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 3	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 4	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 1 LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 2 LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 3 LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 4 LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 5 LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The following companies have the address of 2 More London Riverside, London SE1 2JT, United Kingdom			
Bricks (C&K) LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
Bricks (C) LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
Bricks (T) LP <sup>1</sup>	United Kingdom	Limited Partnership interest	100
The following company has the address of 8th Floor, 20 Farringdon Street, London, EC4A 4AB, United Kingdom			
SC Ventures G.P. Limited	United Kingdom	£1.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of TMF Group, 8th Floor, 20 Farringdon Street, London, EC4A 4AB, United Kingdom.			
Zodia Custody Limited	United Kingdom	\$1.00 Ordinary shares	100
Zodia Holdings Limited	United Kingdom	\$1.00 Ordinary shares	100
The following company has the address of Rua Gamal Abdel Nasser, Edifício Tres Torres, Eixo Viário, Distrito Urbano da Ingombota, Município de Luanda, Provincia de Luanda, Angola			
Standard Chartered Bank Angola S.A.	Angola	AOK8,742.05 Ordinary shares	60
The following company has the address of Level 5, 345 George St, Sydney NSW 2000, Australia			
Standard Chartered Grindlays Pty Limited	Australia	AUD Ordinary shares	100
The following companies have the address of 5th Floor Standard House Bldg, The Mall, Queens Road, PO Box 496, Gaborone, Botswana			
Standard Chartered Bank Insurance Agency (Proprietary) Limited	Botswana	BWP Ordinary shares	100
Standard Chartered Investment Services (Proprietary) Limited	Botswana	BWP Ordinary shares	100
Standard Chartered Bank Botswana Limited	Botswana	BWP Ordinary shares	75.8
Standard Chartered Botswana Education Trust <sup>2</sup>	Botswana	Interest in trust	100
Standard Chartered Botswana Nominees (Proprietary) Limited	Botswana	BWP Ordinary shares	100
The following company has the address of Avenida Brigadeiro Faria Lima, no 3.477, 6 andar, conjunto 62 – Torre Norte, Condomínio Patio Victor Malzoni, CEP 04538-133, São Paulo, Brazil			
Standard Chartered Participacoes Ltda	Brazil	BRL1.00 Ordinary shares	100
The following company has the address of Avenida Brigadeiro Faria Lima, 3600 – 7º andar, conj 72 04538-132, São Paulo, Brazil.			
Standard Chartered Representação Ltda	Brazil	BRL1.00 Ordinary shares	100
The following company has the address of G01-02, Wisma Haji Mohd Taha Building, Jalan Gadong, BE4119, Brunei Darussalam			
Standard Chartered Securities (B) Sdn Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of 1155, Boulevard de la Liberté, Douala, B.P. 1784, Cameroon			
Standard Chartered Bank Cameroon S.A	Cameroon	XAF10,000.00 Ordinary shares	100
The following company has the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands			
Cerulean Investments LP	Cayman Islands	Limited Partnership interest	100
The following company has the address of Maples Finance Limited, PO Box 1093 GT, Queensgate House, Georgetown, Grand Cayman, Cayman Islands			
SCB Investment Holding Company Limited	Cayman Islands	\$1,000.00 A Ordinary shares	100
The following company has the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands			
Sirat Holdings Limited	Cayman Islands	\$0.01 Ordinary shares	100
The following company has the address of No. 1034, Managed by Tianjin Dongjiang Secretarial Services Co. Ltd, Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, China			
Pembroke Aircraft Leasing (Tianjin) Limited <sup>3</sup>	China	\$1.00 Ordinary shares	100
The following company has the address of No. 1035, Managed by Tianjin Dongjiang Secretarial Services Co. Ltd, Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, China			
Pembroke Aircraft Leasing Tianjin 1 Limited <sup>3</sup>	China	CNY1.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of No. 1036, Managed by Tianjin Dongjiang Secretarial Services, Co. Ltd, Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zon, Tianjin Pilot Free Trade Zone, China			
Pembroke Aircraft Leasing Tianjin 2 Limited <sup>3</sup>	China	CNY1.00 Ordinary shares	100
The following company has the address of Standard Chartered Tower, 201 Century Avenue, Pudong, Shanghai 200120, China			
Standard Chartered Bank (China) Limited <sup>3</sup>	China	CNY Ordinary shares	100
The following company has the address of 26F, Fortune Financial Centre, #5, Dong San Huan Zhong Lu, Chaoyang District, Beijing, P. R. China.			
Standard Chartered Corporate Advisory Co. Ltd <sup>3</sup>	China	\$1.00 Ordinary shares	100
The following company has the address of No. 35, Xinhuanbei Road, TEDA, Tianjin, 300457, China			
Standard Chartered Global Business Services Co. Limited <sup>3</sup>	China	\$ Ordinary shares	100
The following companies have the address of Units 61-65 (Office use only), Self-numbered Room 01-04, Room 901, No 6, Zhujiang East Road, Tianhe District, Guangzhou City, Guangdong Province, China			
Standard Chartered (Guangzhou) Business Management Co. Ltd. <sup>3</sup>	China	\$ Ordinary shares	100
Standard Chartered Global Business Services (Guangzhou) Co. Ltd. <sup>3</sup>	China	\$ Ordinary shares	100
The following company has the address of Standard Chartered Bank Cote d'Ivoire, 23 Boulevard de la République, Abidjan 17, 17 B.P. 1141, Cote d'Ivoire			
Standard Chartered Bank Cote d'Ivoire SA	Cote d'Ivoire	XOF100,000.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank France, 32 Rue de Monceau, 75008, Paris, France			
Pembroke Lease France SAS	France	€1.00 Ordinary shares	100
The following company has the address of 8 Ecowas Avenue, Banjul, Gambia			
Standard Chartered Bank Gambia Limited	Gambia	GMD1.00 Ordinary shares	74.85
The following company has the address of Taunusanlage 16, 60325, Frankfurt am Main, Germany			
Standard Chartered Bank AG	Germany	€ Ordinary shares	100
The following companies have the address of Standard Chartered Bank Building, 87 Independence Avenue, P.O. Box 768, Accra, Ghana			
Standard Chartered Bank Ghana PLC	Ghana	GHS Ordinary shares	69.4
		GHS0.52 Preference shares	87.0
Standard Chartered Ghana Nominees Limited	Ghana	GHS Ordinary shares	100
The following company has the address of Standard Chartered Bank Ghana Limited, 87, Independence Avenue, Post Office Box 678, Accra, Ghana			
Standard Chartered Wealth Management Limited Company	Ghana	GHS Ordinary shares	100
The following company has the address of 15/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
Horsford Nominees Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.			
Kozagi Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered PF Real Estate (Hong Kong) Limited	Hong Kong	\$ Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Marina Acacia Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Amaryllis Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Amethyst Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Ametrine Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Angelite Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Apollo Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Beryl Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Carnelian Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Emerald Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Flax Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Gloxinia Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Hazel Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Honor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		\$ Ordinary shares	100
Marina Ilex Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Iridot Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Kunzite Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Leasing Limited	Hong Kong	\$ Ordinary shares	100
Marina Mimosa Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Moonstone Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Peridot Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Sapphire Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Splendor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		\$ Ordinary shares	100
Marina Tourmaline Shipping Limited	Hong Kong	\$ Ordinary shares	100
Standard Chartered Leasing Group Limited	Hong Kong	\$ Ordinary shares	100
Standard Chartered Trade Support (HK) Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 3/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong			
Standard Chartered Private Equity Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered Private Equity Managers (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 13/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Trust (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 15/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong			
Standard Chartered Securities (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 21/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
Standard Chartered Asia Limited	Hong Kong	HKD Deferred shares	100
		HKD Ordinary shares	100
		\$ Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Bank (Hong Kong) Limited	Hong Kong	HKD A Ordinary shares	100
		HKD B Ordinary shares	100
		\$ D Ordinary shares	100
		\$ C Ordinary shares	100
Mox Bank Limited	Hong Kong	HKD Ordinary shares	65
The following company has the address of 1st Floor, Europe Building, No.1, Haddows Road, Nungambakkam, Chennai, 600 006, India			
Standard Chartered Global Business Services Private Limited	India	INR10.00 Equity shares	100
The following company has the address of 90 M.G.Road, II Floor, Fort, Mumbai, Maharashtra, 400 001, India			
Standard Chartered Finance Private Limited	India	INR10.00 Ordinary shares	98.68
The following company has the address of Crescenzo, 6th Floor, Plot No 38-39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Investments and Loans (India) Limited	India	INR10.00 Ordinary shares	100
The following company has the address of Crescenzo, 3A Floor, Plot No 38-39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Private Equity Advisory (India) Private Limited	India	INR1,000.00 Ordinary shares	100
The following company has the address of Second Floor, Indique Edge, Khata No. 571/630/6/4, Sy.No.6/4, Ambalipura Village, Varthur Hobli, Marathahalli Sub-Division, Ward No. 150, Bengaluru, 560102, India.			
Standard Chartered Research and Technology India Private Limited	India	INR10.00 A Equity shares	100
		INR10.00 Preference shares	100
The following company has the address of 2nd Floor, 23-25 M.G. Road, Fort, Mumbai, 400 001, India			
Standard Chartered Securities (India) Limited	India	INR10.00 Ordinary shares	100
The following company has the address of Ground Floor, Crescenzo Building, G Block, C 38/39, Bandra Kurla Complex, Bandra (East), Mumbai, Maharashtra, 400051, India			
St Helen's Nominees India Private Limited	India	INR10.00 Equity shares	100
The following company has the address of Vaishnavi Serenity, First Floor, No. 112, Koramangala Industrial Area, 5th Block, Koramangala, Bangalore, Karnataka, 560095, India			
Standard Chartered (India) Modeling and Analytics Centre Private Limited	India	INR10.00 Equity shares	100
The following companies have the address of 32 Molesworth Street, Dublin 2, D02 Y512, Ireland			
Inishbrophy Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishcannon Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishcrean Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishdawson Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inisherkin Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishlynch Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishoo Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Nightjar Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 1 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 2 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 3 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 4 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 5 Limited	Ireland	\$1.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
Pembroke Aircraft Leasing 6 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 7 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 8 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 9 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 10 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 11 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 12 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 13 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 14 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 15 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 16 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Holdings Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Capital Limited	Ireland	€1.25 Ordinary shares	100
		\$1.00 Ordinary shares	100
Skua Limited	Ireland	\$1.00 Ordinary shares	100
The following company has the address of First Names House, Victoria Road, Douglas, IM2 4DF, Isle of Man			
Pembroke Group Limited <sup>5</sup>	Isle of Man	\$0.01 Ordinary shares	100
The following companies have the address of 1st Floor, Goldie House, 1-4 Goldie Terrace, Upper Church Street, Douglas, IM1 1EB, Isle of Man			
Standard Chartered Assurance Limited	Isle of Man	\$1.00 Ordinary shares	100
		\$1.00 Redeemable Preference shares	100
Standard Chartered Insurance Limited <sup>6</sup>	Isle of Man	\$1.00 Ordinary shares	100
The following company has the address of 21/F, Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6155, Japan			
Standard Chartered Securities (Japan) Limited	Japan	JPY50,000 Ordinary shares	100
The following company has the address of 15 Castle Street, St Helier, JE4 8PT, Jersey			
SCB Nominees (CI) Limited	Jersey	\$1.00 Ordinary shares	100
The following company has the address of IFC 5, St Helier, JE1 1ST, Jersey			
Standard Chartered Funding (Jersey) Limited <sup>6</sup>	Jersey	£1.00 Ordinary shares	100
The following companies have the address of StandardChartered@Chiro, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya			
Standard Chartered Investment Services Limited	Kenya	KES20.00 Ordinary shares	100
Standard Chartered Bank Kenya Limited	Kenya	KES5.00 Ordinary shares	74.32
		KES5.00 Preference shares	100
Standard Chartered Securities (Kenya) Limited	Kenya	KES10.00 Ordinary shares	100
Standard Chartered Financial Services Limited	Kenya	KES20.00 Ordinary shares	100
Standard Chartered Insurance Agency Limited	Kenya	KES100.00 Ordinary shares	100
Standard Chartered Kenya Nominees Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of M6-2701, West 27FI, Suha-dong, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea, Republic of			
Resolution Alliance Korea Ltd <sup>4</sup>	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following companies have the address of 2/F, 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of			
Standard Chartered Bank Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
Standard Chartered Securities Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of Atrium Building, Maarad Street, 3rd Floor, P.O.Box: 11-4081 Riad El Solh, Beirut, Beirut Central District, Lebanon			
Standard Chartered Metropolitan Holdings SAL	Lebanon	\$10.00 Ordinary A shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of Level 26, Equatorial Plaza, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia			
Cartaban (Malaya) Nominees Sdn Berhad	Malaysia	RM Ordinary shares	100
Cartaban Nominees (Asing) Sdn Bhd	Malaysia	RM Ordinary shares	100
Cartaban Nominees (Tempatan) Sdn Bhd	Malaysia	RM Ordinary shares	100
Golden Maestro Sdn Bhd	Malaysia	RM Ordinary shares	100
Popular Ambience Sdn Bhd	Malaysia	RM Ordinary shares	100
Price Solutions Sdn Bhd	Malaysia	RM Ordinary shares	100
SCBMB Trustee Berhad	Malaysia	RM Ordinary shares	100
Standard Chartered Bank Malaysia Berhad	Malaysia	RM Irredeemable Convertible Preference shares	100
		RM Ordinary shares	100
		RM Ordinary shares	100
Standard Chartered Saadiq Berhad	Malaysia	RM Ordinary shares	100
The following companies have the address of TMF Trust Labuan Limited, Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia			
Marina Morganite Shipping Limited <sup>7</sup>	Malaysia	\$ Ordinary shares	100
Marina Moss Shipping Limited <sup>7</sup>	Malaysia	\$ Ordinary shares	100
Marina Tanzanite Shipping Limited <sup>7</sup>	Malaysia	\$ Ordinary shares	100
Pembroke Leasing (Labuan) 3 Berhad	Malaysia	\$ Ordinary shares	100
The following company has the address of Suite 18-1, Level 18, Vertical Corporate Tower B, Avenue 10, The Vertical, Bangsar South City , No. 8, Jalan Kerinchi , 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Resolution Alliance Sdn Bhd <sup>1</sup>	Malaysia	RM Ordinary shares	91
		RM Irredeemable Preference shares	100
The following company has the address of Level 1, Wisma Standard Chartered, Jalan Teknologi 8, Taman Teknologi Malaysia, 57000 Bukit Jalil, Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Standard Chartered Global Business Services Sdn Bhd	Malaysia	RM Ordinary shares	100
The following companies have the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands			
Marina Alysse Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Amandier Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Ambroisee Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Angelica Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Aventurine Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Buxus Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Citrine Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dahlia Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dittany Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dorado Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Lilac Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Lolite Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Obsidian Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Pissenlet Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Protea Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Quartz Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Remora Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Turquoise Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100
Marina Zircon Shipping Limited <sup>7</sup>	Marshall Islands	\$1.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of SGG Corporate Services (Mauritius) Ltd, 33, Edith Cavell St, Port Louis, 11324, Mauritius			
Actis Treit Holdings (Mauritius) Limited <sup>1</sup>	Mauritius	Class A \$1.00 Ordinary shares	62.001
		Class B \$1.00 Ordinary shares	62.001
The following company has the address of 6/F, Standard Chartered Tower, 19, Bank Street, Cybercity, Ebene, 72201, Mauritius			
Standard Chartered Bank (Mauritius) Limited	Mauritius	\$ Ordinary shares	100
The following companies have the address of c/o Ocorian Corporate Services (Mauritius) Ltd, 6th Floor, Tower A, 1 Cybercity, Ebene, 72201, Mauritius			
Standard Chartered Financial Holdings	Mauritius	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) Limited	Mauritius	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) II Limited	Mauritius	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) III Limited	Mauritius	\$1.00 Ordinary shares	100
The following company has the address of C/O International Proximity, 5th Floor, Ebene Esplanade, 24 Bank Street, Cybercity, Ebene, Plaines, Wilhems, 72201, Mauritius			
Subcontinental Equities Limited	Mauritius	\$1.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank Nepal Limited, Madan Bhandari Marg, Ward No.34, Kathmandu Metropolitan City, Kathmandu District, Bagmati Zone, Kathmandu, Nepal			
Standard Chartered Bank Nepal Limited	Nepal	NPR100.00 Ordinary shares	70.21
The following company has the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands			
Pembroke Holland B.V.	Netherlands	€450.00 Ordinary shares	100
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
Standard Chartered Holdings (Africa) B.V. <sup>6</sup>	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (Asia Pacific) B.V. <sup>6</sup>	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (International) B.V. <sup>6</sup>	Netherlands	€4.50 Ordinary shares	100
Standard Chartered MB Holdings B.V. <sup>6</sup>	Netherlands	€4.50 Ordinary shares	100
The following companies have the address of 142, Ahmadu Bello Way, Victoria Island, Lagos, 101241, Nigeria			
Cherroots Nigeria Limited	Nigeria	NGN1.00 Ordinary Shares	100
Standard Chartered Bank Nigeria Limited	Nigeria	NGN1.00 Irredeemable Non Cumulative Preference shares	100
		NGN1.00 Ordinary shares	100
		NGN1.00 Redeemable Preference shares	100
Standard Chartered Capital & Advisory Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Nominees (Nigeria) Limited	Nigeria	NGN1.00 Ordinary shares	100
The following company has the address of 3/F Main SCB Building, I.I Chundrigar Road, Karachi, Sindh, 74000, Pakistan			
Price Solution Pakistan (Private) Limited	Pakistan	PKR10.00 Ordinary shares	100
The following company has the address of P.O. Box No. 55561.I. Chundrigar Road, Karachi, 74000, Pakistan			
Standard Chartered Bank (Pakistan) Limited	Pakistan	PKR10.00 Ordinary shares	98.99
The following company has the address of Rondo Daszyńskiego 2B, 00-843, Warsaw, Poland			
Standard Chartered Global Business Services spółka z ograniczona odpowiedzialnoscia	Poland	PLN50.00 Ordinary shares	100
The following company has the address of Vistra Corporate Services Centre, Ground Floor, NPF Building, Beach Road, Apia, Samoa			
Standard Chartered Nominees (Western Samoa) Limited	Samoa	\$1.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Al Faisaliah Office Tower Floor No 7 (T07D) , King Fahad Highway, Olaya District, Riyadh P.O. box 295522, Riyadh, 11351, Saudi Arabia			
Standard Chartered Capital (Saudi Arabia)	Saudi Arabia	SAR10.00 Ordinary shares	100
The following company has the address of 9 & 11, Lightfoot Boston Street, Freetown, Sierra Leone			
Standard Chartered Bank Sierra Leone Limited	Sierra Leone	SLL1.00 Ordinary shares	80.7
The following company has the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, Level 23, 018981, Singapore			
Standard Chartered Private Equity (Singapore) Pte. Ltd	Singapore	\$ Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore			
Marina Aquata Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
Marina Aruana Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Aster Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
Marina Cobia Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Daffodil Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
Marina Fatmarini Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
Marina Frabandari Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
Marina Freesia Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
Marina Gerbera Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
Marina Mars Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
Marina Mercury Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
Marina Opah Shipping Pte. Ltd	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Partawati Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
Marina Poise Shipping Pte. Ltd	Singapore	\$ Ordinary shares	100
The following companies have the address of 9 Raffles Place, #27-00 Republic Plaza, 048619, Singapore.			
Actis RE Investment 1 Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
Actis RE Investment 2 Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
Actis RE Investment 3 Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
Actis RE Investment 4 Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
Actis Treit Holdings No.1 (Singapore) Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
Actis Treit Holdings No.2 (Singapore) Private Limited <sup>1</sup>	Singapore	SGD Ordinary shares	100
The following company has the address of 7 Changi Business Park Crescent, #03-00 Standard Chartered @ Changi, 486028, Singapore			
Raffles Nominees (Pte.) Limited	Singapore	SGD Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore			
SCTS Capital Pte. Ltd	Singapore	SGD Ordinary shares	100
SCTS Management Pte. Ltd	Singapore	SGD Ordinary shares	100
Standard Chartered Bank (Singapore) Limited	Singapore	SGD Ordinary shares	100
		SGD Non-cumulative Preference shares	100
		SGD Non-cumulative Class C Preference shares	100
		\$ Ordinary shares	100
		\$ Preference shares	100
Standard Chartered Trust (Singapore) Limited	Singapore	SGD Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
Standard Chartered Holdings (Singapore) Private Limited	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
SC Bank Solutions (Singapore) Limited	Singapore	SGD Ordinary shares	100
Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited	Singapore	\$ Ordinary shares	100
The following company has the address of 120 Robinson Road, #08-01, 068913, Singapore			
Standard Chartered Nominees (Singapore) Pte Ltd	Singapore	SGD Ordinary shares	100
The following companies have the address of 80 Robinson Road, #02-00, 068898, Singapore			
Autumn Life Pte. Ltd	Singapore	\$ Ordinary shares	100
Cardspal Pte. Ltd	Singapore	\$ Ordinary shares	100
Nexco Pte. Ltd	Singapore	\$ Ordinary shares	100
The following companies have the address of 2nd Floor, 115 West Street, Sandton, Johannesburg, 2196, South Africa			
CMB Nominees (RF) PTY Limited	South Africa	ZAR1.00 Ordinary shares	100
Standard Chartered Nominees South Africa Proprietary Limited (RF)	South Africa	ZAR Ordinary shares	100
The following company has the address of 1, 2, 4, 7, 9, 10F, No. 168/170 & 8F, 12F, No.168, Tun Hwa N. Rd., Songshan Dist., Taipei, 105, Taiwan			
Standard Chartered Bank (Taiwan) Limited	Taiwan	TWD10.00 Ordinary shares	100
The following companies have the address of 1 Floor, International House, Shaaban Robert Street / Garden Avenue, PO Box 9011, Dar Es Salaam, Tanzania, United Republic of			
Standard Chartered Bank Tanzania Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
		TZS1,000.00 Preference shares	100
Standard Chartered Tanzania Nominees Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
The following company has the address of 100 North Sathorn Road, Silom, Bangrak Bangkok, 10500, Thailand			
Standard Chartered Bank (Thai) Public Company Limited	Thailand	THB10.00 Ordinary shares	99.99
The following company has the address of Buyukdere Cad. Yapi Kredi Plaza C Blok, Kat 15, Levent, Istanbul, 34330, Turkey			
Standard Chartered Yatirim Bankasi Turk Anonim Sirketi	Turkey	TRL0.10 Ordinary shares	100
The following company has the address of Standard Chartered Bank Bldg, 5 Speke Road, PO Box 7111, Kampala, Uganda			
Standard Chartered Bank Uganda Limited	Uganda	UGS1,000.00 Ordinary shares	100
The following company has the address of 505 Howard St. #201, San Francisco, CA 94105, United States			
SC Studios, LLC	United States	Membership Interest	100
The following company has the address of Standard Chartered Bank, 37F, 1095 Avenue of the Americas, New York 10036, United States			
Standard Chartered Bank International (Americas) Limited	United States	\$1,000.00 Ordinary shares	100
The following companies have the address of Corporation Trust Centre, 1209 Orange Street, Wilmington DE 19801, United States			
Standard Chartered Holdings Inc.	United States	\$100.00 Common shares	100
Standard Chartered Capital Management (Jersey), LLC	United States	\$ Ordinary shares	100
Standard Chartered Securities (North America) LLC	United States	Membership interest	100
StanChart Securities International LLC	United States	Membership interest	100
Standard Chartered International (USA) LLC	United States	Membership interest	100
The following company has the address of 50 Fremont Street, San Francisco CA 94105, United States			
Standard Chartered Overseas Investment Inc.	United States	\$10.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of C/O Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States			
Standard Chartered Trade Services Corporation	United States	\$0.01 Common shares	100
The following company has the address of Room 1810-1815, Level 18, Building 72, Keangnam Hanoi Landmark Tower, Pham Hung Road, Cau Giay New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi 10000, Vietnam			
Standard Chartered Bank (Vietnam) Limited	Vietnam	VND Charter Capital shares	100
The following companies have the address of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British			
Sky Favour Investments Limited	Virgin Islands, British	\$1.00 Ordinary shares	100
Sky Harmony Holdings Limited	Virgin Islands, British	\$1.00 Ordinary shares	100
The following companies have the address of Stand 13, Standard Chartered House, Cairo Road, P.O. Box 32238, Lusaka, Zambia, 10101, Zambia			
Standard Chartered Bank Zambia Plc	Zambia	ZMW0.25 Ordinary shares	90
Standard Chartered Zambia Securities Services Nominees Limited	Zambia	ZMW1.00 Ordinary shares	100
The following companies have the address of Africa Unity Square Building, 68 Nelson Mandela Avenue, Harare, Zimbabwe			
Africa Enterprise Network Trust <sup>2</sup>	Zimbabwe	Interest in trust	100
Standard Chartered Bank Zimbabwe Limited	Zimbabwe	\$1.00 Ordinary shares	100
Standard Chartered Nominees Zimbabwe (Private) Limited	Zimbabwe	\$2.00 Ordinary shares	100

1 The Group has determined that these undertakings are excluded from being consolidated into the Groups accounts, and do not meet the definition of a subsidiary under IFRS. See Notes 31 and 32 for the consolidation policy and disclosure of the undertaking

2 No share capital by virtue of being a trust

3 Limited liability company

4 The Group has determined the principal country of operation to be Singapore

5 The Group has determined the principal country of operation to be Ireland

6 The Group has determined the principal country of operation to be the United Kingdom

7 The Group has determined the principal country of operation to be Hong Kong

### Joint ventures

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 38 Beach Road, #29-11 South Beach Tower, 189767, Singapore			
Assembly Payments Pte. Ltd.	Singapore	\$ Ordinary shares	50
		\$ Preference shares	50
The following company has the address of 100/36 Sathorn Nakorn Tower, Fl 21 North Sathorn Road, Silom Sub-District, Bangrak District, Bangkok, 10500, Thailand			
Resolution Alliance Limited	Thailand	THB10.00 Ordinary shares	49

## 40. Related undertakings of the Group continued

### Associates

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 3 More London Riverside, London, England, SE1 2AQ, United Kingdom			
Trade Information Network Limited	United Kingdom	\$1.00 Ordinary shares	16.667
The following company has the address of Bohai Bank Building, No.218 Hai He Dong Lu, Hedong District, Tianjin, China, 300012, China			
China Bohai Bank Co. Ltd	China	CNY Ordinary shares	16.263
The following company has the address of 17/F, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of			
Ascenta IV	Korea, Republic of	KRW1.00 Partnership interest	39.063
The following company has the address of C/o CIM Corporate Services Ltd, Les Cascades, Edith Cavell Street, Port Louis, Mauritius			
FAI Limited	Mauritius	\$1.00 Ordinary shares	25
The following company has the address of Victoria House, State House Avenue, Victoria, MAHE, Seychelles			
Seychelles International Mercantile Banking Corporation Limited	Seychelles	SCR1,000.00 Ordinary shares	22
The following company has the address of 1 Raffles Quay, #23-01, One Raffles Quay, 048583, Singapore			
Clifford Capital Holdings Pte. Ltd.	Singapore	\$1.00 Ordinary shares	99
The following company has the address of Avenue de Tivoli 2, 1007, Lausanne, Switzerland			
Metaco SA	Switzerland	CHF 0.01 Preference A shares	29.505

### Significant investment holdings and other related undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands			
ATSC Cayman Holdco Limited	Cayman Islands	\$0.01 A Ordinary shares	5.3
		\$0.01 B Ordinary shares	100
The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcai yuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PR, China			
Yunnan Golden Shiner Property Development Co. Ltd	China	CNY1.00 Ordinary shares	42.5
The following companies have the address of Unit 605-08, 6/F Wing On Centre, 111 Connaught Rd, Central Sheung Wan, Hong Kong			
Actis Carrock Holdings (HK) Limited	Hong Kong	\$ Class A Ordinary shares	39.69
		\$ Class B Ordinary shares	39.69
Actis Jack Holdings (HK) Limited	Hong Kong	\$ Class A Ordinary shares	39.69
		\$ Class B Ordinary shares	39.69
Actis Rivendell Holdings (HK) Limited	Hong Kong	\$ Class A Ordinary shares	39.69
		\$ Class B Ordinary shares	39.69
Actis Temple Stay Holdings (HK) Limited	Hong Kong	\$ Class A Ordinary shares	39.69
		\$ Class B Ordinary shares	39.69
Actis Young City Holdings (HK) Limited	Hong Kong	\$ Class A Ordinary shares	39.69
		\$ Class B Ordinary shares	39.69
The following company has the address of 1221 A, Devika Tower, 12th Floor, 6 Nehru Place, New Delhi 110019, India			
Mikado Realtors Private Limited	India	INR10.00 Ordinary shares	26

## 40. Related undertakings of the Group continued

### Significant investment holdings and other related undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Elphinstone Building, 2nd Floor, 10 Veer Nariman Road, Fort, Mumbai -400001, Maharashtra, India			
TRIL IT4 Private Limited	India	INR10.00 Ordinary shares	26
The following company has the address of 4/F, 274, Chitalia House, Dr. Cawasji Hormusji Road, Dhobi Talao, Mumbai City, Maharashtra, India 400 002, India			
Industrial Minerals and Chemical Co. Pvt. Ltd	India	INR100.00 Ordinary shares	26
The following company has the address of 17/F (Gongpyung-dong), 100, Jongno-gu, Seoul, Korea, Republic of			
Ascenta III	Korea, Republic of	KRW Class B Equity shares	31
The following company has the address of 1 Venture Avenue, #07-07 Big Box, 608521, Singapore			
Omni Centre Pte. Ltd.	Singapore	SGD Redeemable Convertible Preference shares	100
The following company has the address of 3 Jalan Pisang, c/o Watiga Trust Ltd, 199070 Singapore			
SCIAIGF Liquidating Trust	Singapore	Interest in trust	43.96
The following company has the address of 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States			
Paxata, Inc.	United States	\$0.0001 Series C2 Preferred Stock	40.741
		\$0.0001 Series C3 Preferred Stock	10.112

### In liquidation

#### Subsidiary undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Deloitte LLP, 1 New Street Square, London, EC3A 3HQ, United Kingdom			
SC Leaseco Limited	United Kingdom	\$1.00 Ordinary shares	100
The following companies have the address of Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom			
Standard Chartered APR Limited	United Kingdom	\$1.00 Ordinary shares	100
Compass Estates Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Masterbrand Licensing Limited	United Kingdom	\$1.00 Ordinary shares	100
The following company has the address of 2 More London Riverside, London SE1 2JT, United Kingdom			
Bricks (M) LP	United Kingdom	Limited Partnership interest	100
The following company has the address of 51-55 Jalan Sultan, Complex Jalan sultan, Bandar Seri Begawan, BS8811, Brunei Darussalam			
Standard Chartered Finance (Brunei) Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of Mourant Ozannes Corporate Services (Cayman) Limited, Harbour Centre, 42 North Church Street, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands			
Sunflower Cayman SPC	Cayman Islands	\$1.00 Management shares	100
The following company has the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands			
Standard Chartered Principal Finance (Cayman) Limited	Cayman Islands	\$0.0001 Ordinary shares	100
The following company has the address of No. 188 Yeshen Rd, 11F, A-1161 RM, Pudong New District, Shanghai 31201308, China			
Standard Chartered Trading (Shanghai) Limited	China	\$15,000,000.00 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of Bordeaux Court, Les Echelons, South Esplanade, St. Peter Port, Guernsey			
Birdsong Limited	Guernsey	£1.00 Ordinary shares	100
Nominees One Limited	Guernsey	£1.00 Ordinary shares	100
Nominees Two Limited	Guernsey	£1.00 Ordinary shares	100
Songbird Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Secretaries (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Trust (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
The following company has the address of 13/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
S C Learning Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 8/Floor, Gloucester Tower , The Landmark, 15 Queen’s Road Central, Hong Kong			
Leopard Hong Kong Limited	Hong Kong	\$ Ordinary shares	100
The following company has the address of 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Sherwood (HK) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 14th Floor, One Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong.			
Ori Private Limited	Hong Kong	\$ Ordinary shares	100
		\$ A Ordinary shares	90.7
The following company has the address of Menara Standard Chartered, 3rd Floor, Jl. Prof.Dr. Satrio no. 164, Setiabudi, Jakarta Selatan, Indonesia			
PT Solusi Cakra Indonesia (dalam likuidasi)	Indonesia	IDR23,809,600.00 Ordinary shares	99
The following company has the address of No. 157 – 157 A, Jakarta Barat, 11130, Indonesia			
PT. Price Solutions Indonesia (dalam likuidasi)	Indonesia	\$100.00 Ordinary shares	100
The following company has the address of Standard Chartered@Chiromo, Number 48, Westlands Road, P. O. Box 30003 - 00100, Nairobi, Kenya			
Standard Chartered Management Services Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of 30 Rue Schrobilgen, 2526, Luxembourg			
Standard Chartered Financial Services (Luxembourg) S.A.	Luxembourg	€25.00 Ordinary shares	100
The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia			
Pembroke Leasing (Labuan) 2 Berhad	Malaysia	\$ Ordinary shares	100
Pembroke Leasing (Labuan) Pte Limited	Malaysia	\$ Ordinary shares	100
The following company has the address of IQ EQ Corporate Services (Mauritius) Ltd , Les Cascades Building, 33, Edith Cavell Street Port Louis, 11324, Mauritius			
Actis Asia Real Estate (Mauritius) Limited	Mauritius	Class A \$1.00 Ordinary shares	100
		Class B \$1.00 Ordinary shares	100
The following company has the address of Jiron Huascar 2055, Jesus Maria, Lima 15072, Peru			
Banco Standard Chartered en Liquidacion	Peru	\$75.133 Ordinary shares	100

## 40. Related undertakings of the Group continued

### Subsidiary Undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 8 Marina Boulevard, Level 27, Marina Bay Financial Centre, Tower 1, 018981, Singapore			
Standard Chartered (2000) Limited	Singapore	SGD1.00 Ordinary shares	100
The following company has the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore			
Standard Chartered IL&FS Management (Singapore) Pte. Limited	Singapore	\$ Ordinary shares	50
The following company has the address of 6/F, Hewlett Packard Building, 337 Fu Hsing North Road, Taipei, Taiwan			
Kwang Hua Mocatta Company Ltd. (Taiwan)	Taiwan	TWD1,000.00 Ordinary shares	97.92
The following company has the address of Luis Alberto de Herrera 1248, Torre II, Piso 11, Esc. 1111, Uruguay			
Standard Chartered Uruguay Representacion S.A.	Uruguay	UYU1.00 Ordinary shares	100

### Significant investment holdings and other related undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor, Malaysia			
House Network SDN BHD	Malaysia	RM1.00 Ordinary shares	25

### Liquidated/dissolved/sold

#### Subsidiary undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
B.W.A Dependents Limited	United Kingdom	£1.00 Ordinary shares	100
Bricks (P) LP	United Kingdom	Limited Partnership interest	100
Standard Chartered Capital Markets Limited	United Kingdom	£1.00 Ordinary shares	100
		\$1.00 Ordinary shares	100
Chartered Financial Holdings Limited	United Kingdom	£5.00 Ordinary shares	100
		£1.00 Preference shares	100
Standard Chartered Debt Trading Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered (Canada) Limited	Canada	CAD1.00 Ordinary shares	100
Standard Chartered Saadiq Mudarib Company Limited	Cayman Islands	\$1.00 Ordinary shares	100
Sociedad Fiduciaria Extebandes S.A.	Colombia	COP1.00 Ordinary shares	100
American Express International Finance Corp.N.V.	Curaçao	\$1,000.00 Ordinary shares	100
Ricanex Participations N.V.	Curaçao	\$1,000.00 Ordinary shares	100
Majestic Legend Limited	Hong Kong	HKD1.00 Ordinary shares	100
Standard Chartered Global Trading Investments Limited	Hong Kong	HKD Ordinary shares	100
Pembroke Capital Shannon Limited	Ireland	€1.25 Ordinary shares	100
Ascenta II	Korea, Republic of	KRW1,000,000.00 Partnership interest	100
Amphissa Corporation Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Marina Celsie Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Standard Chartered PF Managers Pte. Limited	Singapore	\$ Ordinary shares	100
Standard Chartered Bank (Switzerland) S.A.	Switzerland	CHF1,000.00 Ordinary shares	100
		CHF100.00 Participation Capital shares	100

## 40. Related undertakings of the Group continued

### Joint ventures

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
PT Bank Permata Tbk	Indonesia	IDR125.00 B shares	44.6

### Significant investment holdings and other related undertakings

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
Standard Chartered IL&FS Asia Infrastructure (Cayman) Limited	Cayman Islands	\$0.01 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Limited	Cayman Islands	\$1.00 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund, L.P.	Cayman Islands	Partnership interest	38.6
PT Trikonsel Oke Tbk	Indonesia	IDR50.00 Series B shares	29.195
Standard Jazeera Limited	Jersey	\$1.00 Class A Redeemable Preference shares	20
		\$1.00 Class C Redeemable Preference shares	100
		\$1.00 Ordinary shares	20
Standard Topaz Limited	Jersey	\$1,000.00 Ordinary shares	20.1
		\$1.00 Class C Redeemable Preference shares	100



# ▶ Helping families in Hong Kong ◀

Part of our work in 2020 involved helping the communities we serve in their fight against COVID-19. In April, we launched a joint program with the Hong Kong Council of Social Services to help raise money for families living in small, subdivided flats. We committed HKD10 million, with the scheme raising HKD40 million in total and almost 100 employees provided online skills training for local children to help them learn during the lockdown.



Read more online at [sc.com/helpingfamiliesinhk](https://sc.com/helpingfamiliesinhk)



## Supplementary information (unaudited)

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# Supplementary financial information

## Five-year summary<sup>1</sup>

	2020 \$million	2019 \$million	2018 \$million	2017 \$million	2016 \$million
Operating profit before impairment losses and taxation	<b>4,374</b>	4,484	3,142	4,008	3,849
Impairment losses on loans and advances and other credit risk provisions	<b>(2,325)</b>	(908)	(653)	(1,362)	(2,791)
Other impairment	<b>(98)</b>	(136)	(182)	(179)	(612)
Profit before taxation	<b>1,613</b>	3,713	2,548	2,415	409
Profit/(loss) attributable to shareholders	<b>724</b>	2,303	1,054	1,219	(247)
Loans and advances to banks <sup>2</sup>	<b>44,347</b>	53,549	61,414	78,188	72,609
Loans and advances to customers <sup>2</sup>	<b>281,699</b>	268,523	256,557	282,288	252,719
Total assets	<b>789,050</b>	720,398	688,762	663,501	646,692
Deposits by banks <sup>2</sup>	<b>30,255</b>	28,562	29,715	30,945	32,872
Customer accounts <sup>2</sup>	<b>439,339</b>	405,357	391,013	370,509	338,185
Shareholders' equity	<b>45,886</b>	44,835	45,118	46,505	44,368
Total capital resources <sup>3</sup>	<b>67,383</b>	66,868	65,353	68,983	68,181
Information per ordinary share					
Basic earnings/(loss) per share	<b>10.4c</b>	57.0c	18.7c	23.5c	(14.5)c
Underlying earnings per share	<b>36.1c</b>	75.7c	61.4c	47.2c	3.4c
Dividends per share <sup>4</sup>	<b>–</b>	22.0c	17.0c	–	–
Net asset value per share	<b>1,409.3c</b>	1,358.3c	1,319.3c	1,366.9c	1,307.8c
Net tangible asset value per share	<b>1,249.0c</b>	1,192.5c	1,167.7c	1,214.7c	1,163.9c
Return on assets <sup>5</sup>	<b>0.1%</b>	0.3%	0.3%	0.2%	0.0%
Ratios					
Statutory return on ordinary shareholders' equity	<b>0.8%</b>	4.2%	1.4%	1.7%	(1.1)%
Statutory return on ordinary shareholders' tangible equity	<b>0.9%</b>	4.8%	1.6%	2.0%	(1.2)%
Underlying return on ordinary shareholders' equity	<b>2.6%</b>	5.6%	4.6%	3.5%	0.3%
Underlying return on ordinary shareholders' tangible equity	<b>3.0%</b>	6.4%	5.1%	3.9%	0.3%
Statutory cost to income ratio (excluding UK Bank Levy)	<b>68.1%</b>	68.7%	76.6%	70.7%	69.9%
Statutory cost to income ratio (including UK Bank Levy)	<b>70.4%</b>	70.9%	78.8%	72.2%	72.6%
Underlying cost to income ratio (excluding UK Bank levy)	<b>66.4%</b>	65.9%	67.7%	69.3%	69.5%
Underlying cost to income ratio (including UK Bank levy)	<b>68.7%</b>	68.2%	69.9%	70.8%	72.2%
Capital ratios:					
(CET 1)/Tier 1 capital <sup>6</sup>	<b>14.4%</b>	13.8%	14.2%	13.6%	13.6%
Total capital <sup>6</sup>	<b>21.2%</b>	21.2%	21.6%	21.0%	21.3%

<sup>1</sup> The amounts for the two financial years ended 2016 to 2017 are presented in line with IAS 39 and, therefore, not on a comparable basis to the current financial year presented in accordance with IFRS 9

<sup>2</sup> Excludes amounts held at fair value through profit or loss

<sup>3</sup> Shareholders' funds, non-controlling interests and subordinated loan capital

<sup>4</sup> Dividend paid during the year per share

<sup>5</sup> Represents profit attributable to shareholders divided by the total assets of the Group

<sup>6</sup> Unaudited

## Analysis of underlying performance by key market

The following tables provide information for key markets in which the Group operates. The numbers are prepared on a management view. Refer to Note 2 for details.

	2020								
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	Indonesia \$million	UAE \$million	UK \$million	US \$million
<b>Operating income</b>	<b>3,485</b>	<b>1,046</b>	<b>926</b>	<b>1,562</b>	<b>1,245</b>	<b>309</b>	<b>579</b>	<b>946</b>	<b>783</b>
<b>Operating expenses</b>	<b>(1,959)</b>	<b>(723)</b>	<b>(667)</b>	<b>(977)</b>	<b>(680)</b>	<b>(176)</b>	<b>(409)</b>	<b>(673)</b>	<b>(525)</b>
<b>Operating profit before impairment losses and taxation</b>	<b>1,526</b>	<b>323</b>	<b>259</b>	<b>585</b>	<b>565</b>	<b>133</b>	<b>170</b>	<b>273</b>	<b>258</b>
Credit impairment	(199)	(43)	(112)	(474)	(227)	(84)	(277)	(128)	(30)
Other impairment	(55)	3	(1)	-	(1)	-	(3)	9	-
Profit from associates and joint ventures	-	-	163	-	-	-	-	-	-
<b>Underlying profit/(loss) before taxation</b>	<b>1,272</b>	<b>283</b>	<b>309</b>	<b>111</b>	<b>337</b>	<b>49</b>	<b>(110)</b>	<b>154</b>	<b>228</b>
Total assets employed	167,080	69,214	41,827	88,246	28,272	4,968	19,856	174,346	63,330
Of which: loans and advances to customers <sup>1</sup>	78,398	42,636	16,877	53,444	14,258	2,212	10,316	45,803	18,103
Total liabilities employed	160,976	60,329	36,713	83,554	20,728	3,494	14,324	133,862	65,307
Of which: customer accounts <sup>1</sup>	135,487	44,748	26,319	63,303	15,058	2,382	11,720	81,198	36,717

	2019								
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	Indonesia \$million	UAE \$million	UK \$million	US \$million
<b>Operating income</b>	<b>3,755</b>	<b>972</b>	<b>872</b>	<b>1,639</b>	<b>1,041</b>	<b>273</b>	<b>617</b>	<b>762</b>	<b>759</b>
<b>Operating expenses</b>	<b>(1,934)</b>	<b>(769)</b>	<b>(666)</b>	<b>(986)</b>	<b>(672)</b>	<b>(180)</b>	<b>(423)</b>	<b>(678)</b>	<b>(587)</b>
<b>Operating profit before impairment losses and taxation</b>	<b>1,821</b>	<b>203</b>	<b>206</b>	<b>653</b>	<b>369</b>	<b>93</b>	<b>194</b>	<b>84</b>	<b>172</b>
Credit impairment	(111)	(15)	(81)	(91)	(290)	(87)	(48)	(33)	(63)
Other impairment	(5)	1	-	-	-	-	-	-	-
Profit from associates and joint ventures	-	-	247	-	-	-	-	-	-
<b>Underlying profit before taxation</b>	<b>1,705</b>	<b>189</b>	<b>372</b>	<b>562</b>	<b>79</b>	<b>6</b>	<b>146</b>	<b>51</b>	<b>109</b>
Total assets employed	159,725	54,408	30,293	85,155	28,163	4,795	20,301	150,103	60,373
Of which: loans and advances to customers <sup>1</sup>	77,277	34,469	14,772	45,951	15,674	2,098	10,406	42,179	17,038
Total liabilities employed	149,703	47,420	27,005	80,006	18,437	3,188	12,905	142,804	66,357
Of which: customer accounts <sup>1</sup>	123,330	38,533	21,797	60,821	13,800	2,320	10,078	82,036	34,733

1 Loans and advances to customers includes FVTPL and customer accounts includes FVTPL and repurchase agreements

## Analysis of underlying performance by Retail Banking and Commercial Banking segments

## Retail Banking

	2020				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Operating income</b>	2,989	1,360	635	29	5,013
<b>Operating expenses</b>	(2,036)	(1,057)	(586)	(22)	(3,701)
<b>Operating profit before impairment losses and taxation</b>	953	303	49	7	1,312
Credit impairment	(211)	(376)	(125)	(3)	(715)
Other impairment	–	–	(10)	–	(10)
<b>Underlying profit/(loss) before taxation</b>	742	(73)	(86)	4	587
Restructuring	(13)	(5)	(32)	–	(50)
<b>Statutory profit/(loss) before taxation</b>	729	(78)	(118)	4	537
Loans and advances to customers including FVTPL	81,542	28,776	4,745	548	115,611
Customer accounts including FVTPL and repurchase agreements	106,832	37,266	9,674	1,059	154,831

	2019 (Restated) <sup>1</sup>				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
<b>Operating income</b>	3,018	1,432	700	36	5,186
<b>Operating expenses</b>	(2,020)	(1,097)	(619)	(23)	(3,759)
<b>Operating profit before impairment losses and taxation</b>	998	335	81	13	1,427
Credit impairment	(153)	(136)	(47)	–	(336)
Other impairment	–	–	2	–	2
<b>Underlying profit before taxation</b>	845	199	36	13	1,093
Restructuring	(47)	(7)	(9)	–	(63)
<b>Statutory profit before taxation</b>	798	192	27	13	1,030
Loans and advances to customers including FVTPL	73,329	27,934	5,320	557	107,140
Customer accounts including FVTPL and repurchase agreements	99,149	35,959	8,585	1,067	144,760

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

## Commercial Banking

	2020			
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Total \$million
<b>Operating income</b>	487	631	291	1,409
<b>Operating expenses</b>	(330)	(344)	(204)	(878)
<b>Operating profit before impairment losses and taxation</b>	157	287	87	531
Credit impairment	(32)	(190)	(94)	(316)
Other impairment	–	(1)	–	(1)
<b>Underlying profit/(loss) before taxation</b>	125	96	(7)	214
Restructuring	(24)	(7)	(26)	(57)
<b>Statutory profit/(loss) before taxation</b>	101	89	(33)	157
Loans and advances to customers including FVTPL	14,065	9,390	3,887	27,342
Customer accounts including FVTPL and repurchase agreements	31,055	14,078	3,445	48,578

	2019 (Restated) <sup>1</sup>			
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Total \$million
<b>Operating income</b>	564	671	339	1,574
<b>Operating expenses</b>	(383)	(349)	(221)	(953)
<b>Operating profit before impairment losses and taxation</b>	181	322	118	621
Credit impairment	(23)	(34)	(65)	(122)
Other impairment	–	–	–	–
<b>Underlying profit before taxation</b>	158	288	53	499
Restructuring	(8)	(1)	(2)	(11)
<b>Statutory profit before taxation</b>	150	287	51	488
Loans and advances to customers including FVTPL	13,178	10,657	4,996	28,831
Customer accounts including FVTPL and repurchase agreements	22,691	12,948	3,208	38,847

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

## Analysis of operating income by product and segment

The following tables provide a breakdown of the Group's underlying operating income by product and client segment.

	2020					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	2,084	19	734	1	–	2,838
Trade	634	19	340	1	–	994
Cash Management	1,450	–	394	–	–	1,844
Financial Markets	3,532	–	322	–	–	3,854
Foreign Exchange	1,121	–	170	–	–	1,291
Rates	1,036	–	32	–	–	1,068
Commodities	196	–	27	–	–	223
Credit and Capital Markets	602	–	37	–	–	639
Capital Structuring Distribution Group	238	–	36	–	–	274
DVA	13	–	–	–	–	13
Security services	320	–	–	–	–	320
Other Financial Markets	6	–	20	–	–	26
Corporate Finance	1,013	–	103	–	–	1,116
Lending and Portfolio Management	604	–	244	–	–	848
Wealth Management	–	1,586	1	381	–	1,968
Retail Products	–	3,401	6	159	–	3,566
CCPL and other unsecured lending	–	1,211	–	–	–	1,211
Deposits	–	1,326	6	125	–	1,457
Mortgage and Auto	–	716	–	34	–	750
Other Retail Products	–	148	–	–	–	148
Treasury	–	–	–	–	635	635
Other	(19)	7	(1)	(1)	(46)	(60)
<b>Total underlying operating income</b>	<b>7,214</b>	<b>5,013</b>	<b>1,409</b>	<b>540</b>	<b>589</b>	<b>14,765</b>

2019 (Restated) <sup>1</sup>						
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	2,604	19	876	–	–	3,499
Trade	698	19	383	–	–	1,100
Cash Management	1,906	–	493	–	–	2,399
Financial Markets	2,923	–	335	–	–	3,258
Foreign Exchange	943	–	184	–	–	1,127
Rates	664	–	32	–	–	696
Commodities	138	–	27	–	–	165
Credit and Capital Markets	547	–	30	–	–	577
Capital Structuring Distribution Group	295	–	34	–	–	329
DVA	(100)	–	–	–	–	(100)
Security services	342	–	1	–	–	343
Other Financial Markets	94	–	27	–	–	121
Corporate Finance	1,032	–	109	2	–	1,143
Lending and Portfolio Management	540	–	246	–	–	786
Wealth Management	–	1,516	1	362	–	1,879
Retail Products	–	3,642	6	214	–	3,862
CCPL and other unsecured lending	–	1,251	–	–	–	1,251
Deposits	–	1,804	6	179	–	1,989
Mortgage and Auto	–	475	–	36	–	511
Other Retail Products	–	112	–	(1)	–	111
Treasury	–	–	–	–	1,090	1,090
Other	(25)	9	1	(1)	(230)	(246)
<b>Total underlying operating income</b>	<b>7,074</b>	<b>5,186</b>	<b>1,574</b>	<b>577</b>	<b>860</b>	<b>15,271</b>

1 Following a reorganisation of certain clients, there has been a reclassification of balances across products and client segments

## Average balance sheets and yields and volume and price variances

### Average balance sheets and yields

For the purposes of calculating net interest margin the following adjustments are made:

- Statutory net interest income is adjusted to remove interest expense on amortised cost liabilities used to provide funding to the Financial Markets business
- Financial instruments measured at fair value through profit or loss are classified as non-interest earning
- Premiums on financial guarantees purchased to manage interest earning assets are treated as interest expense

In the Group's view this results in a net interest margin that is more reflective of banking book performance.

The following tables set out the average balances and yields for the Group's assets and liabilities for the periods ended 31 December 2020 and 31 December 2019 under the revised definition of net interest margin. For the purpose of these tables, average balances have been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in these tables would be significantly different had such balances been determined on a daily basis.

### Average assets

	2020				
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield interest earning balance %	Gross yield total balance %
<b>Average assets</b>					
Cash and balances at central banks	18,185	43,210	113	0.26	0.18
Gross loans and advances to banks	27,684	54,142	801	1.48	0.98
Gross loans and advances to customers	51,322	291,432	8,558	2.94	2.50
Impairment provisions against loans and advances to banks and customers	–	(6,526)	–	–	–
Investment securities	28,313	144,112	2,820	1.96	1.64
Property, plant and equipment and intangible assets	9,787	–	–	–	–
Prepayments, accrued income and other assets	116,263	–	–	–	–
Investment associates and joint ventures	2,122	–	–	–	–
<b>Total average assets</b>	<b>253,676</b>	<b>526,370</b>	<b>12,292</b>	<b>2.34</b>	<b>1.58</b>

	2019				
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield interest earning balance %	Gross yield total balance %
<b>Average assets</b>					
Cash and balances at central banks	17,544	29,177	329	1.13	0.70
Gross loans and advances to banks	26,639	61,040	1,834	3.00	2.09
Gross loans and advances to customers	49,662	274,970	10,775	3.92	3.32
Impairment provisions against loans and advances to banks and customers	–	(4,786)	–	–	–
Investment securities	29,188	134,355	3,611	2.69	2.21
Property, plant and equipment and intangible assets	11,217	–	–	–	–
Prepayments, accrued income and other assets	84,965	–	–	–	–
Investment associates and joint ventures	2,608	–	–	–	–
<b>Total average assets</b>	<b>221,823</b>	<b>494,756</b>	<b>16,549</b>	<b>3.34</b>	<b>2.31</b>

## Average liabilities

	2020				
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid interest bearing balance %	Rate paid total balance %
<b>Average liabilities</b>					
<b>Deposits by banks</b>	<b>17,899</b>	<b>27,178</b>	<b>237</b>	<b>0.87</b>	<b>0.53</b>
Customer accounts:					
Current accounts and savings deposits	43,729	226,278	1,140	0.50	0.42
Time and other deposits	58,789	154,865	2,531	1.63	1.18
Debt securities in issue	6,883	52,391	836	1.60	1.41
Accruals, deferred income and other liabilities	122,194	1,169	59	5.05	0.05
Subordinated liabilities and other borrowed funds	–	16,170	637	3.94	3.94
Non-controlling interests	319	–	–	–	–
Shareholders' funds	50,377	–	–	–	–
	<b>300,190</b>	<b>478,051</b>	<b>5,440</b>	<b>1.14</b>	<b>0.70</b>
Adjustment for Financial Markets funding costs			(173)		
Financial guarantee fees on interest earning assets			104		
<b>Total average liabilities and shareholders' funds</b>	<b>300,190</b>	<b>478,051</b>	<b>5,371</b>	<b>1.12</b>	<b>0.69</b>
2019					
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid interest bearing balance %	Rate paid total balance %
<b>Average liabilities</b>					
<b>Deposits by banks</b>	<b>17,561</b>	<b>27,619</b>	<b>739</b>	<b>2.68</b>	<b>1.64</b>
Customer accounts:					
Current accounts and savings deposits	38,804	183,323	2,114	1.15	0.95
Time and other deposits	59,094	167,904	4,088	2.43	1.80
Debt securities in issue	9,335	49,351	1,120	2.27	1.91
Accruals, deferred income and other liabilities	95,461	1,336	65	4.87	0.07
Subordinated liabilities and other borrowed funds	–	15,062	756	5.02	5.02
Non-controlling interests	293 <sup>1</sup>	–	–	–	–
Shareholders' funds	50,215	–	–	–	–
	<b>270,763</b>	<b>444,595</b>	<b>8,882</b>	<b>2.00</b>	<b>1.24</b>
Adjustment for Financial Markets funding costs			(340)		
<b>Total average liabilities and shareholders' funds</b>	<b>270,763</b>	<b>444,595</b>	<b>8,542</b>	<b>1.92</b>	<b>1.19</b>

1 Restated from \$31 million to \$293 million

## Net interest margin

	2020 \$million	2019 \$million
Interest income (statutory)	12,292	16,549
Average interest earning assets	526,370	494,756
Gross yield (%)	2.34	3.34
Interest expense (statutory)	5,440	8,882
Adjustment for Financial Markets funding costs	(173)	(340)
Financial guarantee fees on interest earning assets	104	–
Adjusted interest expense used to fund financial instruments held at fair value	5,371	8,542
Average interest-bearing liabilities	478,051	444,595
Rate paid (%)	1.12	1.92
Net yield (%)	1.22	1.42
Net interest income adjusted for Financial Markets funding costs and Financial guarantee fees on interest earning assets	6,921	8,007
Net interest margin (%)	1.31	1.62

## Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the years presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the year and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	2020 versus 2019		
	(Decrease)/increase in interest due to:		Net increase/(decrease) in interest \$million
	Volume \$million	Rate \$million	
<b>Interest earning assets</b>			
Cash and unrestricted balances at central banks	37	(253)	(216)
Loans and advances to banks	(102)	(931)	(1,033)
Loans and advances to customers	442	(2,659)	(2,217)
Investment securities	191	(982)	(791)
Total interest earning assets	568	(4,825)	(4,257)
<b>Interest bearing liabilities</b>			
Subordinated liabilities and other borrowed funds	44	(163)	(119)
Deposits by banks	(4)	(498)	(502)
Customer accounts:			
Current accounts and savings deposits	233	(1,148)	(915)
Time and other deposits	(213)	(1,409)	(1,622)
Debt securities in issue	49	(333)	(284)
Total interest bearing liabilities	109	(3,551)	(3,442)
	2019 versus 2018		
	(Decrease)/increase in interest due to:		Net increase/(decrease) in interest \$million
	Volume \$million	Rate \$million	
<b>Interest earning assets</b>			
Cash and unrestricted balances at central banks	(40)	5	(35)
Loans and advances to banks	(141)	192	51
Loans and advances to customers	333	404	737
Investment securities	336	310	646
Total interest earning assets	488	911	1,399
<b>Interest bearing liabilities</b>			
Subordinated liabilities and other borrowed funds	(36)	25	(11)
Deposits by banks	(60)	205	145
Customer accounts:			
Current accounts and savings deposits	56	391	447
Time and other deposits	247	502	749
Debt securities in issue	28	104	132
Total interest bearing liabilities	235	1,227	1,462

# Supplementary people information

Global	2020	2019	% change <sup>1</sup>
Full-time equivalent (FTE)	83,601	84,332	(0.9)
Headcount (year end)	83,657	84,398	(0.9)
Employed workers	82,084	82,494	(0.5)
Fixed-term workers	1,573	1,904	(17.4)
Non-employed workers (NEW)	11,632	11,104	4.8
Non-outsourced NEW <sup>2</sup>	5,765	6,102	(5.5)
Outsourced NEW <sup>3</sup>	5,867	5,002	17.3
Headcount (12-month average)	84,740	83,938	1.0
Male			
FTE	45,632	45,504	0.3
Headcount	45,644	45,518	0.3
Female			
FTE	37,969	38,828	(2.2)
Headcount	38,013	38,880	(2.2)
Nationalities	131	129	1.6
Position type	2020	2019	% change
Executive and non-executive director	13	13	–
Female executive and non-executive director	4	4	–
Management Team and their direct reports <sup>4</sup>	129	132	(2.3)
Female Management Team and their direct reports	41	41	–
Senior leadership <sup>5</sup>	4,196	4,076	2.9
Female senior leadership	1,236	1,162	6.4
Rest of employees	79,461	80,322	(1.1)
Female rest of employees	36,777	37,718	(2.5)
Employment type	2020	2019	% change
Business FTE	34,883	37,091	(6.0)
Business headcount	34,905	37,117	(6.0)
Business female headcount	18,016	19,254	(6.4)
Support services FTE	48,717	47,241	3.1
Support services headcount	48,752	47,281	3.1
Female support services headcount	19,997	19,626	1.9
Region	2020	2019	% change
Greater China & North Asia (GCNA) FTE	20,045	20,842	(3.8)
GCNA headcount	20,057	20,857	(3.8)
GCNA female headcount	12,779	13,244	(3.5)
ASEAN & South Asia (ASA) FTE	48,312	47,597	1.5
ASA headcount	48,328	47,619	1.5
ASA female headcount	18,831	18,909	(0.4)
Africa & Middle East (AME) FTE	10,694	11,579	(7.6)
AME headcount	10,695	11,581	(7.7)
AME female headcount	4,652	4,966	(6.3)
Europe & Americas (EA) FTE	4,550	4,314	5.5
EA headcount	4,577	4,341	5.4
EA female headcount	1,751	1,761	(0.6)

Age	2020	2019	% change
< 30 years FTE	15,979	19,079	(16.2)
< 30 years headcount	15,984	19,087	(16.3)
< 30 years female headcount	8,409	10,163	(17.3)
30-50 years FTE	60,881	59,027	3.1
30-50 years headcount	60,912	59,063	3.1
30-50 years female headcount	26,641	25,965	2.6
> 50 years FTE	6,741	6,226	8.3
> 50 years headcount	6,761	6,248	8.2
> 50 years female headcount	2,963	2,752	7.7
<b>Talent management</b>	<b>2020</b>	<b>2019</b>	<b>% change</b>
Global voluntary turnover rate (%)	7.3%	12.7%	(42.8)
Global turnover rate (%)	9.8%	16.1%	(39.0)
Male (%)	9.9%	16.8%	(40.9)
Female (%)	9.7%	15.3%	(36.6)
GCNA (%)	9.8%	15.1%	(35.0)
ASA (%)	9.8%	17.0%	(42.3)
AME (%)	9.6%	14.7%	(35.0)
EA (%)	10.7%	15.4%	(30.6)
< 30 years (%)	14.1%	23.6%	(40.3)
30-50 years (%)	8.2%	13.6%	(39.9)
> 50 years (%)	12.7%	15.3%	(17.1)
Average tenure (years) – Male	7.0	6.7	5.6
Average tenure (years) – Female	7.6	7.0	8.2
Roles filled internally (%)	39.6%	34.2%	15.5
of which filled by females (%)	41.1%	42.6%	(3.4)
New female employees (%)	39.6%	45.2%	(12.3)
Employees with completed performance appraisal (%)	97.7%	99.9%	(2.2)
Absenteeism rate <sup>6</sup> (%)	1.3%	1.6%	(16.8)
<b>Learning<sup>7</sup></b>	<b>2020</b>	<b>2019</b>	<b>% change</b>
Employees receiving training (%)	98.0%	97.8%	0.2
Employees receiving training (excluding mandatory learning) (%)	97.9%	97.6%	0.3
Senior leadership (%) <sup>5</sup>	99.7%	99.8%	(0.04)
Average number of training days per employee (including mandatory learning)	3.6	3.2	10.8
Average cost of training per employee <sup>8</sup>	567	773	(26.6)
<b>Work-related health and safety</b>	<b>2020</b>	<b>2019</b>	<b>% change</b>
Fatalities <sup>9</sup>	1	3	(66.7)
Major injuries <sup>10</sup>	23	46	(50.0)

1 For all metrics expressed as a percentage, percentage change means percentage point change

2 Non-outsourced NEWs are resources engaged on a time and materials basis where task selection and supervision is the responsibility of the Group, such as agency workers. References to colleagues in this report is FTE plus non-outsourced NEWs

3 Outsourced NEWs are arrangements with a third-party vendor where the delivery is based on a specific service or outcome at an agreed price, irrespective of the number of resources required to perform the service. These resources are not considered as the Group's headcount

4 Management Team and colleagues who report to them, excluding administrative or executive support roles (personal assistants, business planning managers). Includes Group Head of Internal Audit and Company Secretary.

5 Senior leadership is defined as Managing Directors and Bands 4 (including Management Team)

6 Represents health-related absence including quarantine in respect of COVID-19. The metric has been updated to include disability-related leave and 2019 has been refreshed for comparison. Excludes Korea

7 Learning metrics have been updated to reflect only active employees at year end rather than active and terminated employees. 2019 has been updated for comparison

8 Average cost of training per employee includes cost of learning management system

9 Includes commuting

10 Per UK Health and Safety Executive definition. 2019 has been updated due to recategorisation

# Supplementary sustainability information

## Business: sustainable finance

### Employees trained in environmental and social risk management

	2020	2019	2018
Employees trained <sup>1</sup>	1,604	1,149	1,308

1 Employees targeted for training are those in client-facing roles and relevant support teams.

### Environmental and social risk management

	2020	2019	2018
Number of transactions reviewed	1,090	1,127	827

### Equator Principles

	Project finance mandates			Project-related corporate loans			Project advisory mandates
	Cat A <sup>1</sup>	Cat B <sup>2</sup>	Cat C <sup>3</sup>	Cat A	Cat B	Cat C	
Total 2018	4	7	–	–	–	–	3
Total 2019*	6	7	–	1	1	2	–
<b>Total 2020</b>	<b>4</b>	<b>8</b>	<b>–</b>	<b>2</b>	<b>1</b>	<b>–</b>	<b>–</b>

\* To align with the Equator Principles reporting requirements, the data in this document has been restated since our 2019 Annual Report. The information restated includes the change of 1 financial product, 1 country and 1 industry.

### 2020

#### Sector

Mining	–	–	–	–	–	–
Infrastructure	–	–	–	–	1	–
Oil and gas	1	2	–	1	–	–
Renewables	2	5	–	–	–	–
Telecoms	–	–	–	–	–	–
Power	1	1	–	–	–	–
Other	–	–	–	1	–	–

#### Region

GCNA	1	–	–	1	–	–
ASA	–	3	–	–	–	–
AME	2	4	–	1	–	–
EA	1	1	–	–	1	–

#### Designation<sup>4</sup>

Designated	1	1	–	–	1	–
Non-designated	3	7	–	2	–	–

#### Independent review

Yes	4	8	–	2	1	–
No	–	–	–	–	–	–

1 'Cat A' or Category A are projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented

2 'Cat B' or Category B are projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

3 'Cat C' or Category C are projects with minimal or no adverse environmental and social risks and/or impacts

4 'Designation' is split into designated and non-designated countries. Designated countries are deemed by the Equator Principles to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. Non-designated countries are countries that are not found on the list of designated countries. The list of countries can be found at [www.equator-principles.com](http://www.equator-principles.com)

## Responsible company

### Environment

	See footnote:	2020		2019		2018	
		Measured	Scaled up	Measured	Scaled up	Measured	Scaled up
Offices reporting		756		164	–	174	–
Net internal area of occupied property (m <sup>2</sup> )		933,132	1,050,414	825,088	1,154,999	822,623	1,185,929
Green lease clause inclusion (%)	1	85		82	–	78	–
Occupied net internal area where data is collected (%)		89		71	–	69	–
Full-time employees (FTE)	2	74,316	83,657	73,094	84,398	62,420	85,402
Annual operating income from 1 October to 30 September (\$m)			15,233	–	15,200	–	14,958
<b>Greenhouse gas emissions – absolute (tonnes CO<sub>2</sub>eq/year)</b>							
Scope 1 emissions (combustion of fuels)		3,589	3,988	3,435	4,542	4,467	8,584
Scope 2 emissions (purchased electricity)		102,477	113,870	98,383	141,771	104,267	139,366
Scope 1 and 2 emissions		106,066	117,858	101,818	146,313	108,734	147,950
Scope 3 emissions with distance uplift (air travel)	3	31,617	33,811	87,295	94,043	106,636	121,464
Scope 3 emissions (Global Data Centre)	4	–	29,562	–	46,362	–	21,523
Scope 1, 2 and 3 emissions	5	137,683	181,231	189,113	286,718	215,370	290,937
<b>Greenhouse gas emissions – intensity</b>							
Scope 1 and 2 emissions/m <sup>2</sup> (kg CO <sub>2</sub> eq/m <sup>2</sup> /year)		114	112	123	127	132	125
Scope 1 and 2 emissions/FTE (tonnes CO <sub>2</sub> eq/FTE/year)		1.43	1.41	1.39	1.73	1.74	1.73
Scope 3 emissions/FTE with distance uplift (tonnes CO <sub>2</sub> eq/FTE/year)	5	0.40	0.40	1.11	1.11	1.42	1.42
Scope 1, 2 and 3 emissions/m <sup>2</sup> (kg CO <sub>2</sub> eq/m <sup>2</sup> /year)	5	148	173	229	248	262	245
Scope 1, 2 and 3 emissions/FTE (tonnes CO <sub>2</sub> eq/FTE/year)	5	1.85	2.17	2.59	3.40	3.45	3.41
Scope 1 and 2 emissions/\$m operating income (tonnes CO <sub>2</sub> eq/\$m/year)		–	7.74	–	9.63	–	9.89
Scope 1, 2 and 3 emissions/\$m operating income (tonnes CO <sub>2</sub> eq/\$m/year)	5	–	11.90	–	18.86	–	19.45
<b>Environmental resource efficiency</b>							
<b>Energy</b>							
Indirect non-renewable energy consumption (GWh/year)	6	164	184	154	223	162	224
Indirect renewable energy consumption (GWh/year)	7	13	14	16	17	17	17
Direct non-renewable energy consumption (GWh/year)	8	15	16	14	19	18	31
On-site renewable energy consumption (MWh/year)		707	796	537	555	458	458
Energy consumption (GWh/year)		192	216	184	258	198	272
Energy consumption/FTE (kWh/FTE/year)		2,260	2,544	2,522	3,061	3,167	3,187
Energy consumption/m <sup>2</sup> (kWh/m <sup>2</sup> /year)		205	205	223	224	240	230
<b>Water</b>							
Water consumption (ML/year)		363	483	425	654	605	916
Water consumption/FTE (m <sup>3</sup> /FTE/year)		4	6	6	8	10	11
Water consumption/m <sup>2</sup> (kL/m <sup>2</sup> /year)		0.39	0.46	0.51	0.57	0.74	0.77
<b>Paper</b>							
Print paper consumption (ktonnes/year)		0.93		1.41		1.05	1.49
Print paper consumption/FTE (kg/FTE/year)		11.2		16.96	–	17.70	–
<b>Waste</b>							
Waste (ktonnes/year)	9	3.67	–	4.8	–	5.1	
Waste/FTE (kg/FTE/year)		43	–	66	–	81	
Waste reused or recycled (%)		23	–	35	–	46	
Retired IT equipment reused or recycled (ktonnes/year)		0.25		0.33	–	0.19	

1 Percentage of green lease clause inclusion in all new and renewed leases within the reporting year. Refer to the eco-efficiency criteria for more information

2 For environmental reporting purposes, full-time employees (FTE) refers to the Group's headcount as at 31 December 2020

3 Scaled up figures for prior periods, and derivatives of this figure, have been restated.

4 Scope 3 emissions calculated from total energy consumption from our outsourced global data centres

5 From 2020 we have consolidated scope 3 emissions from data centres into our total scope 1, 2 and 3 emissions figure. Prior periods, and derivatives of this figure, have been restated

6 Indirect non-renewable energy refers to purchased electricity from non-renewable sources

7 Indirect renewable energy refers to purchased electricity from off-site renewable sources

8 Direct renewable energy refers to the gross calorific values of renewable fuels consumed on-site

9 Measured waste produced overall has reduced year-on-year mainly due to COVID-19. However more non-recycled personal protective equipment (PPE) was disposed of, reducing our recycling rate accordingly. We currently do not measure waste in properties < 10,000 square feet so the scaled-up value allows for this

## Additional notes on environment data

The emissions within our inventory correspond to a reporting period of 1 October 2019 to 30 September 2020. This is to allow sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same period rather than the calendar year used in financial reporting. This is consistent with international carbon-reporting practice.

We use measured data to calculate our energy and water use from across our properties, which we then scale up to reflect the portion of the portfolio we do not gather measurements from. For 2020, we significantly increased the proportion of our property portfolio from which we gathered measured data, which is measured on a square footage basis. For paper and business travel, it is defined per full-time employee.

Total energy use is normalised to reflect periods of vacancy in certain sites during the reporting period.

Net internal areas used for water use intensity do not include sites that have reported zero water consumption in demised areas.

Warehouses, empty land, car parks, unoccupied sites for business continuity purposes, residential properties, space occupied by automated teller machines, vaults and space sub-let to tenants are excluded from this extrapolation.

Scope 3 emissions are drawn from reliable data collected from 33 countries, based on seating class and distance flown.

As we operate largely outside of the UK, all flights domestic or international with flight distance of less than 463km, labelled by the Department for Business, Energy and Industrial Strategy (DBEIS) as domestic flights, have been classified as short haul. All flights with distance flown ranging from 463 to 1,108km, labelled by DBEIS as short haul have been classified as medium haul.

We use an independent third-party assurance provider to verify our greenhouse gas (GHG) emissions. In 2020, our measured Scope 1 and Scope 2 emissions were assured by Global Documentation Ltd, ensuring the accuracy and credibility of our reporting.

 [Read our carbon emission criteria at sc.com/environmentcriteria](https://www.sc.com/environmentcriteria)

 [Read our independent assurance report at sc.com/environmentalassurance](https://www.sc.com/environmentalassurance)

## Financial crime prevention

	2020 %	2019 %	2018 %
Staff completing External Financial Crime Risk e-learning (which includes AML, Sanctions, ABC and Fraud Risks)	99.9		
Staff completing Internal Financial Crime Risk e-learning (which includes AML, Sanctions, ABC and Fraud Risks)	99.9		
Staff completing Sanctions e-learning	99.9	99.9	99.9
Staff completing Anti-Money Laundering (AML) e-learning		99.9	99.9
Staff completing Anti-Bribery and Corruption (ABC) e-learning		99.9	99.9

In 2020, the Financial Crime Compliance (FCC) e-learning courses have merged into External and Internal Financial Crime Risk courses (with the stand-alone Sanctions course scheduled to drop in 2021); fraud content was newly introduced in both the External and Internal Risks Courses in 2020

Computing method: (Completed + Due)/(Total Population - Untagged) = rate of completion

Data excludes Korea which manages its learning on a different system/platform

Data is the "Tagged" population

## Communities: Inclusive communities

### Community expenditure



















Total (\$million)	2020	2019	2018
Cash contributions	71.5	27.5	22.9
Employee time (non-cash item)	11.6	16.9	18.8
Gifts in kind (non-cash item) <sup>1</sup>	1.1	0.3	0.1
Management costs	4.4	4.5	4.5
<b>Total (direct investment by the Group)</b>	<b>88.6</b>	<b>49.2</b>	<b>46.3</b>
Leverage <sup>2</sup>	7.1	1.9	2.9
<b>Total (incl. leverage)</b>	<b>95.7</b>	<b>51.1</b>	<b>49.2</b>
<b>Percentage of prior year operating profit (PYOP)</b>	<b>2.58</b>	<b>2.01</b>	<b>2.04</b>

<sup>1</sup> Gifts in kind comprises all non-monetary donations

<sup>2</sup> Leverage data relates to the proceeds from staff and other fundraising activity





# 2021 Sustainability Aspirations

## Pillar one: sustainable finance


Theme	Aspiration: We will:	Target date
<b>Infrastructure</b> Everyone should have access to safe, reliable and affordable power and infrastructure which transforms lives and strengthens economies   	Facilitate project financing services for \$40 billion of infrastructure projects that promote sustainable development that align to our verified Green and Sustainable Product Framework	Jan 2020 – Dec 2024
<b>Climate change</b> Climate change is one of today's greatest challenges and addressing it is essential to promote sustainable economic growth  	Facilitate \$35 billion worth of project financing services, M&A advisory, debt structuring, transaction banking and lending services for renewable energy that aligns to our verified Green and Sustainable Product Framework  Only provide financial services to clients who are: <ul style="list-style-type: none"> <li>By Jan 2021, less than 100% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2025, less than 60% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2027, less than 40% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> <li>By Jan 2030, less than 5% dependent on earnings from thermal coal (based on % EBITDA at group level)</li> </ul>	Jan 2020 – Dec 2024  Jan 2020 – Jan 2030
<b>Entrepreneurs</b> Entrepreneurs are the heart of local economies, creating jobs and empowering people  	Provide \$15 billion of financing to small business clients (Business Banking)  Provide \$3 billion of financing to microfinance institutions	Jan 2020 – Dec 2024  Jan 2020 – Dec 2024
<b>Retail Banking</b> Enabling individuals to contribute to sustainable development through core banking products   	Launch a suite of five core sustainability-focused Retail Banking products in selected markets across our footprint	Jan 2021 – Dec 2022
<b>Commerce</b> Trade creates jobs and contributes to economies by enabling people to connect across borders  	Bank 10,000 of our clients' international and domestic networks of suppliers and buyers through banking the ecosystem programmes	Jan 2020 – Dec 2024
<b>Digital</b> Everyone should have access to digital banking products enabling safe, efficient and inclusive banking   	Roll out digital-only bank in a total of 12 markets  Double the number of clients we bank in Africa and the Middle East to 3.2 million	Jan 2020 – Dec 2021  Jan 2020 – Dec 2021
<b>Impact Finance</b> Innovative financial products and partnerships can help us solve global development challenges and improve the lives of millions in our markets   	Develop a tailored Impact Profile for all Private Banking clients providing a framework that enables them to understand their passions and harness capital market solutions to support the UN Sustainable Development Goals (SDGs)  Triple the percentage of sustainable investing assets under management <sup>1</sup>  Roll out environmental, social and governance (ESG) scores for single-holding investments and funds where applicable ESG scores are available from third-party data providers	Jan 2020 – Dec 2024  Jan 2021 – Dec 2024  Jan 2021 – Dec 2021

<sup>1</sup> This Aspiration has been updated for 2021 to reflect a measurement basis of assets under management instead of portion of solutions

## Pillar two: responsible company

Theme	Aspiration: We will:	Target date
<b>People</b> Our people are our greatest asset, and our diversity drives our business success 	Embed an integrated health and wellbeing strategy to support building and re-skilling a future-ready, diverse workforce Support all employees to develop a personalised growth plan to reflect the future skills needed to respond to the changing and digitised nature of work Increase gender representation: 35% women in senior roles Increase our 'Culture of Inclusion' score to 84.5% with an interim target: Dec 2021: 80%	Jan 2020 – Dec 2021 Jan 2020 – Dec 2021 Sep 2016 – Dec 2025 Jan 2020 – Dec 2024
<b>Environment</b> Reducing our own impact on the environment will protect our planet for the benefit of our communities 	Reduce annual greenhouse gas emissions (Scope 1 and 2) to net zero by 2030 with interim targets: • Dec 2021: 106,000 tCO <sub>2</sub> e • Dec 2025: 60,000 tCO <sub>2</sub> e Source all energy from renewable sources Join the Climate Group 'RE100' Achieve and maintain flight emissions 28% lower than our 2019 baseline of 94,000 tonnes Reduce waste per colleague to 40kg/FTE/year Recycle 90% of waste Develop a methodology to measure Scope 3 emissions from our supply chain Offset all residual emissions from our operations (Scope 1 and 2, Scope 3 flights, waste and data centres)	Jan 2019 – Dec 2030 Jan 2020 – Dec 2030 Jan 2021 – Dec 2021 Jan 2021 – Dec 2023 Jan 2020 – Dec 2025 Jan 2020 – Dec 2025 Jan 2021 – Dec 2021 Jan 2021 – Dec 2021
<b>Conduct</b> Good conduct and high ethical standards are essential in achieving fair outcomes for our clients 	Learn from risks identified through concerns raised via our Speaking Up Programme and Conduct Plans and publish an annual Threats and Themes Report Develop enhanced internal policies and guidelines on privacy, data ethics and algorithmic fairness, and embed a new governance framework for all data-related risks	Ongoing Jan 2020 – Dec 2021
<b>Financial Crime Compliance</b> Financial crime has serious social and economic consequences, harming individuals and communities 	Tackle financial crimes by contributing to developing typologies and red flags for financial flows, training frontline staff to identify potential suspicious transactions and participating in public-private partnerships to share intelligence and good practices Deliver at least 50 correspondent banking academies	Ongoing Jan 2021 – Dec 2023

## Pillar three: inclusive communities

Theme	Aspiration: We will:	Target date
<b>Community engagement</b> Everyone deserves economic opportunities that enable them to learn, earn and grow 	Invest 0.75% of prior year operating profit (PYOP) in our communities Raise \$75m for Futuremakers by Standard Chartered Education: reach one million girls and young women through Goal Employability: reach 100,000 young people Entrepreneurship: reach 50,000 young people, and micro and small businesses Increase participation for employee volunteering to 55%	Ongoing Jan 2019 – Dec 2023 Jan 2006 – Dec 2023 Jan 2019 – Dec 2023 Jan 2019 – Dec 2023 Jan 2020 – Dec 2023

# Shareholder information

## Dividend and interest payment dates

Ordinary shares		Final dividend
Results and dividend announced		25 February 2021
Ex-dividend date		4 (UK) 3 (HK) March 2021
Record date for dividend		5 March 2021
Last date to amend currency election instructions for cash dividend		21 April 2021
Dividend payment date		20 May 2021
Preference shares		
	1st half yearly dividend	2nd half yearly dividend
73/8 per cent non-cumulative irredeemable preference shares of £1 each	1 April 2021	1 October 2021
81/4 per cent non-cumulative irredeemable preference shares of £1 each	1 April 2021	1 October 2021
6.409 per cent non-cumulative redeemable preference shares of \$5 each	30 January and 30 April 2021	30 July and 30 October 2021
7.014 per cent non-cumulative redeemable preference shares of \$5 each	30 January 2021	30 July 2021

## Annual General Meeting

The Annual General Meeting (AGM) will be held on Wednesday 12 May 2021 at 11.00am UK time (6.00pm Hong Kong time). Further details regarding the format, location and business to be transacted at the meeting will be disclosed within the 2021 Notice of AGM.

+ Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at [sc.com/aggm](https://sc.com/aggm)

## Interim results

The interim results will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong Limited and put on the Company's website.

## Country-by-country reporting

In accordance with the requirements of the Capital Requirements (country-by-country reporting) Regulations 2013, the Group will publish additional country-by-country information in respect of the year ended 31 December 2020, on or before 31 December 2021. We have also published our approach to tax and tax policy.

+ This information will be available on the Group's website at [sc.com](https://sc.com)

## ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account. It allows you to hold your Standard Chartered PLC shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare, you will still be invited to attend the Company's AGM and you receive any dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay.

+ If you would like to receive more information, please visit our website at [sc.com/shareholders](https://sc.com/shareholders) or contact the shareholder helpline on **0370 702 0138**.

## Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. There is no implication for capital gains tax (no gain or loss) when you donate shares to charity, and UK taxpayers

may be able to claim income tax relief on the value of their donation.

+ Further information can be obtained from the Company's registrars or from ShareGift on **020 7930 3737** or from [sharegift.org](https://sharegift.org)

## Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account.

+ Please register online at [investorcentre.co.uk](https://investorcentre.co.uk) or contact our registrar for a mandate form.

## Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the UK register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ or call the shareholder helpline number on 0370 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

+ You can check your shareholding at [computershare.com/hk/investors](https://computershare.com/hk/investors)

## Substantial shareholders

The Company and its shareholders have been granted partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, shareholders no longer have an obligation under Part XV of the SFO (other than Divisions 5, 11 and 12 thereof) to notify the Company of substantial shareholding interests, and the Company is no longer required to maintain a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with The Stock Exchange of Hong Kong Limited any disclosure of interests made in the UK.

## Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the UK, Hong Kong or the US will be sent to you with your dividend documents. Shareholders and prospective purchasers should consult an appropriate independent professional adviser regarding the tax consequences of an investment in shares in light of their particular circumstances, including the effect of any national, state or local laws.

## Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 rights issues)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Final 2008	15 May 2009	42.32c/28.4693p/HK\$3.279597	£8.342/\$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK\$1.645304	£13.876/\$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK\$3.478306	£17.351/\$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK\$1.811274/INR0.984124 <sup>1</sup>	£17.394/\$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK\$3.623404/INR1.9975170 <sup>1</sup>	£15.994/\$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK\$1.928909813/INR1.13797125 <sup>1</sup>	£14.127/\$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK\$3.9776083375/INR2.6667015 <sup>1</sup>	£15.723/\$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK\$2.111362463/INR1.349803950 <sup>1</sup>	£13.417/\$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK\$4.4048756997/INR2.976283575 <sup>1</sup>	£17.40/\$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK\$2.233204992/INR1.6813 <sup>1</sup>	£15.362/\$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK\$4.43464736/INR3.354626 <sup>1</sup>	£11.949/\$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK\$2.2340016000/INR1.671842560 <sup>1</sup>	£12.151/\$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK\$4.43329/INR3.514059 <sup>1</sup>	£9.797/\$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK\$1.115985456/INR0.86139372 <sup>1</sup>	£8.5226/\$13.34383
Final 2015	No dividend declared	N/A	N/A
Interim 2016	No dividend declared	N/A	N/A
Final 2016	No dividend declared	N/A	N/A
Interim 2017	No dividend declared	N/A	N/A
Final 2017	17 May 2018	11.00c/7.88046p/HK\$0.86293/INR0.653643340 <sup>1</sup>	£7.7600/\$10.83451
Interim 2018	22 October 2018	6.00c/4.59747p/HK\$0.46978/INR0.3696175 <sup>1</sup>	£6.7104/\$8.51952
Final 2018	16 May 2019	15.00c/11.569905p/HK\$1.176260/INR0.957691650 <sup>1</sup>	N/A
Interim 2019	21 October 2019	7.00c/5.676776p/HK\$0.548723/INR0.425028600 <sup>1</sup>	N/A
Final 2019	Dividend withdrawn	N/A	N/A
Interim 2020	No dividend declared	N/A	N/A

1 The INR dividend is per Indian Depository Receipt

## Chinese translation

If you would like a Chinese version of the 2020 Annual Report please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

二〇二〇年年報之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后大道東183號合和中心17M樓。

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Annual Report, the English text shall prevail.

## Electronic communications

If you hold your shares on the UK register and in future you would like to receive the Annual Report electronically rather than by post, please register online at: [investorcentre.co.uk](http://investorcentre.co.uk). Then click on 'register' and follow the instructions. You will need to have your Shareholder or ShareCare reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically and change your bank mandate or address information.

## Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and

uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

# Main awards and accolades in 2020

## Major awards 2020

### FX-Markets

#### AsiaRisk

##### FX Markets Asia Awards 2020

- Currency Derivatives House of the Year

### Euromoney

#### Euromoney Cash Management Survey 2020

(Non Financial Institutions)

- Best Service Provider – Malaysia
- Best Service Provider – The Philippines

### Flmetrix

#### Flmetrix 2020 Distinguished Provider

- Distinguished Provider 2020 – EUR

### Global Custodian

#### Leaders in Custody

- Multi-market Excellence, APAC
- Relationship Management and Client Service, APAC

### Global Finance

#### World's Best Treasury & Cash Management Bank and Providers Awards 2020

- Best Bank for Cash Management (Global Winner)
- Best Bank for Cash Management Asia Pacific
- Best Bank for Cash Management Bangladesh, Botswana, Hong Kong, South Korea

#### World's Best Trade Finance Provider Awards 2020

- Best Trade Finance Provider Asia Pacific
- Best Trade Finance Provider Middle East
- Best Trade Finance Provider Bangladesh

#### World's Best Supply Chain Finance Providers Awards 2020

- Best Supply Chain Provider Middle East

### World's Best Private Banks 2020

- Global Award, Best Private Bank for Millennials
- Regional Award – Best Private Bank for Business Owners in Africa
- Country Award – Best Private Bank for Kenya

### Global Trade Review

#### GTR Leaders in Trade

- Best Export Finance Bank

### Project Finance International

#### Project Finance International Awards 2020

- **Changfang Xidao Offshore Wind Project**  
Asia Pacific Renewables Deal of the year
- **SB Energy Six Solar Project**  
India Green Deal of the year
- **Al Dhafra in Abu Dhabi**  
Middle East Solar Deal of the year
- **Fujairah 3**  
Middle East Power Deal of the year
- **DEWA 5**  
Middle East Renewables Deal of the year
- **Galaxy**  
Middle East Infrastructure Deal of the year
- **Nigeria LNG**  
African LNG Deal of the year
- **Dogger Bank**  
Global Green Deal of the year

### Treasury Management International (TMI)

#### TMI Awards for Innovation & Excellence 2020

- Best Bank for Cash & Liquidity Management – Asia Pacific
- Best Bank for Trade Finance & Financial Supply Chain – Asia Pacific
- Best COVID-19 Response – Highly Commended: Hong Kong Council of Social Service
- Best API Project – Highly Commended: Bharti Airtel Kenya

### The Asset

#### Triple A Sustainable Investing Awards for Institutional Investor, ETF, and Asset Servicing Providers 2020

- Best Fund Administrator, Retail Funds – Vietnam, Malaysia
- Best Domestic Custodian – Bangladesh, Sri Lanka, Vietnam, Thailand
- Best Subcustodian in North Asia – South Korea
- Best Subcustodian in ASEAN/Australia – Singapore
- Best Subcustodian in South Asia – Bangladesh, Pakistan, Sri Lanka
- Best Subcustodian in Middle East – Jordan, Bahrain, Oman
- Best in Asset Servicing in China – Best Custodian, Bond Connect

#### Triple A Treasury, Trade, Sustainable Supply Chain and Risk Management Awards 2020

- Best Working Capital & Trade Finance Service Provider
- Best Fintech Partner
- Best Renminbi Bank
- Best Renminbi Bank: Hong Kong
- Best Renminbi Bank: Japan
- Best Renminbi Bank: Nigeria
- Best Renminbi Bank: Pakistan
- Best Renminbi Bank: Philippines
- Best Renminbi Bank: Singapore
- Best Renminbi Bank: South Africa
- Best Renminbi Bank: Thailand
- Best Renminbi Bank: UAE
- Best Service Provider: E-Solutions Partner (China)
- Best Service Provider: E-Solutions Partner (Hong Kong)
- Best in Treasury and Working Capital – SMEs (South Korea)
- Best Trade Finance (South Korea)
- Best Digital Solutions: Best Payments and Collection Solution in Bangladesh (for Cloudwell Limited)

- Best Digital Solutions: Best Payments and Collection Solution in Hong Kong (For Hong Kong Jockey Club)
- Best Digital Solutions: Best Payments and Collection Solution in Hong Kong (For Manulife)
- Best Digital Solutions: Best Payments and Collection Solution in India (for Castrol India)

## The Banker

### 2020 Innovation in Digital Banking Awards

- 2020 Innovation in Digital Banking Awards – Payments

## Trade Finance Global

### International Trade Awards 2020 in cooperation with BAFT

- Best Trade Financier

## Asia Money

### 2020 Asiamoney New Silk Road Finance Awards

- Best International Bank in the Region for BRI (Southeast Asia)
- Best Bank for Infrastructure/Project Finance in the Region (Middle East & Africa)

## The Digital Banker

### Digital CX Awards 2020

- Winner: Best Private Bank for Customer Experience
- Winner: Best Digital Customer Experience in Private Banking

### Financial Times

- Listed among 2020 Europe Diversity Leaders

### American Universities China Association

- Most attractive employer to overseas-study students

## HR, diversity & inclusion awards

### China

### Top Human Resources Management Awards

- Top graduate employer
- Top human resources management

### Universum 2020

- Most attractive employer

## Vietnam

### HR Asia

- Listed in Best Companies to Work For in Asia

## UAE

### UAE Government Gender Balance Council

- Best financial institution in supporting gender balance

## USA

### Great Place to Work

- Great Place to Work Certification (85% say we're a great place to work)

## India

### India Workplace Equality Index

- SILVER Employer

## Singapore

### HR Excellence Awards

- Excellence in HR Innovation, Gold award

## Sustainability indices



FTSE4Good

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



We participate in the CDP Climate questionnaire.

## Sustainability and community engagement awards

### China

### Society Value Co-creation Committee

- Outstanding CSR Program Award

### Jinrongjie.com

- Outstanding Charity Program Award



## Global Views Monthly Magazine

- CSR Award in Happy Enterprise

## Commonwealth Magazine

- Foreign companies for Excellence in CSR



## Taiwan Enterprise Sustainability Award of Taiwan Corporate Sustainability Academy (TCSA)

- The Most Prestigious Sustainability Award – Foreign Corporate



## Indonesia

### TOP CSR Awards 2020 # Star 4

- TOP CSR Awards 2020



## Singapore

### National Volunteer and Philanthropy Centre (NVPC)

- Champion of Good

### Community Chest

- Charity Silver Award
- Community Spirit Platinum Award

## Thailand

### American Chamber of Commerce in Thailand

- AMCHAM CSR Excellence Recognition Award (Platinum level)

## Jordan

### International Business Magazine

- Best CSR Bank

## Pakistan

### Diversity Hub Pakistan's Global Diversity and Inclusion Benchmarks Awards 2020

- Progressive – Connecting Diversity and Inclusion and Sustainability

## UAE

### 14th Middle East Financial Markets & Public Companies Excellence awards

- CSR Program for the year

### International Investor magazine 2021

- Excellence In CSR – Start-up Program Of The Year/Africa & Middle East 2021

### Global Finance Magazine

- Outstanding Crisis Leadership – Healthcare

# Glossary

## AT1 or Additional Tier 1 capital

Additional Tier 1 capital consists of instruments other than Common Equity Tier 1 that meet the Capital Requirements Regulation (CRR) criteria for inclusion in Tier 1 capital.

## Additional value adjustment

See Prudent valuation adjustment.

## Advanced Internal Rating Based (AIRB) approach

The AIRB approach under the Basel framework is used to calculate credit risk capital based on the Group's own estimates of prudential parameters.

## Alternative performance measures

A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

## ASEAN

Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

## AUM or Assets under management

Total market value of assets such as deposits, securities and funds held by the Group on behalf of the clients.

## Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the International Convergence of Capital Measurement and Capital Standards.

## Basel III

The global regulatory standards on bank capital adequacy and liquidity, originally issued in December 2010 and updated in June 2011. In December 2017, the BCBS published a document setting out the finalisation of the Basel III framework. The latest requirements issued in December 2017 will be implemented from 2022.

## BCBS or Basel Committee on Banking Supervision

A forum on banking supervisory matters which develops global supervisory standards for the banking industry. Its members are officials from 45 central banks or prudential supervisors from 27 countries and territories.

## Basic earnings per share (EPS)

Represents earnings divided by the basic weighted average number of shares.

## Basis point (bps)

One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

## CRD or Capital Requirements Directive

A capital adequacy legislative package adopted by EU member states. CRD comprises the recast Capital Requirements Directive and the Capital Requirements Regulation (CRR). The package implements the Basel III framework together with transitional arrangements for some of its requirements. CRD IV came into force on 1 January 2014. CRR II and CRD V amending the existing package came into force in June 2019 with most changes starting to apply from 28 June 2021.

## Capital-lite income

Income derived from products with low RWA consumption or products which are non-funding in nature.

## Capital resources

Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

## CGU or Cash-generating unit

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## Cash shortfall

The difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

## Clawback

An amount an individual is required to pay back to the Group, which has to be returned to the Group under certain circumstances.

## Commercial real estate

Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

## CET1 or Common Equity Tier 1 capital

Common Equity Tier 1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1.

## CET1 ratio

A measure of the Group's CET1 capital as a percentage of risk-weighted assets.

## Contractual maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

## Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is part of a set of macroprudential instruments, designed to help counter procyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets in a given jurisdiction. The Bank of England's Financial Policy Committee has the power to set the CCyB rate for the United Kingdom. Each bank must calculate its 'institution-specific' CCyB rate, defined as the weighted average of the CCyB rates in effect across the jurisdictions in which it has credit exposures. The institution-specific CCyB rate is then applied to a bank's total risk-weighted assets.

**Counterparty credit risk**

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

**CCF or Credit conversion factor**

An estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default. This is either prescribed by CRR or modelled by the bank.

**CDS or Credit default swaps**

A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

**Credit institutions**

An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

**Credit risk mitigation**

Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

**CVA or Credit valuation adjustments**

An adjustment to the fair value of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the contracts.

**Customer accounts**

Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement (see repo/ reverse repo). Such funds are recorded as liabilities in the Group's balance sheet under customer accounts.

**Days past due**

One or more days that interest and/or principal payments are overdue based on the contractual terms.

**DVA or Debit valuation adjustment**

An adjustment to the fair value of derivative contracts that reflects the possibility that the Group may default and not pay the full market value of contracts.

**Debt securities**

Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

**Debt securities in issue**

Debt securities in issue are transferable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

**Deferred tax asset**

Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

**Deferred tax liability**

Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

**Default**

Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit-impaired.

**Defined benefit obligation**

The present value of expected future payments required to settle the obligations of a defined benefit scheme resulting from employee service.

**Defined benefit scheme**

Pension or other post-retirement benefit scheme other than a defined contribution scheme.

**Defined contribution scheme**

A pension or other post-retirement benefit scheme where the employer's obligation is limited to its contributions to the fund.

**Delinquency**

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

**Deposits by banks**

Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

**Diluted earnings per share (EPS)**

Represents earnings divided by the weighted average number of shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**Dividend per share**

Represents the entitlement of each shareholder in the share of the profits of the Company. Calculated in the lowest unit of currency in which the shares are quoted.

**Early alert, purely and non-purely precautionary**

A borrower's account which exhibits risks or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded to credit grade 12 or worse. When an account is on early alert, it is classified as either purely precautionary or non-purely precautionary. A purely precautionary account is one that exhibits early alert characteristics, but these do not present any imminent credit concern. If the symptoms present an imminent credit concern, an account will be considered for classification as non-purely precautionary.

**Effective tax rate**

The tax on profit/ (losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.

**Encumbered assets**

On-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities.

**EU or European Union**

The European Union (EU) is a political and economic union of 27 member states that are located primarily in Europe.

**Eurozone**

Represents the 19 EU countries that have adopted the euro as their common currency.

**ECL or Expected credit loss**

Represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

**Expected loss**

The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on probability of default, loss given default and exposure at default, with a one-year time horizon.

**Exposures**

Credit exposures represent the amount lent to a customer, together with any undrawn commitments.

**EAD or Exposure at default**

The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

**ECAI or External Credit Assessment Institution**

External credit ratings are used to assign risk-weights under the standardised approach for sovereigns, corporates and institutions. The external ratings are from credit rating agencies that are registered or certified in accordance with the credit rating agencies regulation or from a central bank issuing credit ratings which is exempt from the application of this regulation.

**FCA or Financial Conduct Authority**

The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.

**Forbearance**

Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial difficulties. The Group classifies such modified loans as either 'Forborne – not impaired loans' or 'Loans subject to forbearance – impaired'. Once a loan is categorised as either of these, it will remain in one of these two categories until the loan matures or satisfies the 'curing' conditions described in Note 8 to the financial statements.

**Forborne – not impaired loans**

Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

**Funded/unfunded exposures**

Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where a commitment to provide future funding is made but funds have been released/not released.

**FVA or Funding valuation adjustments**

FVA reflects an adjustment to fair value in respect of derivative contracts that reflects the funding costs that the market participant would incorporate when determining an exit price.

**G-SIBs or Global Systemically Important Banks**

Global banking financial institutions whose size, complexity and systemic interconnectedness mean that their distress or failure would cause significant disruption to the wider financial system and economic activity. The list of G-SIBs is assessed under a framework established by the FSB and the BCBS. In the EU, the G-SIB framework is implemented via CRD and G-SIBs are referred to as Global Systemically Important Institutions (G-SIIs).

**G-SIB buffer**

A CET1 capital buffer which results from designation as a G-SIB. The G-SIB buffer is between 1 per cent and 3.5 per cent, depending on the allocation to one of five buckets based on the annual scoring. In the EU, the G-SIB buffer is implemented via CRD as Global Systemically Important Institutions (G-SII) buffer requirement.

**Hong Kong regional hub**

Standard Chartered Bank (Hong Kong) Limited and its subsidiaries including the primary operating entities in China, Korea and Taiwan. Standard Chartered PLC is the ultimate parent company of Standard Chartered Bank (Hong Kong) Limited.

**Interest rate risk**

The risk of an adverse impact on the Group's income statement due to changes in interest rates.

**IRB or internal ratings-based approach**

Risk-weighting methodology in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of prudential parameters.

**Internal model approach**

The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD/CRR.

**IAS or International Accounting Standard**

A standard that forms part of the International Financial Reporting Standards framework.

**IASB or International Accounting Standards Board**

An independent standard-setting body responsible for the development and publication of IFRS, and approving interpretations of IFRS standards that are recommended by the IFRS Interpretations Committee (IFRIC).

### IFRS or International Financial Reporting Standards

A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRSs and IASs. All companies that have issued publicly traded securities in the EU are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

### IFRIC

The IFRS Interpretations Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs and IASs.

### Investment grade

A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

### Leverage ratio

A ratio introduced under CRD 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.

### Liquidation portfolio

A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

### LCR or Liquidity coverage ratio

The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

### Loan exposure

Loans and advances to customers reported on the balance sheet held at amortised cost or FVOCI, non-cancellable credit commitments and cancellable credit commitments for credit cards and overdraft facilities.

### Loans and advances to customers

This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

### Loans and advances to banks

Amounts loaned to credit institutions including securities bought under Reverse repo.

### LTV or loan-to-value ratio

A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### Loans past due

Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

### Loans subject to forbearance – impaired

Loans where the terms have been renegotiated on terms not consistent with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

### Loss rate

Uses an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.

### LGD or Loss given default

The percentage of an exposure that a lender expects to lose in the event of obligor default.

### Low returning clients

See 'Perennial sub-optimal clients'.

### Malus

An arrangement that permits the Group to prevent vesting of all or part of the amount of an unvested variable remuneration award, due to a specific crystallised risk, behaviour, conduct or adverse performance outcome.

### Master netting agreement

An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

### Mezzanine capital

Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

### MREL or minimum requirement for own funds and eligible liabilities

A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks, implementing the FSB's Total Loss Absorbing Capacity (TLAC) standard. MREL is intended to ensure that there is sufficient equity and specific types of liabilities to facilitate an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions and avoids exposing taxpayers to loss.

### Net asset value (NAV) per share

Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

### Net exposure

The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

### NII or Net interest income

The difference between interest received on assets and interest paid on liabilities.

### NSFR or Net stable funding ratio

The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

**NPLs or non-performing loans**

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

**Non-linearity**

Non-linearity of expected credit loss occurs when the average of expected credit loss for a portfolio is higher than the base case (median) due to the fact that bad economic environment could have a larger impact on ECL calculation than good economic environment.

**Normalised items**

See 'Underlying' on page 307.

**Operating expenses**

Staff and premises costs, general and administrative expenses, depreciation and amortisation. Underlying operating expenses exclude expenses as described in 'Underlying earnings'. A reconciliation between underlying and statutory earnings is contained in Note 2 to the financial statements.

**Operating income or operating profit**

Net interest, net fee and net trading income, as well as other operating income. Underlying operating income represents the income line items above, on an underlying basis. See 'Underlying earnings'.

**OTC or Over-the-counter derivatives**

A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

**OCA or Own credit adjustment**

An adjustment to the Group's issued debt designated at fair value through profit or loss that reflects the possibility that the Group may default and not pay the full market value of the contracts.

**Perennial sub-optimal clients**

Clients that have returned below 3% return on risk-weighted assets for the last three years

**Physical risks**

The risk of increased extreme weather events including flood, drought and sea level rise.

**Pillar 1**

The first pillar of the three pillars of the Basel framework which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk. Minimum capital requirements are 8 per cent of the Group's risk-weighted assets.

**Pillar 2**

The second pillar of the three pillars of the Basel framework which requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

**Pillar 3**

The third pillar of the three pillars of the Basel framework which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

**Priority Banking**

Priority Banking customers are individuals who have met certain criteria for deposits, AUM, mortgage loans or monthly payroll. Criteria varies by country.

**Private equity investments**

Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

**PD or Probability of default**

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation over a given time horizon.

**Probability weighted**

Obtained by considering the values the metric can assume, weighted by the probability of each value occurring.

**Profit (loss) attributable to ordinary shareholders**

Profit (loss) for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

**PVA or Prudent valuation adjustment**

An adjustment to CET1 capital to reflect the difference between fair value and prudent value positions, where the application of prudence results in a lower absolute carrying value than recognised in the financial statements.

**PRA or Prudential Regulation Authority**

The Prudential Regulation Authority is the statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and a small number of significant investment firms in the UK. The PRA is a part of the Bank of England.

**Regulatory consolidation**

The regulatory consolidation of Standard Chartered PLC differs from the statutory consolidation in that it excludes Standard Chartered Assurance Limited and Standard Chartered Insurance Limited and includes the full consolidation of PT Bank Permata Tbk.

**Repo/reverse repo**

A repurchase agreement or repo is a short-term funding agreement, which allows a borrower to sell a financial asset, such as asset-backed securities or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

**Residential mortgage**

A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

**RoRWA or Return on risk-weighted assets**

Profit before tax for year as a percentage of RWA. Profit may be statutory or underlying and is specified where used. See 'RWA' and 'Underlying earnings'.

**RWA or Risk-weighted assets**

A measure of a bank's assets adjusted for their associated risks, expressed as a percentage of an exposure value in accordance with the applicable standardised or IRB approach provisions.

### Risks-not-in-VaR (RNIV)

A framework for identifying and +quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

### Roll rate

Uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.

### Secured (fully and partially)

A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

### Securitisation

Securitisation is a process by which credit exposures are aggregated into a pool, which is used to back new securities. Under traditional securitisation transactions, assets are sold to a structured entity which then issues new securities to investors at different levels of seniority (credit tranching). This allows the credit quality of the assets to be separated from the credit rating of the originating institution and transfers risk to external investors in a way that meets their risk appetite. Under synthetic securitisation transactions, the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originating institution.

### Senior debt

Debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure than subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

### SICR or Significant increase in credit risk

Assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after considering the passage of time).

### Solo

The solo regulatory group as defined in the Prudential Regulation Authority waiver letter dated 24 August 2017 differs from Standard Chartered Bank Company in that it includes the full consolidation of eight subsidiaries, namely Standard Chartered Holdings (International) B.V., Standard Chartered MB Holdings B.V, Standard chartered UK Holdings Limited, Standard Chartered Grindlays PTY Limited, SCMB Overseas Limited, Standard Chartered Capital Management (Jersey) LLC, Standard Chartered Debt Trading Limited and Cerulean Investments LP.

### Sovereign exposures

Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures, as defined by the European Banking Authority, include only exposures to central governments.

### Stage 1

Assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

### Stage 2

Assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

### Stage 3

Assets that are in default and considered credit-impaired (non-performing loans).

### Standardised approach

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

### Structured note

An investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

### Subordinated liabilities

Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

### Tier 1 capital

The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

### Tier 1 capital ratio

Tier 1 capital as a percentage of risk-weighted assets.

### Tier 2 capital

Tier 2 capital comprises qualifying subordinated liabilities and related share premium accounts.

### TLAC or Total loss absorbing capacity

An international standard for TLAC issued by the FSB, which requires G-SIBs to have sufficient loss-absorbing and recapitalisation capacity available in resolution, to minimise impacts on financial stability, maintain the continuity of critical functions and avoid exposing public funds to loss.

### Transition risks

The risk of changes to market dynamics or sectoral economics due to governments' response to climate change.

### UK bank levy

A levy that applies to certain UK banks and the UK operations of foreign banks. The levy is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

**Unbiased**

Not overly optimistic or pessimistic, represents information that is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that the financial information will be received favourably or unfavourably by users.

**Unlikely to pay**

Indications of unlikeliness to pay shall include placing the credit obligation on non-accrued status; the recognition of a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Group taking on the exposure; selling the credit obligation at a material credit-related economic loss; the Group consenting to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees; filing for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Group; the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Group.

**VaR or Value at Risk**

A quantitative measure of market risk estimating the potential loss that will not be exceeded in a set time period at a set statistical confidence level.

**ViU or Value-in-Use**

The present value of the future expected cash flows expected to be derived from an asset or CGU.

**Write-downs**

After an advance has been identified as impaired and is subject to an impairment provision, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-downs will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

**XVA**

The term used to incorporate credit, debit and funding valuation adjustments to the fair value of derivative financial instruments. See 'CVA', 'DVA' and 'FVA'.

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