Standard Chartered

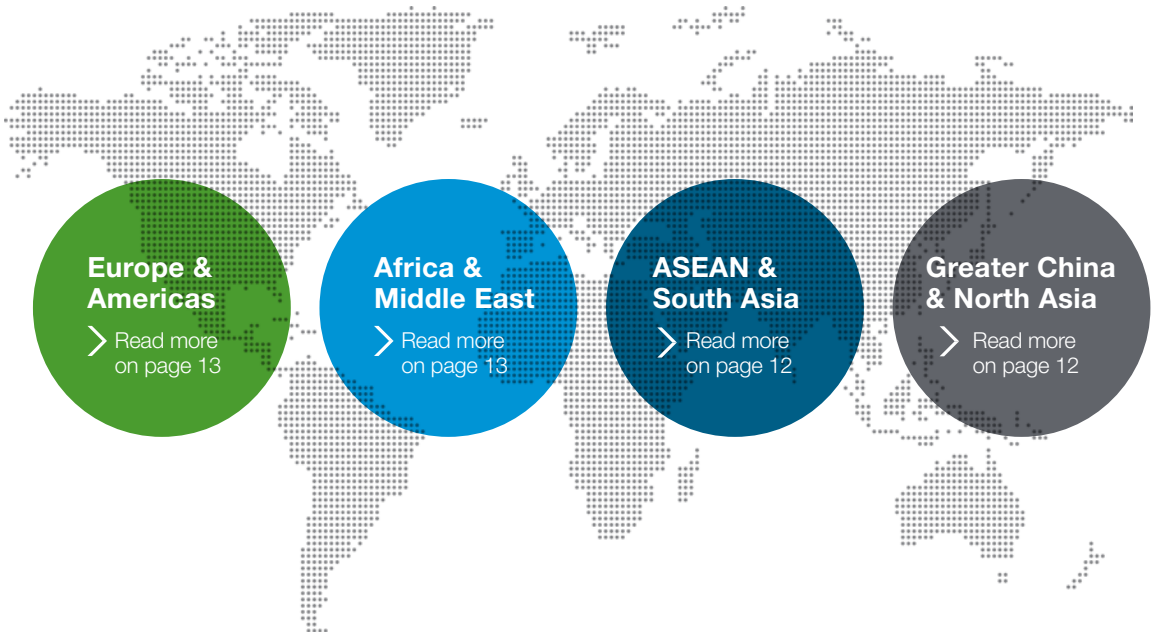
HALF YEAR REPORT 2019

Here for good

Driving commerce and prosperity through our unique diversity

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. We are present in 60 markets and serve clients in a further 85. Our businesses serve four client segments in four regions, supported by our global functions.



Further information is available where you see these icons:

> Additional information can be found within the report

\+ More information is available online

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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.

The information within this Half-Year Report is unaudited.

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 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; and Africa & Middle East (AME) includes Bahrain, Egypt, Iraq, Jordan, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

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. Standard Chartered PLC is headquartered in London. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; and BSE/NSE STAN.IN.

OUR PURPOSE AND PROGRESS

Delivering our strategy

In this interim report we provide an update on our progress in realising this goal and outline the strategic objectives we are pursuing to strengthen our business, get closer to our clients and fulfil the Group's potential. We gauge our progress against a set of Group key performance indicators (KPIs), summarised below.

Financial KPIs and other financial measures below are compared with H1 2018, unless otherwise stated.

FINANCIAL KPIs

Return on tangible equity

8.4% ↑ 88bps
Underlying basis

6.5% ↓ 30bps
Statutory basis

Read more on page 14

Common Equity Tier 1 ratio

13.5% ↓ 72bps
since December 2018

Read more on page 14

NON-FINANCIAL KPIs

Employee net promoter score

11.5 ↑ 1.9 points YoY

Women in senior roles

28.6% ↑ 0.9%
since December 2018

Read more on page 08

OTHER FINANCIAL MEASURES

Operating income

$7,696m ↑ 1%
Underlying basis

$7,830m ↑ 3%
Statutory basis

Read more on page 02

Profit before tax

$2,609m ↑ 11%
Underlying basis

$2,414m ↑ 3%
Statutory basis

Read more on page 02

Earnings per share

49.1 cents ↑ 4.2 cents
Underlying basis

38.0 cents ↓ 2.7 cents
Statutory basis

Read more on page 02

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Summary of results

For the six months ended 30 June 2019

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Underlying performance			
Operating income	**7,696**	7,319	7,649
Operating expenses	**(4,969)**	(5,347)	(5,117)
Credit impairment	**(254)**	(447)	(293)
Other impairment	**(21)**	(97)	(51)
Profit from associates and joint ventures	**157**	73	168
Profit before taxation	**2,609**	1,501	2,356
Return on ordinary shareholders' tangible equity (%)	**8.4**	2.7	7.5
Cost-to-income ratio (%)	**64.6**	73.1	66.9
Statutory performance			
Operating income	**7,830**	7,162	7,627
Operating expenses	**(5,298)**	(6,462)	(5,185)
Credit impairment	**(254)**	(439)	(214)
Other impairment	**(44)**	(132)	(50)
Profit from associates and joint ventures	**180**	73	168
Profit before taxation	**2,414**	202	2,346
Profit/(loss) attributable to parent company shareholders	**1,477**	(506)	1,560
Profit/(loss) attributable to ordinary shareholders[1]	**1,256**	(725)	1,343
Return on ordinary shareholders' tangible equity (%)	**6.5**	(3.6)	6.8
Net interest margin (%)	**1.59**	1.56	1.59
Cost-to-income ratio (%)	**67.7**	90.2	68.0
Balance sheet and capital			
Total assets	**712,504**	688,762	694,874
Total equity	**50,439**	50,352	51,488
Loans and advances to customers	**263,595**	256,557	259,331
Customer accounts	**401,597**	391,013	382,107
Total capital	**54,957**	55,696	58,019
Advances-to-deposits ratio (%)[2]	**63.7**	63.1	64.9
Common Equity Tier 1 ratio (%)	**13.5**	14.2	14.2
Total capital (%)	**20.3**	21.6	21.3
UK leverage ratio (%)	**5.3**	5.6	5.8
Information per ordinary share	**Cents**	Cents	Cents
Earnings per share – underlying	**49.1**	16.5	44.9
– statutory	**38.0**	(21.9)	40.7
Ordinary dividend per share[3]	**7.0**	15.0	6.0
Net asset value per share	**1,338.7**	1,319.3	1,353.4
Tangible net asset value per share	**1,181.6**	1,166.4	1,202.8

1 Profit/(loss) attributable to ordinary shareholders is after the deduction of dividends payable to the holders of non-cumulative redeemable preference shares and Additional Tier 1 securities classified as equity

2 When calculating this ratio, total loans and advances to customers excludes reverse repurchase agreements and other similar secured lending, excludes approved balances held with central banks, confirmed as repayable at the point of stress and includes loans and advances to customers held at fair value through profit and loss. Total customer accounts includes customer accounts held at fair value through profit or loss

3 Represents the recommended ordinary dividend per share

Who we are and what we do

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity. We offer banking services that help people and companies to succeed, creating wealth and growth across our markets. Our heritage and values are expressed in our brand promise, Here for good.

How we are organised

OUR CLIENT SEGMENTS

GLOBAL:

Corporate & Institutional Banking

Serving over 5,000 large corporations, governments, banks and investors.

Operating income

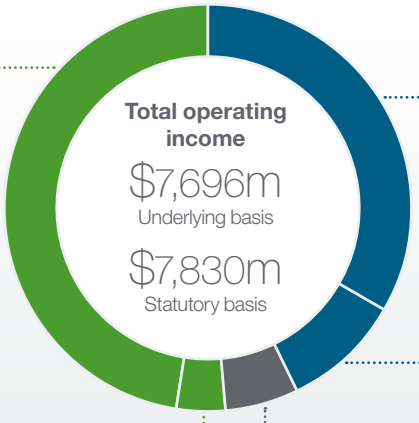
$3,607m	$3,738m
Underlying basis	Statutory basis

Private Banking

Helping over 8,000 clients grow and protect their wealth.

Operating income

$306m	$307m
Underlying basis	Statutory basis



LOCAL:

Retail Banking

Serving over nine million individuals and small businesses.

Operating income

$2,595m	$2,595m
Underlying basis	Statutory basis

Commercial Banking

Supporting over 45,000 local corporations and medium-sized enterprises across Asia, Africa and the Middle East.

Operating income

$746m	$748m
Underlying basis	Statutory basis

Central & other items

Operating income	$442m	$442m
	Underlying basis	Statutory basis

OUR REGIONS

Greater China & North Asia

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

Operating income

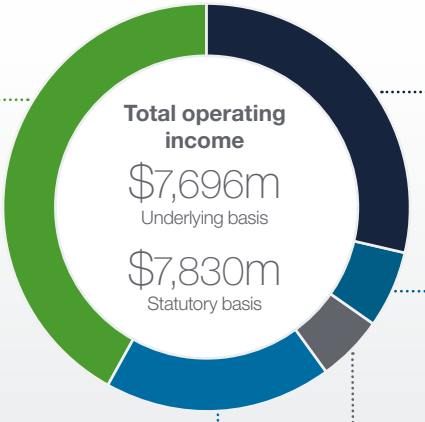
$3,080m	$3,127m
Underlying basis	Statutory basis

Africa & Middle East

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

Operating income

$1,340m	$1,340m
Underlying basis	Statutory basis



ASEAN & South Asia

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

Operating income

$2,136m	$2,135m
Underlying basis	Statutory basis

Europe & Americas

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

Operating income

$794m	$794m
Underlying basis	Statutory basis

Central & other items

Operating income	$346m	$434m
	Underlying basis	Statutory basis

Group Chairman's statement

Executing our refreshed strategic priorities

I am pleased to report good progress in the first half of the year, both on our refreshed strategic priorities that we announced in February, and in pursuit of our purpose to drive commerce and prosperity through our unique diversity. As a result, our financial performance continues to improve

We are investing to reinforce what already differentiates us, to improve or develop new customer propositions particularly in digital offerings, and to capture the opportunities in our markets, which remain substantial.

Capital and dividend

Our capital position remains strong, with the primary ratio – Common Equity Tier 1 or CET1 – in the middle of the 13-14 per cent range which we refreshed in February. This is after the deduction of 39 basis points for the $1 billion share buy-back programme launched shortly after our first quarter results, which is currently approximately three quarters complete. The resolution in April of the legacy financial crime matters was the main regulatory uncertainty facing the Group. We are now determined to manage our capital more dynamically to deliver sustainably higher returns for shareholders.

As I described in the 2018 Annual Report, starting this year we are taking a formulaic approach to setting the interim dividend, being one-third of the prior year's full-year dividend per share. Last year's full-year dividend was 21 cents, so the interim dividend for 2019 is proposed to be 7 cents per share, which is 1 cent or 17 per cent higher than at the interim stage in 2018.

Focus on governance and sustainability

As well as reviewing performance and the execution of our strategy, in the first half of this year the Board has focused on key issues such as cyber security, our digital and brand and campaign strategies, our share buy-back programme, as well as various deep dives into business segments and regions.

We have continued to develop our sustainability philosophy, reflecting a shift of focus of our environmental and sustainability efforts away from looking at how we can do no harm by considering what we won't do, to how we can actively be a force for good, integrating sustainability into our organisational decision-making. This includes looking at how we will work with our clients, suppliers, governments and non-governmental organisations in our markets to address some of the key sustainability and environmental challenges.

We also announced in June that David Tang has joined our Board. David is based in Beijing and brings a deep understanding and experience of emerging technologies in the context of some of our key markets, most notably mainland China. I am delighted to welcome David to our Board.

José Viñals
Group Chairman

Geopolitical and macroeconomic backdrop

Global economic growth slowed in the late months of 2018 and in the first half of this year. While economic uncertainty remains high, with unresolved trade issues standing out, the relatively higher dynamism of our markets continues to support the Board's confidence in our ability to execute our strategic priorities.

Trade protectionism is bad for the global economy, and fears concerning this matter continue to affect sentiment across global markets and on the ground in many of our locations. However, we stand to benefit over time as China continues to open and places more emphasis on trade corridors radiating through Asia and connecting it with our markets in Africa and the Middle East.

And in the meantime, clients find it even more valuable to have a bank with our physical network and specialist expertise to help them navigate the shifting sands of international trade. We look forward to a sustainable resolution of trade uncertainties so that clients can deal with the consequences more confidently.

Conclusion

We set out a plan in February to shift the bank from turnaround to transformation and deliver a return on tangible equity above 10 per cent by 2021. I am pleased with the evidence of progress halfway through the first year of that plan and can assure you of our determination to continue to improve our performance and our contribution to the clients and communities that we serve.

José Viñals
Group Chairman

1 August 2019

Group Chief Executive's review

Good progress; on track

We made good progress in the first half of this year, growing income 4 per cent and underlying profit 13 per cent, at constant currency. We are on track financially, despite turbulent geopolitical conditions, and our focus on our clients and strategic priorities is paying off

Operating highlights

Both of our corporate-focused client segments grew year-on-year, supported by momentum in our Financial Markets business that continues to perform well both absolutely and relative to many peers. Our segments focused on individuals had more mixed fortunes: weaker market sentiment that affected customer activity in our Wealth Management business led to a small contraction in Retail Banking compared with a particularly strong performance in the same period last year. By contrast, investments made in our Private Banking business over recent years led to a growth of over 10 per cent.

We have made encouraging progress addressing performance in the four lower-returning markets we referenced in our full-year results. There is a long way to go but the profit we generated in aggregate in those markets improved 14 per cent compared with the first half of 2018, driven by actions intended to further improve the quality and sustainability of our businesses there.

Bill Winters
Group Chief Executive

Leveraging our network advantage

Income generated from corporate and institutional clients using our international network continues to grow nicely, increasing 9 per cent compared with last year. The global impact of China-US trade tensions will continue to reverberate throughout 2019, but our advantage over most of our local and regional competitors as well as many of our global peers increases as cross-border financing requirements get more complex. As one of the only international banks present across all ASEAN and most South Asian markets, the Group is well positioned to capture opportunities over the medium term arising from the reconfiguration of regional and global supply chains. We will continue to invest to reinforce this key element of differentiation despite and because of the current choppy conditions.

Helping our clients prosper

As millions emerge into the middle class across our markets, we see our responsibility to help grow, invest and protect the wealth and prosperity of our customers as ever more important and relevant. We grew our affluent Priority segment client base in our top 10 markets by 14 per cent in the first half of the year and are continuing to invest in our distinctive and higher-returning affluent and wealth activities. This will convert to income over time.

Improving productivity

We have introduced a series of stretching productivity objectives to improve how effectively and efficiently we respond to the needs of our clients. We are on track to beat those targets for the full-year across all client segments and functions. One of the productivity performance indicators we track is the amount of risk-adjusted revenue that each client-facing employee generates, on average. Risk-adjusted revenue is income minus credit impairment, which we consider a better indicator of sustainability than simple revenue growth. In the first half of the year this figure increased significantly: by 13 per cent.

We are overhauling our corporate structure, with the intent to enhance the Group's capital and liquidity utilisation. Although the process is complex, and the expected substantial financial benefits will take time to come through, we have already made considerable progress.

- In March, the entity that controls our largest single market business in Hong Kong became wholly owned directly by the Group's listed holding company, and it has now assumed ownership of our China subsidiary. We are seeking regulatory approval to move the Korea and Taiwan subsidiaries under the Hong Kong entity as well, to complete our desired Greater China & North Asia hub
- In May, we transferred various businesses from our branch to our subsidiary in Singapore, making us the first global bank to fully subsidiarise locally. In time this entity will be at the centre of our planned ASEAN hub

Transforming and disrupting digitally

We committed in February to use digitisation and partnerships to reinforce our competitive advantages. We have been very busy on this front. The following is just a handful of the many initiatives under way:

- Shortly after our full-year results we announced the establishment of a strategic joint venture with PCCW, HKT and Ctrip Finance to deliver a new stand-alone virtual retail bank in Hong Kong. We were one of three groups to be granted a licence in the initial batch and are working hard with our partners to prepare the new bank for launch
- With the support of the Monetary Authority of Singapore, we will be establishing early next year a foreign exchange e-trading and pricing engine that will provide clients in the region more convenient access to trade 130 currencies and more than 5,000 currency pairs
- We launched a Trade Augmented Intelligence Engine in partnership with IBM to enhance the operational efficiency and control of trade document processing
- We signed a memorandum of understanding with Linklogis to deliver its leading digital blockchain-enabled supply chain financing capabilities to our corporate clients in China
- We announced the launch of an open digital platform for small and medium-sized enterprises in India, to help them grow by providing access to a range of financial and business solutions

Meanwhile we continue to roll out the digital retail banking proposition that we developed last year in Côte d'Ivoire across our Africa network, launching it in Botswana, Zambia and Zimbabwe in the second quarter. Since its launch we have now deployed this digital bank solution in eight markets – a remarkable pace by any standards.

Resolution of legacy conduct and control issues

We paid $947 million to various US agencies and £102 million to the UK Financial Conduct Authority in April to resolve previously disclosed investigations into our historical sanctions and financial crime controls issues. As I said at the time, the circumstances that led to that resolution are completely unacceptable and not representative of the Standard Chartered I am proud to lead today. The vast majority of the violations and control deficiencies identified by the authorities predated 2012 and none occurred after 2014. The resolution documents recognised that we have undergone a comprehensive and positive transformation as an institution since the conduct and control issues outlined in the resolutions occurred, and I am pleased that the FCA and US agencies commented positively at the time of the resolution on our remediation efforts, improved culture of compliance and leading role in public-private partnerships to fight financial crime.

Conclusion and outlook

We are pleased with our results so far this year. Our performance resulted in an 88 basis point improvement in our primary measure – return on tangible equity – reaffirming our confidence in our ability to achieve the financial targets we set out in February.

Sentiment in and relating to many of our markets remains delicately balanced, tipping one way or the other mainly because of geopolitical pressures. The dispute between China and the US has moved beyond trade into areas of security and technology, which will likely prove more difficult to resolve. The global economy is still growing but inflation is stubbornly low so USD interest rates look likely to decline, presenting us with some additional challenge.

Future global growth is expected to be driven increasingly from the markets in our footprint. We remain alert to both the opportunities and the risks created by this eastward shift in the global economic centre of gravity.

The outlook remains uncertain, but it always is. What is clear is our commitment to further improving our service to our clients and sustainably improving our returns.

As I said in February, we have actively positioned ourselves to develop and scale innovative new business models. We are investing now to create optionality for the future, and I am excited at the opportunities we are already generating.

Bill Winters
Group Chief Executive

1 August 2019

Our strategy

Taking Standard Chartered to the next level

The strategic objectives we committed to in 2015 have stabilised the Group. We have learned a lot about where we are differentiated, what our clients want from us, and what we need to do to become a simpler, faster and better bank with sustainable growth and returns.

While we have made significant progress against the objectives we set out in 2015, we know that we are capable of much more. We remain focused on delivering our strategy by improving our service, delivering a differentiated proposition to our clients and stakeholders, and becoming a future-ready bank. Building on our purpose of driving commerce and prosperity through our unique diversity, we will have a particular focus on the following areas for the next three years to improve our growth and financial returns.

OUR STRATEGIC PRIORITIES

"Our refreshed strategic priorities build on our purpose and earlier areas of focus, but mark a sharp change in the way we operate as we go from turnaround to transformation."

Bill Winters Group Chief Executive

Our strategic priorities

Understand our responsibilities

We will increasingly collaborate with clients and suppliers to improve social and environmental standards. We continue to partner with regulators and other stakeholders to fight financial crime, and aim to make our risk and control approach a competitive advantage for us.

Lead sustainable financing across emerging markets

We are maintaining our focus on supporting sustainable economic growth, expanding renewables financing and investing in sustainable infrastructure where it matters most. We will continue to facilitate the movement of capital to drive positive social and economic impact in our markets.

Support the communities where we live and work

We promote economic inclusion in our markets through community programmes aimed at tackling inequality. We provide disadvantaged young people with opportunities to learn new skills, get job-ready and start their own business. We will continue to support the visually impaired through our community programmes.

Maximise return from investment in our people

We want to deliver a client-centric environment with an inclusive culture that capitalises on the experience and unique diversity of our people. We are building a future-ready workforce, embedding digital, agile and people leadership skills. We aim to amplify the impact of our people by deploying them in markets that fit their capabilities and career aspirations.

Progress in H1 2019

↑ Employee net promoter score[1]: 11.5 (+1.9 points YoY)
H1 2018: 9.6

Leverage our unique footprint

Our unique network is a long-term source of growth and sustainably higher returns. We will continue to deepen relationships with our clients to fully realise the revenue potential of our network. We will place a particular focus on multinational corporates operating extensively in Asia, Africa and the Middle East, as well as investors and financial institutions that are seeking emerging market solutions.

Build on our strength in China

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

Grow with Africa

We will continue to grow with our clients in Africa, focusing on capturing inbound flows of financial institutions, multinational corporations, and Belt & Road clients. Meanwhile, we aim to accelerate our Retail Banking client growth in Africa with our cost-efficient digital bank capabilities.

Progress in H1 2019

↑ Corporate & Institutional Banking network income[2]: $2.4bn (+9% YoY)
H1 2018: $2.2bn

1 Employee net promoter score measures the number of promoters who would recommend the Group as a great place to work compared with detractors on a scale from -100 to +100

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

Meet the wealth needs of the affluent and emerging affluent

By continuously enhancing our offering for affluent and emerging affluent clients in markets where we have a Retail Banking presence, we aspire to be increasingly relevant for our clients and drive growth in these segments. To that end, we are investing in digitally delivered wealth propositions that excite our clients.

Enhance client experience with data and technology

We will increase our investment in data and analytics capabilities to generate a unique understanding of our clients and their needs, and in turn improve our offerings, deliver a personalised experience and increase client engagement.

Scale the non-affluent segment in a targeted manner

The rise of the middle class is an important growth opportunity for our Retail Banking business across our footprint. To profitably capture this opportunity, we will implement new business models, 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 H1 2019

- **Affluent client income[3]: $1.8bn (+5% YoY)**
  H1 2018: $1.7bn

Improve returns in markets where we are an international bank with trusted local capabilities

In markets where we can utilise our local and international capabilities, we will aim to improve returns through our sharpened participation in Corporate & Institutional Banking and selectively in Commercial Banking and/or Retail Banking. In particular, we will focus on optimising the performance of four high-potential markets, namely India, Indonesia, Korea and the UAE.

Accelerate growth in our largest and most profitable markets

In markets where we are a top local universal bank and have attractive returns, we will participate in all of our business segments and invest to grow our market share.

Focus on Corporate & Institutional Banking in other markets

In markets where our capabilities are geared towards international business, we will reinforce our primary focus on originating and facilitating cross-border business with our Corporate & Institutional Banking presence.

Progress in H1 2019

- **Profit before taxation of India, Indonesia, Korea and the UAE[4]: $380m (+14% YoY)**
  H1 2018: $333m

Continue investing in productivity

Our investment in digitisation will continue to support productivity improvements and enhance client experience. For example, we refreshed our client digital platform with unified trade and FX capabilities in Corporate & Institutional Banking. In Retail Banking we launched real-time client onboarding on digital channels and refreshed wealth and FX platforms with full mobile access.

Organise around client journeys

We are shaping our organisation around the journeys of our clients, to better align our processes and way of working with the needs of our clients and partners. This will enable us to drive operational improvements to scale revenue growth through improved client acquisition, conversion and retention while also delivering enhanced efficiency. This will be guided by our principles of positioning ourselves as a digital solutions partner, focusing on end-to-end digital client experience, transparent and real-time service delivery, and effective and efficient decision-making.

Unlock capital and liquidity efficiency

We are establishing a Hong Kong hub entity structure to further enhance capital and liquidity utilisation across the Group.

Progress in H1 2019

- **Income per FTE[5]: $177,000 (+4% YoY)**
  H1 2018: $170,000

Transform our Retail Banking business with digital

We have continued our strong momentum in digitising our Retail Banking business. For example, we have rolled out a full-service, cost-efficient digital bank in a number of markets in Africa, and we have obtained a virtual bank licence in Hong Kong. Going forward, we aim to adapt and replicate these capabilities as appropriate across our footprint to enhance client experience, improve efficiency, gain market share, disrupt and build a future-proof retail bank.

Consolidate strong position with corporate clients

We have been leading disruptive innovations in corporate banking. In 2018 we launched cross-border remittance services with Ant Financial, and started the first blockchain-based smart guarantees service in the trade finance industry. We will continue to invest in cutting-edge digital tools and new corporate banking models, with a particular focus on blockchain and distributed ledger technology, platforms and ecosystems, as well as artificial intelligence and machine learning.

Progress in H1 2019

- **Retail Banking digital adoption[6]: 52% (+423 bps YoY)**
  H1 2018: 47%
- **Corporate & Institutional Banking digital volumes[7]: +11% YoY**
- **Commercial Banking digital adoption[8]: 67% (+277 bps YoY)**
  H1 2018: 64%

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

4 Aggregate underlying profit before taxation of the four markets; excluding Permata

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

6 Mobile and online adoption by active clients

7 Financial Markets sales income originated via E-platforms

8 Percentage of Commercial Banking clients active on the Straight2Bank application

GLOBAL

Corporate & Institutional Banking

Supports clients with their Transaction Banking, Corporate Finance, Financial Markets and borrowing needs across more than 60 markets, providing solutions to over 5,000 clients

Profit before taxation

$1,354m ↑ 24%
underlying basis

$1,377m ↑ 35%
statutory basis

Return on tangible equity (RoTE)

10.0% ↑ 239bps
underlying basis

10.2% ↑ 308bps
statutory basis

Risk-weighted assets

$138bn ↑ 7%
Since December 2018

Strategic priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice, data-driven analytical insights and improving network delivery
- Generate high-quality returns by driving balance sheet velocity, improving funding quality and maintaining risk controls
- Partner with clients and third parties to expand capabilities while accelerating our digital platform and data analytics

Progress

- Continued to deepen relationships with existing clients and new OECD-based clients. New OECD clients income rose 24 per cent
- Quality of income continues to improve driven by capital-lite income up 15 per cent and network income up 9 per cent
- Maintained balance sheet quality, with investment-grade clients representing 56 per cent of customer loans and advances (2018: 63 per cent) and high-quality operating account balances[1] improving to 57 per cent of Transaction Banking customer balances (2018: 49 per cent[1])
- Continued to invest in our platforms to drive client experience, digitisation and automation
- Entered into strategic partnership with Linklogis, a supply chain financing focused fintech in China
- Strong Financial Markets performance supported by global Credit initiatives across key network corridors

Performance highlights

- Underlying profit before taxation of $1,354 million was up 24 per cent, primarily driven by higher income and lower costs
- Income of $3,607 million was up 5 per cent[2], primarily driven by Cash Management and Financial Markets income which partially offset margin compression in Trade Finance. Good balance sheet momentum, with loans and advances to customers up 6 per cent
- Proportion of low-returning client risk-weighted assets (RWAs) at 15.2 per cent (December 2018: 15.5 per cent)
- RoTE improved from 7.6 per cent to 10.0 per cent

1 June 2019 operating account (OPAC) balance restated for new OPAC methodology (more granular transactional information used to determine core vs non-core balances)

2 Excluding debit valuation adjustments and Shipping Operating Leases impact, CIB underlying income up 8 per cent

Private Banking

Private Banking offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high-net-worth individuals across our footprint

Profit before taxation

$100m ↑ nm
underlying basis

$99m ↑ nm
statutory basis

Return on tangible equity (RoTE)

15.7% ↑ 1,660bps
underlying basis

15.6% ↑ 1,744bps
statutory basis

Risk-weighted assets

$7bn ↑ 13%
Since December 2018

Strategic priorities

- Leverage the significant wealth creation and wealth transfers taking place in our markets to achieve greater scale in the business
- Make it easier for clients to access products and services across the Group. Improve clients' experience and grow the share of our clients' assets under management by enhancing our advisory proposition and reducing the turnaround time of the investment process
- Implement a rigorous controls enhancement plan to balance growth and controls

Progress

- Drove sharper client segmentation to deliver our distinct advisory and product proposition, and grow profitability
- Deepened client engagement through stronger Relationship Management, Product Specialist coverage model and sales discipline
- Stepped up brand visibility of our key differentiators with the launch of a Private Banking marketing campaign around uncovering biases for making better financial decisions, underscoring our unbiased and open architecture Advisory proposition
- Continued to tap into wealth opportunities in Greater China and South Asia
- Continued to further enhance our open architecture derivatives platforms through full automation and straight-through-processing of the transactions
- Continued investments in building a senior team of frontline relationship managers across our markets

Performance highlights

- Underlying profit of $100 million includes a $48 million credit impairment release, improving from a loss of $6 million in the prior period driven by top-line income growth and costs reduction
- Underlying income of $306 million was up 13 per cent, making a second consecutive year of top-line growth. Income increase mainly driven by higher Wealth products income (up 15 per cent) and improved product margins
- Assets under management increased $6 billion or 10 per cent from 31 December 2018, mainly driven by $1.7 billion of net new money and positive market movements
- RoTE increased from negative 1.0 per cent to 15.7 per cent

Retail Banking

Serving over nine million individuals and small businesses, with a focus on affluent and emerging affluent in many of the world's fastest-growing cities

Profit before taxation

$618m – flat
underlying basis

$617m ↑ 1%
statutory basis

Return on tangible equity (RoTE)

14.6% ↑ 35bps
underlying basis

14.6% ↑ 42bps
statutory basis

Risk-weighted assets

$43bn – flat
Since December 2018

Strategic priorities

- Invest in our affluent and emerging affluent clients with a particular focus on Wealth Management and Deposits to capture the significant rise of the middle class in our markets
- Build on our client ecosystem and alliances initiatives
- 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 Priority clients from 47 per cent in 2018 to 49 per cent as a result of strong Wealth Management and Deposit income growth and increasing client numbers
- Launched the Côte d'Ivoire model digital bank in four markets: Kenya, Uganda, Tanzania, Ghana in Q1 2019 followed by another three markets in Botswana, Zambia and Zimbabwe in June
- Successful application for HK digital bank licence in partnership with PCCW, HKT and Ctrip Finance which will redefine customer experience of banking services
- Launched real-time onboarding for Credit Cards and Personal Loans (CCPL) in India and Singapore, enabling more efficient CCPL applications with significantly improved customer experience
- A further improvement in digital adoption, with 52 per cent of clients now actively using online or mobile banking compared with 47 per cent

Performance highlights

- Underlying profit before taxation of $618 million was flat as lower expenses were offset by lower income and higher credit impairment
- Underlying income of $2,595 million was down 1 per cent (up 3 per cent on a constant currency basis). Growth of 2 per cent (up 5 per cent on a constant currency basis) in Greater China & North Asia offset a 1 per cent decline (up 3 per cent on a constant currency basis) in ASEAN & South Asia and a 14 per cent decline (down 7 per cent on a constant currency basis) in Africa & Middle East
- Strong income momentum from Deposits with improved margins and balance growth at 21 per cent. Together, Wealth Management and Deposits income, representing 65 per cent of Retail Banking income, grew 7 per cent
- RoTE improved to 14.6 per cent from 14.3 per cent

Commercial Banking

Supporting over 45,000 local corporations and medium-sized enterprises

Profit before taxation

$286m ↑ nm
underlying basis

$286m ↑ nm
statutory basis

Return on tangible equity (RoTE)

9.1% ↑ 478bps
underlying basis

9.1% ↑ 479bps
statutory basis

Risk-weighted assets

$32bn ↑ 4%
Since December 2018

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, leveraging technology and investing in frontline training, tools and analytics

Progress

- Onboarded 3,100 new clients in H1 2019 while monetising 6,400 new clients onboarded in 2018. These clients generated around $78 million of income and $3 billion in cash liabilities
- Continued to reshape the income mix towards capital-lite products: share of Cash and FX income increased from 42 per cent of total income in H1 2018 to 45 per cent
- Network income grew 12 per cent, notably from Chinese and Indian clients, as we continue to support Commercial Banking clients and capture international opportunities
- Strengthened foundations in Credit Risk management and improved asset quality: RWAs efficiency[1] improved to 74 per cent (H1 2018: 79 per cent) and credit impairments are down 67 per cent, primarily from lower Stage 3
- Continued to improve client experience: reduced client turnaround time from nine days to five days
- Leveraging partnerships to accelerate client acquisition: partnered with a digital-blockchain supply chain platform in China

Performance highlights

- Underlying profit before taxation of $286 million was up 104 per cent driven by lower impairments, income growth and lower costs
- Underlying income of $746 million was up 6 per cent mainly driven by growth from Cash Management and Financial Markets. Income was up 2 per cent in Greater China & North Asia, up 6 per cent in ASEAN & South Asia and up 12 per cent in Africa & Middle East
- RoTE improved from 4.3 per cent to 9.1 per cent

1 RWA efficiency calculated based on Credit RWA divided by Assets and Contingents

All comparisons are based on the same period last year unless otherwise stated

REGIONAL REVIEWS

Greater China & North Asia

Greater China & North Asia generated the largest share of the Group's income in the first half of 2019, at 40 per cent, and includes our clients in Hong Kong, Korea, China, Taiwan, Japan and Macau

Profit before taxation

$1,329m ↑ 3%
underlying basis

$1,326m ↑ 5%
statutory basis

Risk-weighted assets

$85bn ↑ 5%
Since December 2018

Strategic priorities

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

Progress

- Actively participated in the opening of China's capital markets, helping overseas investors do business through channels such as Bond Connect, Stock Connect and the Qualified Domestic Institutional Investor initiative
- Continuing good progress in Retail Banking in Hong Kong. We attracted around 32,500 new Priority clients during the year and increased our active qualified Priority clients by 11 per cent
- We were granted a virtual banking licence from the Hong Kong Monetary Authority on 27 March 2019: one of the first to receive a licence under Hong Kong's new virtual banking scheme teamed up with PCCW, HKT and Ctrip Finance
- Continued to transform the Korea franchise to improve returns and focus on China's opening. China generates more network income for the Group than nearly every other market

Performance highlights

- Underlying profit before taxation of $1,329 million was up 3 per cent, with lower expense partly offset by higher credit impairment
- Underlying income of $3,080 million was broadly flat, with broad-based growth across the markets and segments, particularly in Hong Kong and China, offset by weak Treasury income performance. Retail Banking income grew 2 per cent, driven by Deposits with improving margins and strong balance sheet growth partly offset by a subdued performance in Wealth Management. Private Banking performed well with income up 26 per cent, driven by Wealth Management. Corporate & Institutional Banking and Commercial Banking income grew 4 per cent and 2 per cent respectively driven by strong Cash Management and Financial Markets
- Balance sheet momentum was sustained with loans and advances to customers up 1 per cent while customer accounts remained up 4 per cent

ASEAN & South Asia

We are the only international bank with a presence in all ASEAN countries and have meaningful operations across most South Asian markets

Profit before taxation

$760m ↑ 29%
underlying basis

$767m ↑ 12%
statutory basis

Risk-weighted assets

$94bn ↑ 7%
Since December 2018

Strategic priorities

- Leverage the strength of our international network to support our clients' cross-border trade and investment activities across the high-growth ASEAN and South Asia corridors
- Deliver comprehensive client propositions in key markets (Singapore, India, Malaysia and Bangladesh) and a targeted offering in other high-growth markets such as Indonesia and Vietnam
- Continue to invest in technology and digital capabilities to enhance client experience and build scale efficiently
- Improve capital efficiency and sharpen our investments in higher-returning businesses
- Continue to reshape our India and Indonesia franchises to improve returns

Progress

- Operating profit grew in all client segments and in nine out of 12 markets
- Double-digit growth in high-returning businesses such as Priority Banking and Global Subsidiaries, and capital-lite income contributing to 60 per cent of overall income
- Attracting more than 8,000 new Priority Banking clients and 1,000 new Commercial Banking clients
- Sharpened our value propositions with Priority Private for affluent clients in Singapore and Malaysia, and launched the ASEAN proposition for Commercial Banking
- Launch of instant onboarding for credit cards and savings accounts in Singapore and India helped accelerate digital adoption and improved client advocacy
- In aggregate, India and Indonesia experienced double-digit growth in operating profit; India's cost-to-income ratio improved from 71 to 65 per cent

Performance highlights

- Underlying profit before taxation grew by 29 per cent to $760 million, underpinned by 3 per cent income growth and 39 per cent lower credit impairments from improved credit quality
- Underlying income of $2,136 million is 3 per cent higher, with double-digit income growth in Corporate & Institutional Banking, Commercial Banking and Private Banking offsetting a marginal income decline in Retail Banking
- RWAs declined by 2 per cent while customer loans and advances were up 1 per cent, reflecting improved credit quality. Customer accounts were up 7 per cent with retail current and savings accounts and cash liabilities growing 6 per cent

Africa & Middle East

Present in 25 markets, of which the most sizeable by income are the UAE, Nigeria, Kenya and Pakistan. We are present in more sub-Saharan African markets than any other international banking group

Profit before taxation

$441m ↑ 14%
underlying basis

$439m ↑ 27%
statutory basis

Risk-weighted assets

$52bn ↓ 3%
Since December 2018

Strategic priorities

- Provide best-in-class structuring and financing solutions and drive origination 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 continuous focus on return enhancements

Progress

- A number of marquee Corporate & Institutional Banking transactions across the region with sovereign clients in particular are reflective of the strong client franchise
- Network income was 13 per cent higher and the Group's Global Subsidiaries business grew by 10 per cent
- After a successful launch of a digital-only bank in Côte d'Ivoire in the first half of 2018, roll-out was extended to seven additional markets (Uganda, Tanzania, Ghana, Kenya, Zimbabwe, Botswana and Zambia)
- Despite continued geopolitical and macroeconomic headwinds, improved asset quality and good risk discipline led to lower credit impairments
- Cost efficiencies have allowed investments to continue through the cycle

Performance highlights

- Underlying profit before taxation of $441 million was 14 per cent higher with lower expenses and improved credit impairment offset by a decrease in income
- Underlying income of $1,340 million up 3 per cent on a constant currency basis, down 3 per cent on reported basis, with good performance in our Corporate & Institutional Banking and Commercial Banking Business across the region. On a constant currency basis, Africa was up 9 per cent and the Middle East and Pakistan were 1 per cent down.
- Strong performances in Financial Markets and Corporate Finance were offset by margin compression in Retail Banking and lower Wealth Management in UAE and Botswana
- Since December 2018, loans and advances to customers were up 1 per cent and customer accounts were down 1 per cent

Europe & Americas

Clients based in Europe & Americas generate over one-third of Corporate & Institutional Banking income, with two-thirds of that income booked in the Group's other regions where the service is provided

Profit before taxation

$13m ↓ 85%
underlying basis

($2m) ↓ nm
statutory basis

Risk-weighted assets

$43bn ↑ 5%
Since December 2018

Strategic priorities

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

Progress

- Good progress in improving the share of business from targeted multinational corporate clients, with income up 25 per cent and 9 per cent from 'New' OECD and 'Next' client initiatives respectively
- Continued growth in our key Greater China corridor providing high network returns from Europe & Americas clients
- The Group is well prepared for Brexit with Standard Chartered Bank AG (Germany) operational and providing a strong base to grow our continental Europe franchise
- Launched sustainable finance business and issued inaugural sustainable bond focused on emerging markets

Performance highlights

- Underlying profit before taxation of $13 million, down 85 per cent primarily due to lower operating income, partially offset by reduced costs
- Underlying income of $794 million was down 9 per cent due to an adverse swing in the debit valuation adjustment (DVA) in Financial Markets, resulting from an improvement in the Group's own credit risk, and lower Treasury income. This offset strong performance in Transaction Banking and Financial Markets
- Income generated by Europe & Americas clients, but booked elsewhere in our network, increased by 4 per cent
- Improvement in credit quality of assets combined with good income growth resulted in an increase in the returns originated from Europe & Americas clients

All comparisons are based on the same period last year unless otherwise stated

Group Chief Financial Officer's review

Further improvement in profitability and returns

The Group delivered an encouraging performance in the first half of 2019. Income grew at a significantly faster rate than costs, credit quality improved, capital and liquidity levels remain strong, and the balance sheet is growing.

All commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2018 unless otherwise stated. A full reconciliation between statutory and underlying results is set out in note 2 to the financial statements.

- Profit before tax of $2.6 billion grew 11 per cent and 13 per cent on a constant currency basis. Statutory profit before tax is stated after provisions for regulatory matters, restructuring and other items and rose 3 per cent to $2.4 billion
- Operating income of $7.7 billion was 1 per cent higher and 4 per cent on a constant currency basis
- Net interest income was 6 per cent higher as a result of volume growth and an increased contribution from trading book assets in Financial Markets. The net interest margin on banking book assets was broadly stable
- Other income was 6 per cent lower due to a reduced contribution from hedges associated with trading book assets in Financial Markets and a $70 million adverse movement in the debit valuation adjustment (DVA)
- The effect of currency translation that is adversely impacting income is benefiting costs, with operating expenses of $5.0 billion 3 per cent lower and flat on a constant currency basis. Tight control of costs generated positive income-to-cost jaws of 4 per cent on both a reported and a constant currency basis
- Credit impairment of $254 million was $39 million lower having benefited from a $48 million release in Private Banking and the loan-loss rate reduced from 21 basis points in 2018 to 17 basis points
- Other impairment of $21 million was $30 million lower following the decision to discontinue the Group's ship leasing business. Impairment of ship leases is reported as a restructuring charge in 2019 and excluded from underlying results
- Profit from associates and joint ventures of $157 million was 7 per cent lower. Following the decision that PT Bank Permata Tbk is no longer core, the Group's share of its earnings are excluded from underlying performance in 2019
- Taxation for the period of $918 million includes $179 million in relation to the transfer of the Group's subsidiary in China to Standard Chartered Bank (Hong Kong) Limited. The underlying effective tax rate excluding this charge and the impact of tax on provisions for regulatory matters, restructuring and other items was 28.6 per cent (H1 2018: 26.5)
- The CET1 ratio of 13.5 per cent is stated after the 39 basis point impact of the full $1 billion share buy-back programme that was announced in May 2019
- The Group's return on tangible equity improved 88 basis points to 8.4 per cent
- Underlying earnings per share (EPS) increased 4.2 cents to 49.1 cents. Statutory EPS was down 2.7 cents to 38.0 cents, impacted by provisions for regulatory matters and the higher tax charge
- The Board has declared an interim ordinary dividend of 7 cents per share – up 1 cent or 17 per cent – being one-third of the 2018 full-year dividend

Andy Halford
Group Chief Financial Officer

Income by product

Transaction Banking income was up 6 per cent following a strong performance in Cash Management. Income from Retail Products was up 1 per cent and up 5 per cent on a constant currency basis. Financial Markets income was 7 per cent higher, or 12 per cent higher excluding DVA, with double-digit growth in Credit and Capital Markets, Rates and FX despite the more challenging market conditions evident later in the period. Wealth Management income included an additional $28 million in relation to the increased recognition of part of an annual bancassurance bonus but was 2 per cent lower given the exceptionally buoyant market conditions last year. Treasury income was down 11 per cent, impacted by higher interest rates that more than offset a favourable movement in hedge ineffectiveness. Other product income was $77 million lower partly driven by the impact of adopting IFRS 16.

Income by client segment

Corporate & Institutional Banking income was 5 per cent higher with good performances in capital-lite and network-related activities. Financial Markets benefited from broad-based growth across multiple products that more than offset the impact of DVA and, in Transaction Banking, Cash Management continued to perform strongly. Together this offset the impact of asset margin compression in Trade, Corporate Finance and Lending.

Performance summary

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million	H1 2019 vs H1 2018 Better/(worse) %	% Ccy[1]
Net interest income	**4,643**	4,453	4,387	6	
Other income	**3,053**	2,866	3,262	(6)	
Operating income	**7,696**	7,319	7,649	1	4
Other operating expenses	**(4,969)**	(5,023)	(5,117)	3	
UK bank levy	**–**	(324)	–	–	
Operating expenses	**(4,969)**	(5,347)	(5,117)	3	(0)
Operating profit before impairment and taxation	**2,727**	1,972	2,532	8	10
Credit impairment	**(254)**	(447)	(293)	13	
Other impairment	**(21)**	(97)	(51)	59	
Profit from associates and joint ventures	**157**	73	168	(7)	
Underlying profit before taxation	**2,609**	1,501	2,356	11	13
Provision for regulatory matters	**(204)**	(900)	–	nm	
Restructuring and other items	**9**	(399)	(10)	nm	
Statutory profit before taxation	**2,414**	202	2,346	3	
Taxation	**(918)**	(686)	(753)	(22)	
Profit/(loss) for the period	**1,496**	(484)	1,593	(6)	
Net interest margin (%)	**1.59**	1.56	1.59		
Underlying return on tangible equity (%)	**8.4**	2.7	7.5		
Underlying earnings per share (cents)	**49.1**	16.5	44.9		
Statutory return on tangible equity (%)	**6.5**	(3.6)	6.8		
Statutory earnings/(loss) per share (cents)	**38.0**	(21.9)	40.7		
Dividend per share (cents)	**7.0**	15.0	6.0		
Common Equity Tier 1 (%)	**13.5**	14.2	14.2		

1 Comparisons presented on the basis of the current period's functional currency rate

Retail Banking income was down 1 per cent and up 3 per cent on a constant currency basis. The impact of less buoyant market conditions in Wealth Management was offset by continued growth in income from Deposits. Income grew 2 per cent in Greater China & North Asia which was more than offset by a 1 per cent reduction in ASEAN & South Asia and a 14 per cent decline in Africa & Middle East, predominantly driven by the UAE.

Commercial Banking income grew 6 per cent or 9 per cent on a constant currency basis, with growth across all regions predominately from increased balances and margins within Cash Management.

Private Banking attracted $1.7 billion net new money and grew income 13 per cent driven by Wealth Management and Deposits.

Income in Central & other items (Segment) declined 26 per cent as the impact of higher interest rates, adopting IFRS 16 and a tax refund in India in 2018 offset the benefit of a favourable change in hedge ineffectiveness where a small gain in 2019 compared to a larger loss in 2018.

Income by geographic region

Income from Greater China & North Asia declined 1 per cent and was up 2 per cent on a constant currency basis. The benefit of interest rate rises on income from Cash Management and Retail Deposits was partly offset by a lower contribution from Treasury and Wealth Management. Higher income in China was more than offset by lower income in Korea and Taiwan. Income in Hong Kong was flat with a higher contribution from Cash Management and Financial Markets offsetting a lower contribution from Treasury.

Income from ASEAN & South Asia was 3 per cent higher and 6 per cent higher on a constant currency basis, with growth in most markets, in particular Singapore, Bangladesh and India. Financial Markets and Transaction Banking income grew at a double-digit rate and was partly offset by lower income in Treasury.

In Africa & Middle East, performance was particularly negatively affected by the impact of local currency translation. Income declined 3 per cent while on a constant currency basis it rose 3 per cent. Lower income in the UAE and Zimbabwe was partly offset by higher income in Nigeria.

Income from Europe & Americas was 9 per cent lower reflecting an adverse movement in DVA within Financial Markets. Excluding the impact of DVA income declined 4 per cent with lower Treasury income offset by increased income from Cash Management.

Income in Central & other items (Region) was 48 per cent higher primarily driven by a favourable movement in hedge ineffectiveness.

Expenses

Operating expenses of $5.0 billion were 3 per cent lower and flat on a constant currency basis. The actions taken to deliver cost efficiencies contributed to 4 per cent positive income-to-cost operating leverage, or jaws, on both a reported and constant currency basis.

The Group continues to target cost growth below inflation and positive jaws between 2019-2021 while investing significantly, with an increasing proportion into projects related to strategic initiatives including technology enhancements. The timing of these investments through the course of the year together with the amortisation of prior period investment is expected to result in costs in the second half of 2019 being slightly higher than in the first half.

Impairment

Credit impairment of $254 million was 13 per cent lower and represents 17 basis points of average loans and advances.

Expected credit losses related to stage 1 and 2 exposures of $80 million compared to a net release of $17 million in the first half of 2018 and were $97 million higher as a result. This was offset by $136 million lower credit impairment related to stage 3 exposures that included the benefit of lower new Commercial Banking impairment, primarily in the Greater China and Middle East regions, and a $48 million release in Private Banking.

Other impairment more than halved to $21 million. Following the Group's decision to discontinue its ship leasing business the related impairment is recorded as a restructuring charge and excluded from underlying results.

Profit from associates and joint ventures

Profit from associates and joint ventures of $157 million was lower by 7 per cent as the Group's share of PT Bank Permata Tbk's earnings are excluded from underlying performance in 2019. Earnings from the Group's other associates and joint ventures were broadly stable.

Overall

Profit before tax of $2.6 billion was 11 per cent higher driven by significant improvement in Corporate & Institutional Banking, Commercial Banking and Private Banking as a result of income growth, lower expenses and lower impairments. Retail Banking profits were flat impacted by foreign exchange translation and slightly higher impairment. By region, broad-based improvement in operating profit in most markets was partly offset by lower Treasury income and the impact of DVA in our Hong Kong, Singapore and London hubs.

Statutory profit before tax of $2.4 billion, which is stated after provisions for regulatory matters, restructuring and other items, was 3 per cent higher.

	6 months ended 30.06.19 $million	6 months ended 30.06.18 $million	H1 2019 vs H1 2018 Better/(worse) %
Corporate & Institutional Banking	**1,354**	1,093	24
Retail Banking	**618**	617	0
Commercial Banking	**286**	140	nm
Private Banking	**100**	(5)	nm
Central & other items	**251**	511	(51)
Underlying profit before tax	**2,609**	2,356	11

	6 months ended 30.06.19 $million	6 months ended 30.06.18 $million	H1 2019 vs H1 2018 Better/(worse) %
Greater China & North Asia	**1,329**	1,289	3
ASEAN & South Asia	**760**	589	29
Africa & Middle East	**441**	387	14
Europe & Americas	**13**	86	(85)
Central & other items	**66**	5	nm
Underlying profit before tax	**2,609**	2,356	11

Net interest margin

The Group's net interest margin is presented on a statutory basis. Statutory net interest income of $4.6 billion was 6 per cent higher. Rises in global interest rates in 2018 and changes in the asset mix offset the ongoing impact of strong competition and as a result asset yields were 40 basis points higher. This together with interest-earning assets that grew more quickly than interest-bearing liabilities offset a 47 basis points increase in the rate paid on liabilities.

Statutory net interest income included an increased contribution from trading book assets, with offsetting amounts in other income from associated hedges. The Group's net interest margin on banking book assets was broadly stable compared with the second half of 2018.

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Statutory net interest income	**4,618**	4,432	4,361
Average interest-earning assets	**584,769**	561,992	554,214
Average interest-bearing liabilities	**508,734**	481,608	486,569
Gross yield (%)	**3.39**	3.19	2.99
Rate paid (%)	**2.07**	1.90	1.60
Net yield (%)	**1.32**	1.29	1.39
Net interest margin (%)[1]	**1.59**	1.56	1.59

1 Statutory net interest income divided by average interest earning assets, annualised

Corporate structure

The Group is executing several changes to its legal entity structure to create a capital and liquidity hub in Hong Kong for the Greater China & North Asia region. Since making Standard Chartered Bank (Hong Kong) Limited a wholly-owned direct subsidiary of Standard Chartered PLC, the Group has moved its China subsidiary under the Hong Kong entity. To complete the formation of this regional hub the Group has sought regulatory approval to similarly move the Taiwan and Korea subsidiaries under Hong Kong. These actions allow more efficient use of capital and liquidity that will over time result in a lower cost of funds for the Group.

As a result of this internal restructuring, the Group incurred a $179 million capital gains tax charge.

Credit quality

Asset quality overall has improved year-on-year, the quality of the less well performing assets continues to improve and no new areas of stress have emerged. The Group remains vigilant considering continuing geopolitical uncertainty and performs regular reviews and stress tests of its portfolio to help identify then mitigate any risks that might arise. Reflecting that the actions to reduce exposures in the liquidation portfolio were substantially completed in 2018 the Group is reporting it as part of its ongoing business in 2019.

Gross stage 3 loans and advances to customers of $6.2 billion were $706 million lower following several repayments and write-offs together with significantly lower new inflows. These credit-impaired loans represent 2.3 per cent of gross loans and advances, down from 2.6 per cent at 31 December 2018. They are 60 per cent covered before collateral and 81 per cent covered after collateral.

The proportion of corporate exposures that are investment grade reduced to 57 per cent because of a reduction in reverse repurchase agreements with clearing brokers. The proportion of investment grade exposures in the rest of the portfolio remained stable, exposures on early alert reduced by $699 million and credit grade 12 accounts were lower by $107 million.

	30.06.19 $million	31.12.18 $million		
	Total	Ongoing business	Liquidation portfolio	Total
Gross loans and advances to customers[1]	**268,055**	260,094	1,361	261,455
Of which stage 1 and 2	***261,837***	*254,445*	*86*	*254,531*
Of which stage 3	***6,218***	*5,649*	*1,275*	*6,924*
Expected credit loss provisions	**(4,460)**	(3,932)	(966)	(4,898)
Of which stage 1 and 2	***(757)***	*(838)*	*(4)*	*(842)*
Of which stage 3	***(3,703)***	*(3,094)*	*(962)*	*(4,056)*
Net loans and advances to customers	**263,595**	256,162	395	256,557
Of which stage 1 and 2	***261,080***	*253,607*	*82*	*253,689*
Of which stage 3	***2,515***	*2,555*	*313*	*2,868*
Cover ratio of stage 3 before/after collateral (%)	**60/81**	55/78	75/93	59/81
Credit grade 12 accounts ($million)	**1,416**	1,437	86	1,523
Early alerts ($million)	**4,068**	4,767	–	4,767
Investment grade corporate exposures (%)	**57**	62	–	62

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $2,704 million at 30 June 2019 and $3,151 million at 31 December 2018

Restructuring and other items

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 performance period-by period. These adjustments are set out below.

The Group made a provision for regulatory matters of $204 million mostly relating to the resolution of legacy conduct and control issues.

Revaluations of Principal Finance exposures together with profits related to the Group's discontinued ship leasing business contributed the majority of the $14 million net restructuring charges in the first half of 2019.

As previously communicated the Group's joint venture investment in Indonesia is no longer considered core and the related profits of $23 million in 2019 are excluded from underlying and reported in other items.

	6 months ended 30.06.19			6 months ended 31.12.18		6 months ended 30.06.18	
	Provision for regulatory matters $million	**Restructuring $million**	**Other items $million**	Provision for regulatory matters $million	Restructuring $million	Restructuring $million	Other items $million
Operating income	**–**	**134**	**–**	–	(157)	(91)	69
Operating expenses	**(204)**	**(125)**	**–**	(900)	(215)	(68)	–
Credit impairment	**–**	**–**	**–**	–	8	79	–
Other impairment	**–**	**(23)**	**–**	–	(35)	1	–
Profit from associates and joint ventures	**–**	**–**	**23**	–	–	–	–
Profit/(loss) before taxation	**(204)**	**(14)**	**23**	(900)	(399)	(79)	69

Balance sheet and liquidity

The Group's balance sheet is strong, highly liquid and diversified.

Loans and advances to customers increased 3 per cent since 31 December 2018 to $263.6 billion with broad-based growth across a range of products and particularly within Corporate & Institutional Banking and in Greater China & North Asia. Customer accounts rose 3 per cent since 31 December 2018 mostly in corporate time deposits. The Group continues to focus on improving the quality and mix of its liabilities.

The advances-to-deposits ratio increased slightly to 64 per cent from 63 per cent at 31 December 2018.

	30.06.19 $million	31.12.18 $million	Increase/ (decrease) $million	Increase/ (decrease) %
Assets				
Loans and advances to banks	**59,210**	61,414	(2,204)	(4)
Loans and advances to customers	**263,595**	256,557	7,038	3
Other assets	**389,699**	370,791	18,908	5
Total assets	**712,504**	688,762	23,742	3
Liabilities				
Deposits by banks	**30,783**	29,715	1,068	4
Customer accounts	**401,597**	391,013	10,584	3
Other liabilities	**229,685**	217,682	12,003	6
Total liabilities	**662,065**	638,410	23,655	4
Equity	**50,439**	50,352	87	–
Total equity and liabilities	**712,504**	688,762	23,742	3
Advances-to-deposits ratio[1]	**64%**	63%		

1 The Group now excludes $6,835 million held with central banks (31 December 2018: $7,412 million) that have been confirmed as repayable at the point of stress

Risk-weighted assets by business and type

Since 31 December 2018 total risk-weighted assets (RWAs) increased by $12.4 billion or 5 per cent.

Credit risk RWA was $8.9 billion higher reflecting asset growth, primarily in Corporate & Institutional Banking, and the $1.4 billion impact of adopting IFRS 16, partly offset by positive credit migration, RWA efficiencies and the positive impact of foreign exchange translation.

Market risk RWA increased by $4.0 billion due to an increase in trading book debt securities from the seasonally low position as at 31 December 2018 and model changes following an increase in regulatory backtesting exceptions.

Operational risk RWA was $0.4 billion lower primarily due to a decrease in average income as measured over a rolling three-year time horizon, with lower income in 2018 replacing higher income in 2015.

	30.06.19 $million	31.12.18 $million	Increase/ (decrease) $million	Increase/ (decrease) %
By client segment				
Corporate & Institutional Banking	**137,986**	128,991	8,995	7
Retail Banking	**42,772**	42,903	(131)	–
Commercial Banking	**31,574**	30,481	1,093	4
Private Banking	**6,615**	5,861	754	13
Central & other items	**51,792**	50,061	1,731	3
Total RWAs	**270,739**	258,297	12,442	5
By risk type				
Credit Risk	**220,010**	211,138	8,872	4
Operational Risk	**27,620**	28,050	(430)	(2)
Market Risk	**23,109**	19,109	4,000	21

Capital base and ratios

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

The common equity tier 1 (CET1) capital ratio of 13.5 per cent is in the middle of the Group's 13-14 per cent range. Underlying profit attributable to ordinary shareholders offset the impact of higher RWAs. The Group is required to recognise the full 39 basis points impact of the $1 billion share buy-back programme announced in May 2019. Provisions for regulatory matters and a tax on capital gains related to the transfer of the Group's China subsidiary to its Hong Kong entity reduced the ratio by 15 basis points.

The Board has recommended a 17 per cent higher interim dividend of 7 cents per ordinary share which is consistent with the previously communicated intention to adopt a formulaic approach to interim dividends, setting them at one-third of the prior year's full-year dividend.

	30.06.19 $million	31.12.18 $million
CET1 capital	**36,511**	36,717
Additional Tier 1 capital (AT1) instruments	**6,612**	6,684
Tier 1 capital	**43,123**	43,401
Tier 2 capital	**11,834**	12,295
Total capital	**54,957**	55,696
CET1 capital ratio end point (%)	**13.5**	14.2
Total capital ratio transitional (%)	**20.3**	21.6
UK leverage ratio (%)	**5.3**	5.6

Summary and outlook

We have made good progress in executing on the financial objectives that we laid out in February. Foreign exchange translation is materially impacting year-on-year comparisons for income but it is also benefiting costs to a similar extent, so at a profit level the impact is broadly neutral. We committed to deliver significantly positive jaws through to 2021 and we have done so in the first half of the year on both a reported and constant currency basis, driving pre-provision operating profit 8 per cent higher. This together with the continued low level of impairment has led to another sequential increase in return on tangible equity, our primary performance measure.

Our balance sheet is fundamentally more resilient as evidenced by the low level of impairment, client satisfaction is increasing, and we are working hard to embed a performance-orientated and innovative culture.

RWAs were flat year-on-year and up 5 per cent in the first half, while income grew at slightly higher rates over the same periods. We continue to focus on organic and inorganic RWA optimisation initiatives that support our expectation that over time income growth will exceed RWA growth.

Concerns surrounding the potential escalation of trade tensions has affected sentiment and central banks' commentary is indicating a reversal of monetary policy normalisation. But global growth projections have remained resilient, supported by solid fundamentals particularly in our markets, and we are pursuing several self-help initiatives designed to improve cost, capital and liquidity efficiency and the quality of our income. This gives us confidence we can achieve at least a 10 per cent return on tangible equity by 2021.

Andy Halford
Group Chief Financial Officer

1 August 2019

Group Chief Risk Officer's review

Sustainable growth; solid foundations

The risk landscape is constantly evolving, and we need to ensure our approach is agile and efficient in dealing with the challenge. We have continued to invest in technology, streamlined our processes in order to serve clients better, and embraced innovation. We have maintained a strong focus on key risk fundamentals, with asset quality improving year-on-year and remaining stable since the end of 2018 and ongoing credit impairment, which now includes the liquidation portfolio, lower than the equivalent period in 2018. We continue to manage our portfolios to ensure that they remain diversified in terms of sectors, products, and geographies. Our strong capital position has allowed us to grow our risk-weighted assets (RWAs) in a controlled manner through growth in assets while also buying back shares. Our liquidity metrics also remain at healthy levels.

2019 has seen considerable global uncertainty, with US-China trade tensions and other geopolitical issues forcing all companies to assess the way they do business. Setting up our new German subsidiary has allowed us to alleviate some of the risks related to Brexit, while continuing to serve clients. We have also strengthened our focus on global environmental concerns, while increasing our support to areas that promote a sustainable future. Sustainability is one of the key items on our agenda, and we recognise that we have an important role to play in promoting economic and social development in a sustainable manner.

+ More information about the Group's sustainability philosophy can be found at sc.com/en/sustainability/philosophy

Our key risk priorities

We are ensuring the best use of our people and resources to strengthen and fully optimise the way risk is managed within the Group. We recognise the need to evolve to stay relevant in the markets in which we operate, and as such we need to strive to enhance our capabilities in a number of areas. Below are our key priorities for 2019:

Strengthen the Group's risk culture
Embedding a healthy risk culture continues to be a core objective across all areas of the Group. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action to address all existing and emerging risks. Our Enterprise Risk Management Framework (ERMF) sets out the guiding principles for our people, enabling us to have integrated and holistic risk conversations across the Group. By continuing to ensure that the right risk behaviours are ingrained across the Group, we can focus on the Risk function's refreshed purpose of increasing prosperity by taking the right risks.

Enhance information and cyber security
We continue to invest in our security capabilities to ensure that Information and Cyber Security Risk management is embedded in each stage of the client journey. During 2019, a new Group information and cyber security strategy has been developed to align with the Group's overall corporate strategy and drive cohesion across the Group on managing Information and Cyber Security Risk. It is a three-year forward-looking plan that complements the Group's innovation agenda and commitment to client service, while recognising a rapidly evolving cyber threat landscape. The Group has progressed initiatives to strengthen information and cyber security foundations, embed robust governance, executive engagement, and improve business accountability to drive a culture of security excellence.

Managing climate risk
We consider climate change as one of the greatest challenges facing the world today, given its widespread and proven impacts on the physical environment, human health and its potential to adversely impact economic growth. Climate-related risks have been designated as a principal uncertainty for the Group since 2017. We have established a central Climate Risk team within our Enterprise Risk Management function, which will develop a Climate Risk framework that sets out a consistent approach to identify, assess and manage climate risks across the Group, as well as addressing regulatory requirements. We are collaborating with external experts and various cross-industry forums to share and build a robust response to climate risks. We recognise that we can contribute towards the fight against climate change by supporting our clients in driving a low-carbon transition and building climate resilience or adaptive capabilities. We continue to increase our financing towards those aligned with the UN's Sustainable Development Goals. We are committed to measure, manage and ultimately reduce the emissions linked to our financing, and published a white paper in May 2019 detailing our progress and inviting clients, peer banks, regulators and others to join us in solving the identified challenges. We are dedicated to playing our part in driving an orderly transition to a low-carbon economy through identifying and managing the associated risks and opportunities in a robust manner.

+ More information about the Group's white paper can be found at sc.com/emissions

Mark Smith
Group Chief Risk Officer

Manage financial crime risks
In the first half of 2019 we resolved the previously disclosed investigations by the US and UK authorities related to historical sanctions and financial crime controls, and we are focused on delivering on the remaining actions required of us under the settlement orders. We have a refreshed mission for financial crime compliance, which is "Partnering to lead in the fight against financial crime". The increased focus on partnering recognises that it is through partnerships with other financial institutions, regulators, law enforcement and NGOs that we can most effectively combat financial crime. To that end, in addition to cooperating with FIUs and other authorities around the globe we are participating in formal public-private information sharing partnerships in the UK, US, Hong Kong and Singapore, working with law enforcement, regulators, financial institutions and other stakeholders to better identify and report suspicious activity. We have refreshed our Fighting Financial Crime microsite, which acts as a source of information and thought leadership on financial crime compliance. Our Correspondent Banking Academies continue to advocate best practice and encourage financial inclusion by "de-risking through education", an initiative that has received particular recognition from the Financial Stability Board.

Strengthen our conduct environment
Conduct remains a key focus across the Group, and was elevated to a Principal Risk Type last year to help ensure that conduct considerations are central to decisions taken throughout the Group. The emphasis in 2019 is to further embed the framework at a more granular level across our countries, businesses and functions. The Conduct Risk Type Framework provides a robust and consistent approach to help ensure Conduct Risk identification, monitoring and management. A key part of our framework are Conduct Plans, for all of our countries, businesses and functions. These identify, document and develop action plans to mitigate Conduct Risks. Ownership of Conduct Plans is with the first line of defence, with review and challenge from Compliance. These Plans will play a significant part in helping us to uphold the highest standards of conduct, acknowledging that while incidents cannot be entirely avoided, the Group has no appetite for wilful or negligent misconduct.

Enhance our compliance infrastructure
We have continued to deliver tangible progress on our multi-year programme to review and strengthen our existing structures and processes. In the first quarter of 2019 we installed a new solution for policy and document management, as part of a broader implementation of a strategic Governance, Risk & Compliance (GRC) solution. Through the remainder of the year, we will implement further GRC enhancements, including modules for issue management and compliance assurance automation. To enable faster business decision making, we have introduced an automated self-service information and advisory portal, which we will further expand by adding a mobile channel and machine-learning chatbot. We have integrated our Advisory Teams within Compliance and FCC to form a unified Conduct, Financial Crime and Compliance function (CFCC) Advisory team. This will reduce organisational complexity resulting in a greater client focus, reduced hierarchy and faster decision making. In turn, the integrated team will build stronger cross-knowledge of the Conduct, Financial Crime and Regulatory Compliance Risk types, delivering more holistic risk management to support the business as they take on greater first-line risk ownership.

Improve our efficiency and effectiveness
We have continued to invest in improvements to infrastructure, including exposure management, data quality and stress testing. We are successfully using agile delivery methods to enhance our Operational Risk management, workflow and reporting platforms. We have developed concepts from both internal innovation and collaboration with fintech partners to explore and implement opportunities with machine learning and artificial intelligence. We are further developing our data and analytics infrastructure to enhance the speed and quality of risk decision-making. Infrastructure improvements enable us to continue to streamline and simplify our processes, to serve clients better and drive internal efficiencies.

Our risk profile and performance

The Group's risk performance in the first six months of the year demonstrates our commitment to strong and sustainable growth, and the metrics detailed below indicate stable asset quality, strong capital metrics, and robust liquidity and funding profiles. While no new areas of stress have emerged, we remain vigilant in light of continued geopolitical uncertainty.

We continue to focus on lending to high-quality counterparties within our defined risk appetite, adding new clients selectively. Through our focus on quality origination, we have strengthened our risk profile significantly over the past three years, ensuring that it is well positioned for any potential changes in the economic environment. The Group's client exposures remain predominantly short tenor, and our portfolios remain well diversified across client segments, geographies and industry sectors. There was an increase in the net exposure to our top 20 corporate clients as a percentage of Tier 1 capital (H1 2019: 62 per cent; H2 2018: 55 per cent), primarily in short-dated exposure to investment grade clients. We continue to focus on early identification of emerging risks across all of our portfolios so that we can manage any areas of weakness on a proactive basis. We also perform regular reviews and stress tests of our portfolio to help mitigate any risks that might arise.

The Group's credit impairment has seen sustained improvements over the past three years, with the Group total at $254 million for the first half of 2019, representing a loan loss rate of 17 basis points of average customer loans and advances. This was a 13 per cent reduction compared with the first six months of 2018 (H1 2018: $293 million[1]). Corporate & Institutional Banking credit impairment was lower than the previous six months, but higher than in the first half of 2018 due to lower recoveries, and lower net releases in stage 1 and 2 impairments. The Commercial Banking segment has experienced a significant reduction from the prior year due to lower stage 3 provisions and recoveries observed in the period. The increase in the Retail Banking credit impairment is due to non-recurring releases in the unsecured portfolio and the restructured portfolio in Korea in the first half of 2018; excluding these, the underlying impairment remains comparable. Private Banking is lower due to a net provision release of $47 million in 2019.

Credit impairment

	6 months ended 30.06.19 $million[1]	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Corporate & Institutional Banking	**110**	161	81
Commercial Banking	**35**	138	106
Retail Banking	**154**	148	119
Private Banking	**(47)**	(1)	1
Central & others	**2**	1	(14)
Total credit impairment charge	**254**	447	293
Restructuring charge	**–**	(8)	(79)

1 In 2019 the Liquidation portfolio has been included in Ongoing business. Prior periods have not been restated

The credit quality of the corporate portfolio has remained stable, with improvement across a number of metrics. Credit grade 12 balances are slightly lower compared with year end at $1.4 billion, although this is 40 per cent higher than the first half of 2018. This increase is primarily due to a material upgrade from stage 3 in India, and inflows that were recorded in the last quarter of 2018 for Commercial Banking. We have observed a continued decrease in net exposure on early alert, down from $4.8 billion to $4.1 billion in the first six months of the year, mainly due to reductions in counterparty exposure and accounts being regularised. While the percentage of investment grade clients in our corporate net exposure has decreased to 57 per cent from 62 per cent in the first half of 2019, this is primarily driven by a reduction in repurchase agreements with clearing brokers, which are volatile in nature. Excluding the impact of repurchase agreements, the investment grade net exposure remains stable at 52 per cent (31 December 2018: 51 per cent).

The Group is now reporting the liquidation portfolio as part of its underlying business. Gross credit-impaired (stage 3) loans have decreased to $6.2 billion (31 December 2018: $6.9 billion). The majority of the reduction occurred in Corporate & Institutional Banking, which decreased by $0.5 billion, mainly due to write-offs and write-downs of well or fully-provided material accounts in the Africa & Middle East region. Both Corporate & Institutional Banking and Commercial Banking saw a lower level of stage 3 inflows. Stage 3 loans in Retail Banking and Private Banking remained stable in the year to date at $0.8 billion and $0.2 billion respectively.

Stage 3 cover ratio before collateral, of the total book, increased slightly to 60 per cent in the first half of 2019 (31 December 2018: 59 per cent), and including collateral remained stable at 81 per cent.

The Group maintains a strong liquidity position with healthy buffers above its risk appetite and minimum regulatory requirements. The liquidity coverage ratio decreased to 139 per cent from 154 per cent at the end of 2018, driven by period-end inflows and a shift in liability mix that led to higher outflows, and a smaller increase in high-quality liquid assets. Loans and deposits grew, with our advances-to-deposits ratio remaining broadly unchanged at 64 per cent (H2 2018: 63 per cent). We remain a net provider of liquidity to the interbank markets and our customer deposit base is diversified by type and maturity. We have a substantial portfolio of marketable securities which can be realised in the event of a liquidity stress.

Our Common Equity Tier 1 ratio of 13.5 per cent is in the middle of the Group's 13-14 per cent range, and is 72 basis points lower in the first half of 2019 primarily due to the share buyback, regulatory provisions and tax in relation to corporate entity restructuring. Group RWA increased $12.4 billion driven by underlying asset growth, partially offset by RWA efficiencies.

Average Group value at risk (VaR) in the first half of 2019 was 36 per cent higher than the previous six months, and 38 per cent higher than the equivalent period in 2018, at $28.2 million (H2 2018: $20.8 million; H1 2018: $20.4 million), primarily driven by an increase in non-trading book VaR, which has seen an increase in the Treasury Markets bond inventory, as well as reduced portfolio diversification. Trading activities remain primarily client driven.

Further details of the risk performance for the first six months of 2019 are set out in the Risk profile section pages 26 to 65

Key indicators

	30.06.19 $million	31.12.18 $million	30.06.18 $million
Group total business[1]			
Stage 1 loans ($ billion)	**245.7**	237.1	235.1
Stage 2 loans ($ billion)	**16.1**	17.4	21.8
Stage 3 loans ($ billion)	**6.2**	6.9	7.7
Stage 3 cover ratio	**60%**	59%	57%
Stage 3 cover ratio (including collateral)	**81%**	81%	79%
Corporate & Institutional Banking and Commercial Banking			
Investment grade corporate exposures as a percentage of total corporate exposures	**57%**	62%	61%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers	**61%**[2]	60%[2]	71%
Early alert portfolio ($ billion)	**4.1**	4.8	6.9
Credit grade 12 ($ billion)	**1.4**	1.5	1.0
Aggregate top 20 corporate exposures as a percentage of Tier 1 capital	**62%**	55%	53%
Collateralisation of sub-investment grade exposures maturing in more than 1 year	**47%**	51%	55%
Retail Banking			
Loan-to-value ratio of retail mortgages	**44%**	45%	45%

1 These numbers represents total loans and advances to customers

2 Excludes fair value through profit or loss (including fair value through profit or loss: 30.06.19: 69 per cent; 31.12.18: 70 per cent)

Our risk management approach

We have continued to build out the ERMF, allowing the Group to identify and manage risks holistically, as well as strengthening the Group's capabilities to understand, articulate and control the nature and level of risks we take while still effectively serving our clients.

Since the launch of the ERMF in 2018, awareness of the framework has increased significantly and we have made good progress in delivering our strategic initiatives to embed the ERMF across the organisation. An ERMF Effectiveness Review was carried out last year, following which we identified key initiatives to address areas of improvement in the management of the 10 principal risks. We are closely monitoring implementation progress across these deliverables for the Group.

The ERMF, which sets out a refreshed risk culture and sharper delineation of responsibilities across the three lines of defence, is being adopted in the branches and subsidiaries. To facilitate this, we have rolled out a country self-assessment process to evaluate how the ERMF and Risk Type Frameworks are embedded locally. Over the course of the year the Group aims to further strengthen its risk management practices across the markets in which we operate, with stronger links between the three lines of defence and greater first-line risk ownership.

Principal risks

Principal risks are those risks that are inherent in our strategy and business model. These are formally defined in our ERMF which provides a structure for monitoring and control of these risks through the Board-approved Risk Appetite. The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. The table below provides an overview of the Group's principal risks and how these are managed. The Group's principal risks have not changed since the time of publication of our 2018 Annual Report and further details on these can be found on pages 193 to 217 of our 2018 Annual Report.

Principal Risk Types	How these are managed
Credit Risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country Risk[1]	The Group manages its country cross-border exposures following the principle of diversification across geographies and controls business activities in line with the level of jurisdiction risk
Traded Risk	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
Capital and Liquidity Risk	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
Operational Risk	The Group aims to control Operational Risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Reputational Risk	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
Compliance Risk	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
Conduct Risk	The Group has 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
Information and Cyber Security Risk	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 bank
Financial Crime Risk	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

1 Effective from July 2019, the Country Risk Type Framework has been updated to expand our risk coverage from the existing Country Cross Border Risk to Gross Country Risk, which encompasses Transfer and Convertibility Risk and Local Currency Risk. Further details will be provided in the 2019 Annual Report

Our principal uncertainties

Principal uncertainties refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to have a material impact on our business. As part of our continuous risk identification process, we have updated the Group's principal uncertainties from those disclosed in the 2018 Annual Report.

The table below summarises our current list of principal uncertainties, outlining the risk trend changes relative to 2018-year end, the reasons for the changes and the mitigating actions we are taking based on our current knowledge and assumptions. 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 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.

Principal uncertainties	Risk trend since December 2018[1]	Key risk trend drivers	How these are mitigated
Geopolitical events, in particular: extended trade tensions driven by geopolitical and trade concerns, unrest in Hong Kong, Middle East geopolitical tensions, and post-Brexit implications	↑	There are increasing concerns on global geopolitical and trade implications following the deterioration of relations between the US and China. Recent political protests have additionally elevated the risk in Hong Kong. The risk in the Middle East has elevated due to concerns about Iran while political events in the UK have increased the risk of disorderly Brexit	→ We monitor and assess geopolitical events and act as appropriate to ensure we minimise the impact to the Group and our clients → We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events
Macroeconomic conditions, in particular: moderation of growth in key footprint markets led by China and political volatility. Sharp interest rate changes, and foreign currency volatility in both emerging and developed markets	↔	The risk remains at similar levels as at the end of 2018	→ We monitor economic trends and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events → We monitor on a centralised basis contractual and behavioural Interest Rate Risk exposures, and manage these within a clearly defined risk management framework and risk appetite

Principal uncertainties	Risk trend since December 2018[1]	Key risk trend drivers	How these are mitigated
Climate related physical risks and transition risks[2]	↔	The risk remains at similar levels as at the end of 2018	→ We are developing a climate risk framework to deliver a consistent group-wide approach to climate risk management. We are also a member of the Risk Management Working Group under the Bank of England's Climate Financial Risk Forum → We have reduced our risk appetite to carbon-intensive sectors by introducing technical standards for coal-fired power plants, and restrictions on new coal mining clients and projects. In September 2018, we announced that we would no longer provide financing for new coal-fired power plants anywhere in the world. In February 2019, we communicated that we would no longer trade coal-based derivative products → We achieved, two years ahead of schedule, our public target to fund and facilitate $4 billion toward clean technology between 2016 and 2020
Regulatory reviews and investigations, legal proceedings	↓	Following settlement with the US and UK authorities on long-standing financial crime-related matters, this risk has now decreased	→ We have invested in enhancing systems and controls, and implemented remediation programmes (where relevant) → We continue to train and educate our people on conduct, conflicts of interest, information security and financial crime compliance in order to reduce our exposure to legal and regulatory proceedings
Regulatory changes	↔	The risk remains at similar levels as at the end of 2018	→ We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model → We have established relevant project management programmes to review and improve end-to-end processes in terms of oversight and accountability, transparency, permission and controls, legal entry level limits and training
New technologies and digitisation, including Business Disruption Risk, responsible use of artificial intelligence and Obsolescence Risk	↑	New technologies are becoming more sophisticated and further embedded in the banking sector. Regulators are placing increasing emphasis on resilience. Our business model is placing increasing reliance on third-party suppliers	→ We monitor emerging trends, opportunities and risk developments in the technology space which may have implications on the banking sector → We are engaged in building our capabilities to ensure we remain relevant and are able to capitalise rapidly on technology trends → We continue to make headway in harnessing new technologies, and we are investing in machine-learning solutions that rapidly analyse large datasets and fine-tune the accuracy of our financial crime tools → We are actively targeting the reduction of obsolescent/ end-of-support technology following a technology and innovation-led approach
Increased data privacy and security risks from strategic and wider use of data	↑	Recent penalties on firms who have suffered data losses or breaches demonstrates the increasing risk	→ We have existing governance and control frameworks for the deployment of new technologies → We have designed a programme to manage the risks posed by rapidly evolving cyber security threats → We maintain a vigilant watch on legal and regulatory developments in relation to data protection to identify any potential impact to the business

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

2 Physical risks refer to the risk of increasingly extreme weather events while transition risks refer to the risk of changes to market dynamics due to governments' response to climate change

Summary

We want to be at the forefront of building a sustainable, resilient finance industry with a risk culture that champions social and economic development across our global footprint. We have laid the foundations, and now seek to create an innovative Risk and Conduct, Financial Crime and Compliance function that fully harnesses our competitive advantages. By being cognisant of both our strengths and areas where we can do better, we can ensure that the progress we make is enduring and consistent with our brand promise to be Here for good.

Mark Smith
Group Chief Risk Officer

1 August 2019

Risk review and Capital review

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The following parts of the Risk review and Capital review form part of the financial statements and are reviewed by the external auditors:

→ From the start of the 'Credit risk review' section (page 26) to the end of 'Other principal risks' in the same section (page 65), excluding:

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→ From the start of 'CRD IV capital base' (page 67) to the end of 'Movement in total capital' excluding capital ratios and risk-weighted assets (RWA) (page 68)

Risk review

Credit Risk

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 14 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.

IFRS 9 methodology

Impairment model

IFRS 9 requires an impairment model that requires the recognition of 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 increase in the credit risk compared to what was expected at origination.

The framework used to determine a significant change in credit risk is set out below.

Stage 1	Stage 2	Stage 3
→ 12-month ECL	→ Lifetime ECL	→ Credit-impaired
→ Performing	→ Performing but has exhibited significant increase in credit risk (SICR)	→ Non-performing

IFRS 9 methodology

The main methodology principles and approach adopted by the Group are set out in the following table.

Title	Description
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. Where available, the Group has leveraged existing advanced internal ratings based (IRB) regulatory models that have been used to determine regulatory expected loss. For portfolios that follow a standardised regulatory approach, the Group has developed new models where these are material.
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 51 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.
Significant increase in credit risk	Expected credit loss for financial assets will transfer from a 12-month basis to a lifetime basis when there is a significant increase in credit risk (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.
Assessment of credit-impaired financial assets	Credit-impaired 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. 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.
Modified financial assets	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. 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 probability of default (PD) based on the modified terms to the remaining lifetime PD based on the original contractual terms.
Transfers between stages	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. In addition: → Loans that were subject to forbearance measures must remain current for 12 months before they can be transferred to stage 2 → Retail loans that were not subject to forbearance measures must remain current for 180 days before they can be transferred to stage 2 or stage 1 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 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).
Governance and application of expert credit judgement in respect of expected credit losses	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.

Maximum exposure to credit risk

The table on the next page presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 30 June 2019, 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 $22 billion to $689 billion (31 December 2018: $667 billion). This was driven by an $8 billion increase in investment securities (including those held at fair value through profit or loss), as the Group further increased its portfolio of high-quality liquid assets and increased exposures to financial institutions.

Other assets increased by $3.6 billion mainly driven by unsettled trades due to settlement timing differences.

Off-balance sheet credit risk exposures increased by $1.0 billion compared to 31 December 2018, as a decrease in contingent liabilities was offset by increases in documentary credits and short-term trade-related transactions.

Maximum exposure to credit risk

	30.06.19				31.12.18			
		Credit risk management				Credit risk management		
	Maximum exposure $million	**Collateral $million**	**Master netting agreements $million**	**Net exposure $million**	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On-balance sheet								
Cash and balances at central banks	**58,822**			**58,822**	57,511			57,511
Loans and advances to banks[1,8]	**59,210**	**1,145**		**58,065**	61,414	3,815		57,599
Of which – reverse repurchase agreements and other similar secured lending[7]	**1,145**	**1,145**		**–**	3,815	3,815		–
Loans and advances to customers[1,8]	**263,595**	**117,114**		**146,481**	256,557	109,326		147,231
Of which – reverse repurchase agreements and other similar secured lending[7]	**2,704**	**2,704**		**–**	3,151	3,151		–
Investment securities – Debt securities, alternative Tier 1 and other eligible bills[2]	**127,753**			**127,753**	125,638			125,638
Fair value through profit or loss[3,7]	**91,843**	**54,065**	**–**	**37,778**	85,441	54,769		30,672
Loans and advances to banks	**3,653**			**3,653**	3,768			3,768
Loans and advances to customers	**6,190**			**6,190**	4,928			4,928
Reverse repurchase agreements and other similar lending[7]	**54,065**	**54,065**		**–**	54,769	54,769		–
Investment securities – Debt securities, alternative Tier 1 and other eligible bills[2]	**27,935**			**27,935**	21,976			21,976
Derivative financial instruments[4,7]	**49,237**	**8,105**	**29,546**	**11,586**	45,621	9,259	32,283	4,079
Accrued income	**2,355**			**2,355**	2,228			2,228
Assets held for sale	**146**			**146**	23			23
Other assets[5]	**36,234**			**36,234**	32,678			32,678
Total balance sheet	**689,195**	**180,429**	**29,546**	**479,220**	667,111	177,169	32,283	457,659
Off-balance sheet								
Contingent liabilities[6]	**41,267**	**–**	**–**	**41,267**	41,952	–	–	41,952
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[6]	**148,291**	**–**	**–**	**148,291**	147,728	–	–	147,728
Documentary credits and short-term trade-related transactions[6]	**5,073**	**–**	**–**	**5,073**	3,982	–	–	3,982
Total off-balance sheet	**194,631**	**–**	**–**	**194,631**	193,662	–	–	193,662
Total	**883,826**	**180,429**	**29,546**	**673,851**	860,773	177,169	32,283	651,321

1 An analysis of credit quality is set out in the credit quality analysis section (Page 30). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 46)

2 Excludes equity and other investments of $283 million (31 December 2018: $263 million). Further details are set out in Note 12 Financial Instruments

3 Excludes equity and other investments of $1,559 million (31 December 2018: $1,691 million). Further details are set out in Note 12 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

This table shows financial instruments and off-balance sheet commitments by stage, along with total credit impairment loss provision against each class of financial instrument.

The proportion of financial instruments held within stage 1 remained broadly stable compared to 31 December 2018 at 94 per cent. Within loans and advances to customers, Corporate & Institutional Banking stage 1 loans rated as strong increased to 64 per cent from 62 per cent, reflecting the continued focus on investment grade lending.

Stage 2 financial instruments were broadly stable at 5 per cent (31 December 2018: 6 per cent). Within this, the proportion of stage 2 debt securities declined to 4 per cent compared to 5 per cent at 31 December 2018 reflecting changes in the approach for stage allocations.

Stage 3 financial instruments were also stable at 1 per cent of the Group total. Stage 3 loans and advances to customers fell $706 million due to a combination of write-offs and repayments. The stage 3 cover ratio (excluding collateral) was slightly higher at 60 per cent.

	30.06.19											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Loans and advances to banks (amortised cost)	58,664	(5)	58,659	552	(1)	551	–	–	–	59,216	(6)	59,210
Loans and advances to customers (amortised cost)	245,747	(407)	245,340	16,090	(350)	15,740	6,218	(3,703)	2,515	268,055	(4,460)	263,595
Debt securities, alternative Tier 1 and other eligible bills	122,271	(32)		5,470	(23)		234	(207)		127,975	(262)	
Amortised cost	11,420	(7)	11,413	718	(8)	710	234	(207)	27	12,372	(222)	12,150
FVOCI[2]	110,851	(25)		4,752	(15)		–	–		115,603	(40)	
Cash and balances at central banks	58,822	–		–	–		–	–		58,822	–	
Accrued income (amortised cost)	2,355	–		–	–		–	–		2,355	–	
Assets held for sale	146	–		–	–		–	–		146	–	
Other assets	36,234	–		–	–		155	(155)		36,389	(155)	36,234
Undrawn commitments[3]	139,647	(54)		13,646	(46)		71	–		153,364	(100)	
Financial guarantees[3]	37,268	(5)		3,540	(6)		459	(161)		41,267	(172)	
Total	701,154	(503)		39,298	(426)		7,137	(4,226)		747,589	(5,155)	

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 reserves

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

	31.12.18											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Loans and advances to banks (amortised cost)	60,350	(5)	60,345	1,070	(1)	1,069	–	–	–	61,420	(6)	61,414
Loans and advances to customers (amortised cost)	237,103	(426)	236,677	17,428	(416)	17,012	6,924	(4,056)	2,868	261,455	(4,898)	256,557
Debt securities, alternative Tier 1 and other eligible bills	118,713	(27)		6,909	(31)		232	(206)		125,854	(264)	
Amortised cost	8,225	(7)	8,218	1,062	(3)	1,059	232	(206)	26	9,519	(216)	9,303
FVOCI[2]	110,488	(20)		5,847	(28)		–	–		116,335	(48)	
Cash and balances at central banks	57,511	–		–	–		–	–		57,511	–	
Accrued income (amortised cost)	2,228	–		–	–		–	–		2,228	–	
Assets held for sale	23	–		–	–		–	–		23	–	
Other assets	32,678	–	32,678	–	–	–	155	(155)	–	32,833	(155)	32,678
Undrawn commitments[3]	137,783	(69)		13,864	(39)		63	–		151,710	(108)	
Financial guarantees[3]	38,532	(4)		3,053	(13)		367	(156)		41,952	(173)	
Total	684,921	(531)		42,324	(500)		7,741	(4,573)		734,986	(5,604)	

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 reserves

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

Credit quality analysis

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 periodically 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 (non-performing or 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.

	Corporate & Institutional Banking and Commercial Banking			Private Banking[1]	Retail Banking
Credit quality description	**Default Grade mapping**	**S&P external ratings equivalent**	**Regulatory PD range (%)**	**Internal ratings**	**Number of days past due**
Strong	Grades 1–5	AAA/AA+ to BBB-/BB+	0.000-0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	Grades 6-8	BB+/BB to B+	0.426-2.350	Class II and Class III	Loans past due till 29 days
	Grades 9-11	B+/B to B-/CCC/C	2.351-15.750		
Higher risk	Grade 12	CCC/C	15.751-99.999	GSAM-managed	Past due loans 30 days and over till 90 days

1 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.

Stage 1

Stage 1 loans and advances to customers increased by $8.6 billion, or 4 per cent compared to 31 December 2018 and now represent 92 per cent of loans and advances to customers (31 December 2018: 91 per cent). The stage 1 coverage ratio remained at 0.2 per cent and was stable across all segments compared to year end. Most of the growth was concentrated in the Greater China & North Asia and ASEAN & South Asia regions, up $4.6 billion and $3.3 billion respectively.

87 per cent (31 December 2018: 85 per cent) of loans in Corporate & Institutional Banking and Commercial Banking are held in stage 1, with those rated as strong increasing to 57 per cent from 55 per cent as the Group continues to focus on the origination of investment grade lending. Within Corporate & Institutional Banking and Commercial Banking, overall stage 1 loans grew by $8.2 billion, primarily in the transport, telecom and utilities and mining and quarrying sectors, reflecting the overall increase in the portfolio since 31 December 2018.

Retail Banking stage 1 loans remained stable at 96 per cent with the proportion rated as strong maintained at 98 per cent. Stage 1 secured wealth products increased by $2.3 billion, primarily in Greater China & North Asia and ASEAN & South Asia.

Stage 2

Loans and advances to customer balances decreased by $1.3 billion compared to 31 December 2018, reducing the proportion of loans in stage 2 from 7 per cent to 6 per cent. The decrease was primarily due to lower levels of early alert exposures, outflows to stage 3 and slightly lower 'Higher risk' exposures. Stage 2 coverage dropped slightly to 2.2 per cent from 2.4 per cent at 31 December 2018.

In Corporate & Institutional Banking, stage 2 balances decreased by $241 million, with 74 per cent of loans rated as 'Satisfactory' compared to 73 per cent at 31 December 2018. Provisions also fell by $69 million, leading to a drop in coverage from 2.1 per cent to 1.3 per cent. This was largely due to lower levels of provisions held against 'Higher risk' accounts as a small number of loans with relatively high levels of provisions transferred into stage 3 during the first half of 2019.

Commercial Banking stage 2 loans decreased by $1 billion primarily due to repayments during the period with the majority of loans continuing to be rated as 'Satisfactory'. Provisions rose by $7 million, which together with the decrease in balances, drove coverage higher to 2.9 per cent compared to 2.1 per cent at 31 December 2018.

Across Corporate & Institutional Banking and Commercial Banking, an increase in manufacturing gross exposures was more than offset by reductions in the transport, telecoms and utilities and energy sectors.

Retail Banking stage 2 loans reduced slightly compared to 31 December 2018 with the proportion rated as 'Strong' increasing from 69 per cent to 73 per cent. Coverage dropped slightly to 4.5 per cent mainly due to the increased proportion of mortgages within stage 2.

Stage 3

Stage 3 loans and advances to customers fell by $0.7 billion, or 10 per cent, compared with 31 December 2018, with overall stage 3 provisions declining by $0.4 billion to $3.7 billion. The stage 3 cover ratio (excluding collateral) increased slightly to 60 per cent, largely driven by the impact of write-offs and repayments in the period.

In Corporate & Institutional Banking and Commercial Banking, gross stage 3 loans fell by $0.7 billion compared with 31 December 2018 due to write-offs, upgrades and repayments. Provisions against Corporate & Institutional Banking and Commercial Banking loans also fell by $0.3 billion from $3.6 billion to $3.3 billion.

Inflows into stage 3 for Corporate & Institutional Banking and Commercial Banking in the first half of 2019 were 28 per cent lower compared to the second half of 2018, driven by the Africa & Middle East region reflecting continued improvement in the portfolio.

The majority of new stage 3 provisions in Corporate & Institutional Banking and Commercial Banking are on counterparties that were already impaired, and as such the loan book does not indicate any new areas of stress.

Retail stage 3 loans were broadly stable at $0.8 billion.

Private Banking stage 3 loans are broadly stable, although there was a release in provisions on a stage 3 client in the first half of 2019.

Loans and advances by client segment

	30.06.19								
		Customers							
Amortised cost	Banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Customer Total $million	Undrawn commitments $million	Financial guarantees $million
Stage 1	58,664	100,309	98,123	23,632	14,551	9,132	245,747	139,647	37,268
– Strong	46,225	63,941	95,917	6,818	10,907	8,976	186,559	113,762	25,591
– Satisfactory	12,439	36,368	2,206	16,814	3,644	156	59,188	25,885	11,677
Stage 2	552	9,116	2,818	3,440	715	1	16,090	13,646	3,540
– Strong	534	1,411	2,057	245	644	–	4,357	7,099	1,040
– Satisfactory	17	6,706	385	2,778	4	1	9,874	5,280	2,234
– Higher risk	1	999	376	417	67	–	1,859	1,267	266
Of which (stage 2):									
– Less than 30 days past due	*54*	*145*	*385*	*63*	*5*	–	*598*		
– More than 30 days past due	–	*64*	*376*	*75*	*47*	–	*562*		
Stage 3, credit-impaired financial assets	–	3,541	827	1,624	226	–	6,218	71	459
Gross balance[1]	59,216	112,966	101,768	28,696	15,492	9,133	268,055	153,364	41,267
Stage 1	(5)	(81)	(283)	(35)	(8)	–	(407)	(54)	(5)
– Strong	(3)	(33)	(159)	(3)	(7)	–	(202)	(23)	(2)
– Satisfactory	(2)	(48)	(124)	(32)	(1)	–	(205)	(31)	(3)
Stage 2	(1)	(123)	(127)	(99)	(1)	–	(350)	(46)	(6)
– Strong	(1)	(4)	(41)	–	(1)	–	(46)	(3)	–
– Satisfactory	–	(50)	(52)	(55)	–	–	(157)	(16)	(4)
– Higher risk	–	(69)	(34)	(44)	–	–	(147)	(27)	(2)
Of which (stage 2):									
– Less than 30 days past due	–	*(27)*	*(52)*	*(8)*	–	–	*(87)*		
– More than 30 days past due	–	–	*(34)*	*(7)*	–	–	*(41)*		
Stage 3, credit-impaired financial assets	–	(2,123)	(392)	(1,138)	(50)	–	(3,703)	–	(161)
Total credit impairment	(6)	(2,327)	(802)	(1,272)	(59)	–	(4,460)	(100)	(172)
Net carrying value	59,210	110,639	100,966	27,424	15,433	9,133	263,595		
Stage 1	0.0%	0.1%	0.3%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%
– Strong	0.0%	0.1%	0.2%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
– Satisfactory	0.0%	0.1%	5.6%	0.2%	0.0%	0.0%	0.3%	0.1%	0.0%
Stage 2	0.2%	1.3%	4.5%	2.9%	0.1%	0.0%	2.2%	0.3%	0.2%
– Strong	0.2%	0.3%	2.0%	0.0%	0.2%	–	1.1%	0.0%	0.0%
– Satisfactory	0.0%	0.7%	13.5%	2.0%	–	0.0%	1.6%	0.3%	0.2%
– Higher risk	0.0%	6.9%	9.0%	10.6%	0.0%	–	7.9%	2.1%	0.8%
Of which (stage 2):									
– Less than 30 days past due	*0.0%*	*18.6%*	*13.5%*	*12.7%*	–	–	*14.5%*		
– More than 30 days past due	–	*0.0%*	*9.0%*	*9.3%*	*0.0%*	–	*7.3%*		
Stage 3, credit-impaired financial assets (S3)	–	60.0%	47.4%	70.1%	22.1%	0.0%	59.6%	0.0%	35.1%
Cover ratio	0.0%	2.1%	0.8%	4.4%	0.4%	0.0%	1.7%	0.1%	0.4%
Fair value through profit or loss									
Performing	20,861	41,859	303	812	–	3	42,977	–	–
– Strong	18,603	20,398	303	344	–	1	21,046	–	–
– Satisfactory	2,258	21,452	–	468	–	2	21,922	–	–
– Higher risk	–	9	–	–	–	–	9	–	–
Impaired[3]	–	41	–	29	–	–	70	–	–
Gross balance[2]	20,861	41,900	303	841	–	3	43,047	–	–
Net carrying value (incl FVTPL)	80,071	152,539	101,269	28,265	15,433	9,136	306,642	153,264	41,095

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of $2,704 million under Customers and of $1,145 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of $36,857 million under Customers and of $17,208 million under Banks, held at fair value through profit and loss

3 Refers to credit grade 13 and 14

	31.12.18								
		Customers							
Amortised cost	Banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Customer Total $million	Undrawn commitments $million	Financial guarantees $million
Stage 1	60,350	93,848	98,393	21,913	12,705	10,244	237,103	137,783	38,532
– Strong	47,860	58,167	96,506	5,527	9,447	10,193	179,840	114,402	30,211
– Satisfactory	12,490	35,681	1,887	16,386	3,258	51	57,263	23,381	8,321
Stage 2	1,070	9,357	2,837	4,423	785	26	17,428	13,864	3,053
– Strong	403	1,430	1,956	270	713	–	4,369	6,996	682
– Satisfactory	665	6,827	500	3,732	–	26	11,085	5,485	1,948
– Higher risk	2	1,100	381	421	72	–	1,974	1,383	423
Of which (stage 2):									
– Less than 30 days past due	*27*	*232*	*500*	*198*	–	–	*930*		
– More than 30 days past due	–	*190*	*381*	*99*	*3*	–	*673*		
Stage 3, credit-impaired financial assets	–	4,084	832	1,773	235	–	6,924	63	367
Gross balance[1]	61,420	107,289	102,062	28,109	13,725	10,270	261,455	151,710	41,952
Stage 1	(5)	(94)	(299)	(24)	(9)	–	(426)	(69)	(4)
– Strong	(2)	(32)	(149)	(1)	(9)	–	(191)	(35)	(2)
– Satisfactory	(3)	(62)	(150)	(23)	–	–	(235)	(34)	(2)
Stage 2	(1)	(192)	(132)	(92)	–	–	(416)	(39)	(13)
– Strong	–	(11)	(42)	(5)	–	–	(58)	3	–
– Satisfactory	(1)	(66)	(50)	(45)	–	–	(161)	(19)	(3)
– Higher risk	–	(115)	(40)	(42)	–	–	(197)	(23)	(10)
Of which (stage 2):									
– Less than 30 days past due	–	*(34)*	*(50)*	*(9)*	–	–	*(93)*		
– More than 30 days past due	–	*(2)*	*(40)*	*(4)*	–	–	*(46)*		
Stage 3, credit-impaired financial assets	–	(2,326)	(396)	(1,234)	(100)	–	(4,056)	–	(156)
Total credit impairment	(6)	(2,612)	(827)	(1,350)	(109)	–	(4,898)	(108)	(173)
Net carrying value	61,414	104,677	101,235	26,759	13,616	10,270	256,557		
Stage 1	0.0%	0.1%	0.3%	0.1%	0.1%	0.0%	0.2%	0.1%	0.0%
– Strong	0.0%	0.1%	0.2%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
– Satisfactory	0.0%	0.2%	7.9%	0.1%	0.0%	0.0%	0.4%	0.1%	0.0%
Stage 2	0.1%	2.1%	4.7%	2.1%	0.0%	0.0%	2.4%	0.3%	0.4%
– Strong	0.0%	0.8%	2.1%	1.9%	0.0%	–	1.3%	0.0%	0.0%
– Satisfactory	0.2%	1.0%	10.0%	1.2%	–	0.0%	1.5%	0.3%	0.2%
– Higher risk	0.0%	10.5%	10.5%	10.0%	0.0%	–	10.0%	1.7%	2.4%
Of which (stage 2):									
– Less than 30 days past due	0.0%	14.7%	10.0%	4.5%	–	–	10.0%		
– More than 30 days past due	–	1.1%	10.5%	4.0%	0.0%	–	6.8%		
Stage 3, credit-impaired financial assets (S3)	–	57.0%	47.6%	69.6%	42.6%	0.0%	58.6%	–	42.5%
Cover ratio	0.0%	2.4%	0.8%	4.8%	0.8%	0.0%	1.9%	0.1%	0.4%
Fair value through profit or loss									
Performing	20,651	41,886	400	479	–	4	42,769	–	–
– Strong	19,515	33,178	395	247	–	3	33,823	–	–
– Satisfactory	1,136	8,700	4	232	–	1	8,937	–	–
– Higher-risk	–	8	1	–	–	–	9	–	–
Impaired[3]	–	12	–	33	–	–	45	–	–
Gross balance[2]	20,651	41,898	400	512	–	4	42,814	–	–
Net carrying value (incl FVTPL)	82,065	146,575	101,635	27,271	13,616	10,274	299,371	151,602	41,779

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of $3,151 million under Customers and of $3,815 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of $37,886 million under Customers and of $16,883 million under Banks, held at fair value through profit and loss

3 Refers to credit grade 13 and 14

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

	30.06.19				
Amortised cost	**Greater China & North Asia $million**	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Stage 1	**123,018**	**74,427**	**24,899**	**23,403**	**245,747**
Stage 2	**4,490**	**5,663**	**3,994**	**1,943**	**16,090**
Gross stage 1 and stage 2 balance	**127,508**	**80,090**	**28,893**	**25,346**	**261,837**
Stage 3, credit-impaired financial assets[2]	**719**	**2,489**	**2,022**	**988**	**6,218**
Gross loans[1]	**128,227**	**82,579**	**30,915**	**26,334**	**268,055**

1 Amounts gross of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

	31.12.18				
Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Stage 1	118,422	71,169	23,598	23,914	237,103
Stage 2	4,139	7,628	5,112	549	17,428
Gross stage 1 and stage 2 balance	122,561	78,797	28,710	24,463	254,531
Stage 3, credit-impaired financial assets[2]	777	2,730	2,573	844	6,924
Gross loans[1]	123,338	81,527	31,283	25,307	261,455

1 Amounts gross of expected credit losses. 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

	30.06.19				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Stage 1	**24,580**	**14,311**	**6,195**	**13,578**	**58,664**
Stage 2	**–**	**384**	**8**	**160**	**552**
Gross stage 1 and stage 2 balance	**24,580**	**14,695**	**6,203**	**13,738**	**59,216**
Stage 3, credit-impaired financial assets[2]	**–**	**–**	**–**	**–**	**–**
Gross loans[1]	**24,580**	**14,695**	**6,203**	**13,738**	**59,216**

1 Amounts gross of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

	31.12.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Stage 1	27,801	11,095	5,374	16,080	60,350
Stage 2	59	582	199	230	1,070
Gross stage 1 and stage 2 balance	27,860	11,677	5,573	16,310	61,420
Stage 3, credit-impaired financial assets[2]	–	–	–	–	–
Gross loans[1]	27,860	11,677	5,573	16,310	61,420

1 Amounts gross of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

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 $5.1 billion, largely driven by four sectors namely mining and quarrying, commercial real estate, manufacturing, and financing insurance and non-banking, with each sector contributing an increase of $1 billion or more. Retail Products increased by $1.5 billion primarily within secured wealth products in ASEAN & South Asia and Greater China & North Asia offset by lower mortgages in ASEAN & South Asia and Greater China & North Asia. Stage 1 loans increased by $8.6 billion compared to 31 December 2018, representing 92 per cent of loans and advances.

	30.06.19											
	Stage 1			Stage 2			Stage 3			Total		
Amortised cost	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
Industry:												
Energy	15,718	(21)	15,697	1,588	(37)	1,551	783	(570)	213	18,089	(628)	17,461
Manufacturing	22,111	(22)	22,089	2,508	(57)	2,451	733	(490)	243	25,352	(569)	24,783
Financing, insurance and non-banking	20,921	(7)	20,914	912	(11)	901	243	(139)	104	22,076	(157)	21,919
Transport, telecom and utilities	14,286	(16)	14,270	1,423	(21)	1,402	634	(428)	206	16,343	(465)	15,878
Food and household products	8,612	(5)	8,607	1,451	(14)	1,437	647	(342)	305	10,710	(361)	10,349
Commercial real estate	14,501	(15)	14,486	1,541	(34)	1,507	191	(41)	150	16,233	(90)	16,143
Mining and quarrying	6,648	(7)	6,641	606	(17)	589	448	(324)	124	7,702	(348)	7,354
Consumer durables	7,157	(7)	7,150	789	(11)	778	534	(321)	213	8,480	(339)	8,141
Construction	3,058	(5)	3,053	320	(7)	313	547	(337)	210	3,925	(349)	3,576
Trading companies & distributors	1,340	(1)	1,339	719	(2)	717	226	(113)	113	2,285	(116)	2,169
Government	14,099	(3)	14,096	164	(1)	163	–	–	–	14,263	(4)	14,259
Other	4,623	(7)	4,616	539	(10)	529	175	(156)	19	5,337	(173)	5,164
Retail Products:												
Mortgage	72,292	(9)	72,283	2,128	(8)	2,120	334	(111)	223	74,754	(128)	74,626
CCPL and other unsecured lending	16,639	(259)	16,380	571	(114)	457	408	(249)	159	17,618	(622)	16,996
Auto	624	(1)	623	2	–	2	1	–	1	627	(1)	626
Secured wealth products	19,382	(19)	19,363	719	(6)	713	260	(62)	198	20,361	(87)	20,274
Other	3,736	(3)	3,733	110	–	110	54	(20)	34	3,900	(23)	3,877
Net carrying value (customers)[1]	245,747	(407)	245,340	16,090	(350)	15,740	6,218	(3,703)	2,515	268,055	(4,460)	263,595

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $2,704 million

	31.12.18											
	Stage 1			Stage 2			Stage 3			Total		
Amortised cost	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
Industry:												
Energy	14,530	(18)	14,512	2,198	(46)	2,152	890	(554)	336	17,618	(618)	17,000
Manufacturing	21,627	(23)	21,604	1,932	(86)	1,846	719	(530)	189	24,278	(639)	23,639
Financing, insurance and non-banking	20,419	(7)	20,412	379	(10)	369	225	(119)	106	21,023	(136)	20,887
Transport, telecom and utilities	12,977	(21)	12,956	2,495	(25)	2,470	818	(474)	344	16,290	(520)	15,770
Food and household products	7,558	(7)	7,551	1,851	(15)	1,836	718	(376)	342	10,127	(398)	9,729
Commercial real estate	13,516	(16)	13,500	1,299	(27)	1,272	342	(79)	263	15,157	(122)	15,035
Mining and quarrying	4,845	(7)	4,838	1,047	(29)	1,018	439	(309)	130	6,331	(345)	5,986
Consumer durables	7,328	(5)	7,323	906	(13)	893	534	(348)	186	8,768	(366)	8,402
Construction	2,565	(4)	2,561	512	(22)	490	636	(385)	251	3,713	(411)	3,302
Trading companies & distributors	2,512	(2)	2,510	385	(2)	383	353	(239)	114	3,250	(243)	3,007
Government	13,488	(1)	13,487	250	–	250	–	–	–	13,738	(1)	13,737
Other	4,639	(7)	4,632	552	(8)	544	183	(147)	36	5,374	(162)	5,212
Retail Products:												
Mortgage	73,437	(9)	73,428	1,936	(9)	1,927	343	(98)	245	75,716	(116)	75,600
CCPL and other unsecured lending	16,622	(277)	16,345	560	(117)	443	437	(263)	174	17,619	(657)	16,962
Auto	670	(2)	668	4	–	4	1	–	1	675	(2)	673
Secured wealth products	17,074	(18)	17,056	825	(5)	820	236	(112)	124	18,135	(135)	18,000
Other	3,296	(2)	3,294	297	(2)	295	50	(23)	27	3,643	(27)	3,616
Net carrying value (customers)[1]	237,103	(426)	236,677	17,428	(416)	17,012	6,924	(4,056)	2,868	261,455	(4,898)	256,557

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $3,151 million

Movement in gross exposures and credit impairment for loans and advances, debt securities, undrawn commitments and financial guarantees

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 committed facilities, undrawn cancellable facilities, debt securities classified at amortised cost and FVOCI and financial guarantees. The tables are presented for the Group, and the Corporate & Institutional Banking, Commercial Banking and Retail 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.

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, 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

Movements during the year

Stage 1 gross exposures increased by $11.1 billion, or 2 per cent, from 1 January 2019, largely reflecting the impact of new business booked offset by a net transfer out to stage 2. The increase was largely driven by Corporate & Institutional Banking and Commercial Banking, up $7.6 billion, together with an increase of $2.5 billion in the 'Central & other items' segment, primarily related to debt securities. Stage 1 provisions decreased by $28 million, or 5 per cent, as the impact of provisions transferred in from stage 2, primarily in Retail Banking was more than offset by the benefit from improvements in portfolio quality, and the unwind of provisions.

Stage 2 gross exposures declined by $3.0 billion, or 7 per cent, largely due to repayments which more than offset the net impact of stage transfers. Within Commercial Banking, stage 2 exposures fell by $1.3 billion, with the amount of loans on non-purely precautionary early alert decreasing over the period. Stage 2 provisions overall fell by $74 million, or 15 per cent, largely due to outflows to stage 3 in Corporate & Institutional Banking and transfers to stage 1 in Retail Banking, which were partly offset by increases from 'Changes in risk parameters' primarily driven by normal Retail Banking lifecycle flows.

Across both stage 1 and 2 for all segments, the impact of changes to macroeconomic forecasts during the period increased stage 1 and 2 provisions by $6 million.

Across all segments, approximately 50 per cent of the stage 2 provisions at 30 June 2019 arose on exposures that primarily meet the PD significant increase in credit risk thresholds, approximately 20 per cent are as a result of having 'Higher risk' credit quality or being on non-purely precautionary early alert and approximately 7 per cent for being more than 30 days past due. The remainder largely relates to debt security exposures allocated to stage 2 on initial transition to IFRS 9.

Stage 3 exposures fell from $7.6 billion at 1 January 2019 to $7.0 billion at 30 June 2019, primarily due to repayments and write-offs within Corporate & Institutional Banking and Commercial Banking. This was also reflected in lower stage 3 provisions, which fell from $4.4 billion at 1 January 2019 to $4.1 billion at 30 June 2019.

All segments

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impairment $million	Total Net $million
As at 1 January 2018	565,815	(576)	565,239	52,387	(742)	51,645	9,198	(5,576)	3,622	627,400	(6,894)	620,506
Transfers to stage 1	59,776	(627)	59,149	(59,776)	627	(59,149)	–	–	–	–	–	–
Transfers to stage 2	(73,589)	136	(73,453)	73,809	(136)	73,673	(220)	–	(220)	–	–	–
Transfers to stage 3	(293)	7	(286)	(2,338)	264	(2,074)	2,631	(271)	2,360	–	–	–
Net change in exposures	50,249	(282)	49,967	(20,341)	94	(20,247)	(1,836)	527	(1,309)	28,072	339	28,411
Net remeasurement from stage changes	–	139	139	–	(136)	(136)	–	(529)	(529)	–	(526)	(526)
Changes in risk parameters	–	468	468	–	(275)	(275)	–	(971)	(971)	–	(778)	(778)
Write-offs	–	–	–	–	–	–	(2,075)	2,075	–	(2,075)	2,075	–
Exchange translation differences and other movements[1]	(9,477)	204	(9,273)	(1,417)	(196)	(1,613)	(112)	327	215	(11,006)	335	(10,671)
As at 31 December 2018[3]	592,481	(531)	591,950	42,324	(500)	41,824	7,586	(4,418)	3,168	642,391	(5,449)	636,942
Income statement ECL (charge)/release[2]		325			(317)			(973)			(965)	
Recoveries of amounts previously written off								312			312	
Total credit impairment (charge)/release		325			(317)			(661)			(653)	
of which: for the six month ended 30 June 2018		130			(113)			(231)			(214)	
of which: for the six month ended 31 December 2018		195			(204)			(430)			(439)	
As at 1 January 2019	**592,481**	**(531)**	**591,950**	**42,324**	**(500)**	**41,824**	**7,586**	**(4,418)**	**3,168**	**642,391**	**(5,449)**	**636,942**
Transfers to stage 1	14,610	(298)	**14,312**	(14,610)	298	**(14,312)**	–	–	**–**	–	–	**–**
Transfers to stage 2	(34,063)	70	**(33,993)**	34,128	(75)	**34,053**	(65)	5	**(60)**	–	–	**–**
Transfers to stage 3	(55)	4	**(51)**	(820)	145	**(675)**	875	(149)	**726**	–	–	**–**
Net change in exposures	32,756	(88)	**32,668**	(21,201)	(48)	**(21,249)**	(689)	87	**(602)**	10,866	(49)	**10,817**
Net remeasurement from stage changes	–	77	**77**	–	(94)	**(94)**	–	(63)	**(63)**	–	(80)	**(80)**
Changes in risk parameters	–	208	**208**	–	(135)	**(135)**	–	(333)	**(333)**	–	(260)	**(260)**
Write-offs	–	–	**–**	–	–	**–**	(815)	815	**–**	(815)	815	**–**
Exchange translation differences and other movements[1]	(2,132)	55	**(2,077)**	(523)	(17)	**(540)**	90	(15)	**75**	(2,565)	23	**(2,542)**
As at 30 June 2019[3]	**603,597**	**(503)**	**603,094**	**39,298**	**(426)**	**38,872**	**6,982**	**(4,071)**	**2,911**	**649,877**	**(5,000)**	**644,877**
Income statement ECL (charge)/release		197			(277)			(309)			(389)	
Recoveries of amounts previously written off								135			135	
Total credit impairment (charge)/release		**197**			**(277)**			**(174)**			**(254)**	

1 Includes fair value adjustments and amortisation on debt securities

2 Total credit impairment for 12 months ended 31 December 2018

3 Excludes Cash and balances at central banks, Accrued income, Assets held for sale and Other assets

Corporate & Institutional

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impairment $million	Total Net $million
As at 1 January 2018	263,079	(114)	262,965	29,576	(409)	29,167	5,951	(3,504)	2,447	298,606	(4,027)	294,579
Transfers to stage 1	40,196	(156)	40,040	(40,196)	156	(40,040)	–	–	–	–	–	–
Transfers to stage 2	(39,490)	30	(39,460)	39,692	(30)	39,662	(202)	–	(202)	–	–	–
Transfers to stage 3	–	–	–	(1,129)	85	(1,044)	1,129	(85)	1,044	–	–	–
Net change in exposures	12,869	(183)	12,686	(8,639)	10	(8,629)	(1,064)	377	(687)	3,166	204	3,370
Net remeasurement from stage changes	–	46	46	–	(30)	(30)	–	(277)	(277)	–	(261)	(261)
Changes in risk parameters	–	101	101	–	140	140	–	(394)	(394)	–	(153)	(153)
Write-offs	–	–	–	–	–	–	(1,208)	1,208	–	(1,208)	1,208	–
Exchange translation differences and other movements	(3,418)	131	(3,287)	(252)	(157)	(409)	(133)	209	76	(3,803)	183	(3,620)
As at 31 December 2018	273,236	(145)	273,091	19,052	(235)	18,817	4,473	(2,466)	2,007	296,761	(2,846)	293,915
Income statement ECL (charge)/release[1]		(36)			120			(294)			(210)	
Recoveries of amounts previously written off								77			77	
Total credit impairment (charge)/release		(36)			120			(217)			(133)	
As at 1 January 2019	**273,235**	**(145)**	**273,090**	**19,052**	**(235)**	**18,817**	**4,473**	**(2,466)**	**2,007**	**296,760**	**(2,846)**	**293,914**
Transfers to stage 1	7,667	(69)	**7,598**	(7,667)	69	**(7,598)**	–	–	**–**	–	–	**–**
Transfers to stage 2	(19,977)	13	**(19,964)**	20,034	(16)	**20,018**	(57)	3	**(54)**	–	–	**–**
Transfers to stage 3	–	–	**–**	(370)	53	**(317)**	370	(53)	**317**	–	–	**–**
Net change in exposures	17,064	(52)	**17,012**	(12,813)	(11)	**(12,824)**	(430)	48	**(382)**	3,821	(15)	**3,806**
Net remeasurement from stage changes	–	23	**23**	–	(57)	**(57)**	–	6	**6**	–	(28)	**(28)**
Changes in risk parameters	–	91	**91**	–	14	**14**	–	(173)	**(173)**	–	(68)	**(68)**
Write-offs	–	–	**–**	–	–	**–**	(361)	361	**–**	(361)	361	**–**
Exchange translation differences and other movements	(1,832)	24	**(1,808)**	225	15	**240**	14	8	**22**	(1,593)	47	**(1,546)**
As at 30 June 2019	**276,157**	**(115)**	**276,042**	**18,461**	**(168)**	**18,293**	**4,009**	**(2,266)**	**1,743**	**298,627**	**(2,549)**	**296,078**
Income statement ECL (charge)/release		62			(54)			(119)			(111)	
Recoveries of amounts previously written off								1			1	
Total credit impairment (charge)/release		**62**			**(54)**			**(118)**			**(110)**	

1 Total credit impairment for 12 months ended 31 December 2018

Commercial

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impairment $million	Total Net $million
As at 1 January 2018	28,792	(40)	28,752	5,382	(95)	5,287	2,000	(1,379)	621	36,174	(1,514)	34,660
Transfers to stage 1	12,675	(64)	12,611	(12,675)	64	(12,611)	–	–	–	–	–	–
Transfers to stage 2	(11,152)	26	(11,126)	11,171	(26)	11,145	(19)	–	(19)	–	–	–
Transfers to stage 3	(11)	–	(11)	(606)	14	(592)	617	(14)	603	–	–	–
Net change in exposures	2,163	(65)	2,098	3,660	9	3,669	(337)	138	(199)	5,486	82	5,568
Net remeasurement from stage changes	–	12	12	–	(13)	(13)	–	(217)	(217)	–	(218)	(218)
Changes in risk parameters	–	67	67	–	(33)	(33)	–	(162)	(162)	–	(128)	(128)
Write-offs	–	–	–	–	–	–	(293)	293	–	(293)	293	–
Exchange translation differences and other movements	(1,047)	29	(1,018)	(223)	(20)	(243)	(155)	93	(62)	(1,425)	102	(1,323)
As at 31 December 2018	31,420	(35)	31,385	6,709	(100)	6,609	1,813	(1,248)	565	39,942	(1,383)	38,559
Income statement ECL (charge)/release[1]		14			(37)			(241)			(264)	
Recoveries of amounts previously written off								21			21	
Total credit impairment (charge)/release		14			(37)			(220)			(243)	
As at 1 January 2019	**31,420**	**(35)**	**31,385**	**6,709**	**(100)**	**6,609**	**1,813**	**(1,248)**	**565**	**39,942**	**(1,383)**	**38,559**
Transfers to stage 1	1,694	(18)	**1,676**	(1,694)	18	**(1,676)**	–	–	**–**	–	–	**–**
Transfers to stage 2	(6,269)	12	**(6,257)**	6,277	(14)	**6,263**	(8)	2	**(6)**	–	–	**–**
Transfers to stage 3	–	–	**–**	(132)	11	**(121)**	132	(11)	**121**	–	–	**–**
Net change in exposures	8,578	(47)	**8,531**	(5,529)	(22)	**(5,551)**	(129)	39	**(90)**	2,920	(30)	**2,890**
Net remeasurement from stage changes	–	3	**3**	–	(6)	**(6)**	–	(30)	**(30)**	–	(33)	**(33)**
Changes in risk parameters	–	19	**19**	–	53	**53**	–	(45)	**(45)**	–	27	**27**
Write-offs	–	–	**–**	–	–	**–**	(161)	161	**–**	(161)	161	**–**
Exchange translation differences and other movements	654	20	**674**	(216)	(43)	**(259)**	37	(21)	**16**	475	(44)	**431**
As at 30 June 2019	**36,077**	**(46)**	**36,031**	**5,415**	**(103)**	**5,312**	**1,684**	**(1,153)**	**531**	**43,176**	**(1,302)**	**41,874**
Income statement ECL (charge)/release		(25)			25			(36)			(36)	
Recoveries of amounts previously written off								1			1	
Total credit impairment (charge)/release		**(25)**			**25**			**(35)**			**(35)**	

1 Total credit impairment for 12 months ended 31 December 2018

Retail Banking

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impairment $million	Total Net $million
As at 1 January 2018	131,280	(381)	130,899	7,964	(178)	7,786	818	(389)	429	140,062	(948)	139,114
Transfers to stage 1	5,570	(388)	5,182	(5,570)	388	(5,182)	–	–	–	–	–	–
Transfers to stage 2	(9,954)	74	(9,880)	9,954	(74)	9,880	–	–	–	–	–	–
Transfers to stage 3	(281)	8	(273)	(511)	164	(347)	792	(172)	620	–	–	–
Net change in exposures	9,858	(17)	9,841	(2,628)	78	(2,550)	(398)	–	(398)	6,832	61	6,893
Net remeasurement from stage changes	–	72	72	–	(90)	(90)	–	(12)	(12)	–	(30)	(30)
Changes in risk parameters	–	264	264	–	(373)	(373)	–	(402)	(402)	–	(511)	(511)
Write-offs	–	–	–	–	–	–	(575)	575	–	(575)	575	–
Exchange translation differences and other movements	(2,989)	55	(2,934)	(322)	(47)	(369)	195	6	201	(3,116)	14	(3,102)
As at 31 December 2018	133,484	(313)	133,171	8,887	(132)	8,755	832	(394)	438	143,203	(839)	142,364
Income statement ECL (charge)/release[1]		319			(385)			(414)			(480)	
Recoveries of amounts previously written off								214			214	
Total credit impairment (charge)/release		319			(385)			(200)			(266)	
As at 1 January 2019	**133,484**	**(313)**	**133,171**	**8,887**	**(132)**	**8,755**	**832**	**(394)**	**438**	**143,203**	**(839)**	**142,364**
Transfers to stage 1	3,059	(184)	**2,875**	(3,059)	184	**(2,875)**	–	–	**–**	–	–	**–**
Transfers to stage 2	(5,048)	38	**(5,010)**	5,048	(38)	**5,010**	–	–	**–**	–	–	**–**
Transfers to stage 3	(55)	4	**(51)**	(295)	81	**(214)**	350	(85)	**265**	–	–	**–**
Net change in exposures	1,978	18	**1,996**	(1,438)	11	**(1,427)**	(102)	–	**(102)**	438	29	**467**
Net remeasurement from stage changes	–	52	**52**	–	(31)	**(31)**	–	(39)	**(39)**	–	(18)	**(18)**
Changes in risk parameters	–	62	**62**	–	(197)	**(197)**	–	(163)	**(163)**	–	(298)	**(298)**
Write-offs	–	–	**–**	–	–	**–**	(293)	293	**–**	(293)	293	**–**
Exchange translation differences and other movements	(729)	23	**(706)**	94	(4)	**90**	43	(3)	**40**	(592)	16	**(576)**
As at 30 June 2019	**132,689**	**(300)**	**132,389**	**9,237**	**(126)**	**9,111**	**830**	**(391)**	**439**	**142,756**	**(817)**	**141,939**
Income statement ECL (charge)/release		132			(217)			(202)			(287)	
Recoveries of amounts previously written off								133			133	
Total credit impairment (charge)/release		**132**			**(217)**			**(69)**			**(154)**	

1 Total credit impairment for 12 months ended 31 December 2018

Movement of debt securities, alternative tier one and other eligible bills

Amortised cost and FVOCI	30.06.19 Net $million	31.12.18[2] Net $million
Opening balance	**125,638**	115,597
Exchange translation differences and other movements	**(2,043)**	(2,790)
Additions	**135,493**	276,394
Maturities and disposals	**(132,404)**	(264,014)
Transfers to assets held for sale	**–**	–
Impairment, net of recoveries on disposal	**(6)**	(8)
Changes in fair value (including the effect of fair value hedging)	**747**	84
Amortisation of discounts and premiums	**328**	375
Closing balance[1]	**127,753**	125,638

1 The FVOCI amount is not net of impairment

2 2018 comparative has been adjusted to exclude impairment on FVOCI

Credit impairment charge

The total credit impairment charge for the first half of 2019 is $254 million (H1 2018: $293 million), down 13 per cent primarily due to lower stage 3 impairments offset by an increase in stage 1 and 2 impairments.

The Corporate & Institutional Banking credit impairment charge of $110 million is $29 million higher than the equivalent period in 2018. This was due to lower gross stage 3 recoveries and stage 1 and 2 releases. H1 2018 benefitted from upgrades in high risk accounts and releases from the quarterly update of macroeconomic variables. Stage 3 impairments in 2019 were driven by Europe & Americas.

Retail Banking credit impairment charge increased 29 per cent to $154 million (H1 2018: $119 million) due to non-recurring items in the first half of 2018: releases in higher-risk unsecured segments in Indonesia, United Arab Emirates and Malaysia as well as restructured portfolio releases in Korea. Excluding these, the underlying impairment remains comparable.

Commercial Banking total credit impairment charge decreased 67 per cent (H1 2018: $106 million) to $35 million driven by lower gross Stage 3 provisions and recoveries in the period. Africa & Middle East is the largest contributor to stage 3 impairments.

Private Banking had a net provision release of $47 million driven primarily by a Stage 3 client in ASEAN & South Asia.

	6 months ended 30.06.19[1] $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Ongoing business portfolio			
Corporate & Institutional Banking	**110**	161	81
Retail Banking	**154**	148	119
Commercial Banking	**35**	138	106
Central & other items	**2**	1	(14)
Private Banking	**(47)**	(1)	1
Credit impairment charge	**254**	447	293
Restructuring business portfolio			
Liquidation portfolio	**–**	(9)	(70)
Others	**–**	1	(9)
Credit impairment charge	**–**	(8)	(79)
Total credit impairment charge	**254**	439	214

1 In 2019 the Liquidation Portfolio has been included in ongoing business. Prior periods have not been restated

Problem credit management and provisioning

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.

Amortised cost	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
	30.06.19						
All loans with forbearance measures	–	1,405	355	700	–	–	2,460
Credit impairment (stage 3)	–	(582)	(173)	(445)	–	–	(1,200)
Net carrying value	–	823	182	255	–	–	1,260
	31.12.18						
All loans with forbearance measures	–	1,445	376	709	–	–	2,530
Credit impairment (stage 3)	–	(517)	(174)	(427)	–	–	(1,118)
Net carrying value	–	928	202	282	–	–	1,412

Forborne and other modified loans by region

Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
	30.06.19				
Not impaired	98	105	124	23	350
Impaired	229	293	178	210	910
Total forborne loans	327	398	302	233	1,260
	31.12.18				
Not impaired	114	109	113	44	380
Impaired	233	344	179	276	1,032
Total forborne loans	347	453	292	320	1,412

Credit-impaired (stage 3) loans and advances by client segment

With effect from 1 January 2019, the liquidation portfolio has been included within the ongoing portfolio. Gross credit-impaired (stage 3) loans for the Group are down 10 per cent in the period to $6.2 billion (31 December 2018: $6.9 billion), driven by repayments, write-offs and transfers to stage 2 in Corporate & Institutional Banking.

The inflows of stage 3 loans in Corporate & Institutional Banking continued to be low at $0.2 billion (H2 2018: $0.3 billion). The low inflows of stage 3 loans reflect the continued improvement in the credit portfolio. Stage 3 inflows in Commercial Banking reduced from $0.2 billion in H2 2018 to $0.1 billion. Stage 3 loans in Retail Banking were broadly stable at $0.8 billion.

Stage 3 cover ratio

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 cover ratio before collateral for Corporate & Institutional Banking increased to 60 per cent from 57 per cent (31 December 2018) due to repayments and upgrades to performing loans. The cover ratio for Retail was broadly stable at 47 per cent although the cover ratio including collateral improved to 90 per cent (31 December 2018: 87 per cent).

The Private Banking cover ratio before collateral decreased to 22 per cent (31 December 2018: 43 per cent) following a provision release during the first half of the year. The Private Banking segment remains fully covered taking into account the collateral held.

	30.06.19[1]					
Amortised cost	**Corporate & Institutional Banking $million**	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Gross credit-impaired	**3,541**	**827**	**1,624**	**226**	**–**	**6,218**
Credit-impaired provisions	**(2,123)**	**(392)**	**(1,138)**	**(50)**	**–**	**(3,703)**
Net credit-impaired	**1,418**	**435**	**486**	**176**	**–**	**2,515**
Cover ratio	**60%**	**47%**	**70%**	**22%**	**–**	**60%**
Collateral ($million)	**568**	**354**	**265**	**175**	**–**	**1,362**
Cover ratio (after collateral)	**76%**	**90%**	**86%**	**100%**	**–**	**81%**

1 The remaining portfolio of loans and advances to customers previously separately identified in the liquidation portfolio are now included in the ongoing business

	31.12.18					
Amortised cost	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Gross credit-impaired	4,084	832	1,773	235	–	6,924
Credit-impaired provisions	(2,326)	(396)	(1,234)	(100)	–	(4,056)
Net credit-impaired	1,758	436	539	135	–	2,868
Cover ratio	57%	48%	70%	43%	–	59%
Collateral ($million)	802	324	302	135	–	1,563
Cover ratio (after collateral)	77%	87%	87%	100%	–	81%
Of the above, included in the liquidation portfolio:						
Gross credit impaired	1,029	–	89	157	–	1,275
Credit impaired provisions	(780)	–	(89)	(93)	–	(962)
Net credit impaired	249	–	–	64	–	313
Cover ratio	76%	–	100%	59%	–	75%
Collateral ($million)	159	–	–	64	–	223
Cover ratio (after collateral)	91%	–	100%	100%	–	93%

Credit-impaired (stage 3) loans and advances by geographic region

Stage 3 loans decreased by $0.7 billion or 10 per cent compared with 31 December 2018. The largest decrease was in the Africa & Middle East region, primarily due to settlements and write-offs.

	30.06.19				
Amortised cost	**Greater China & North Asia $million**	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Gross credit-impaired	**719**	**2,489**	**2,022**	**988**	**6,218**
Credit-impairment provisions	**(197)**	**(1,541)**	**(1,428)**	**(537)**	**(3,703)**
Net credit-impaired	**522**	**948**	**594**	**451**	**2,515**
Cover ratio	**27%**	**62%**	**71%**	**54%**	**60%**

	31.12.18				
Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross credit-impaired	777	2,730	2,573	844	6,924
Credit-impairment provisions	(282)	(1,705)	(1,726)	(343)	(4,056)
Net credit-impaired	495	1,025	847	501	2,868
Cover ratio	36%	62%	67%	41%	59%

Movement of credit-impaired (stage 3) loans and advances provisions by client segment

Credit impairment provisions as at 30 June 2019 were $3,703 million, compared with $4,056 million at 31 December 2018. The decrease was largely due to write-offs in Corporate & Institutional Banking. Private Banking provisions fell by $50m primarily due to a provision release during the period.

The following table shows the movement of credit-impaired (stage 3) provisions for each client segment.

	30.06.19					
Amortised cost	**Corporate & Institutional Banking $million**	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & others $million**	**Total[2] $million**
Gross credit-impaired loans at 30 June	**3,541**	**827**	**1,624**	**226**	**–**	**6,218**
Credit impairment allowances at 1 January	**2,326**	**396**	**1,234**	**100**	**–**	**4,056**
Exchange translation difference	**5**	**13**	**33**	**–**	**–**	**51**
Amounts written off	**(361)**	**(293)**	**(161)**	**–**	**–**	**(815)**
Discount unwind	**(17)**	**(11)**	**(7)**	**(2)**	**–**	**(37)**
New provisions charge/(release)[1]	**(4)**	**39**	**24**	**–**	**–**	**59**
Recoveries/derecognition (repayment)[1]	**(42)**	**–**	**(39)**	**–**	**–**	**(81)**
Net transfers into and out of stage 3	**50**	**85**	**9**	**–**	**–**	**144**
Changes due to risk parameters[1]	**166**	**163**	**45**	**(48)**	**–**	**326**
Credit impairment allowances at 30 June	**2,123**	**392**	**1,138**	**50**	**–**	**3,703**
Net credit impairment	**1,418**	**435**	**486**	**176**	**–**	**2,515**
Income statement charge/(release)	**119**	**203**	**31**	**(48)**	**–**	**305**
Recoveries of amounts previously written off	**(1)**	**(133)**	**(1)**	**–**	**–**	**(135)**
Total income statement charge	**118**	**70**	**30**	**(48)**	**–**	**170**

	31.12.18					
Amortised cost	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & others $million	Total[2] $million
Gross credit-impaired loans at 31 December	4,084	832	1,773	235	–	6,924
Credit impairment allowances at 1 January	3,437	389	1,369	91	–	5,286
Exchange translation difference	(188)	16	(86)	3	–	(255)
Amounts written off	(1,179)	(575)	(291)	–	–	(2,045)
Discount unwind	(39)	(20)	(16)	(5)	–	(80)
New provisions charge/(release)[1]	189	12	218	3	–	422
Recoveries/derecognition (repayment)[1]	(379)	–	(136)	(5)	–	(520)
Net transfers into and out of stage 3	85	172	14	–	–	271
Changes due to risk parameters[1]	400	402	162	13	–	977
Credit impairment allowances at 31 December	2,326	396	1,234	100	–	4,056
Net credit impairment	1,758	436	539	135	–	2,868
Income statement charge/(release)	210	414	244	11	–	879
Recoveries of amounts previously written off	(77)	(214)	(21)	–	–	(312)
Total income statement charge	133	200	223	11	–	567

1 Components of the income statement charge/(release)

2 Excludes credit impairment relating to loan commitments and financial guarantees

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

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 $254 billion (2018: $265 billion).

The collateral values in the table below are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. 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.

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

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral level for Retail Banking is stable at $74.5 billion. Private Banking collateral is $1.1 billion higher compared to 2018 in line with the overall movement of the secured portfolio.

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

Collateral held on loans and advances

The table below details collateral held against exposures, separately disclosing stage 3 exposure and corresponding collateral.

	30.06.19								
	Amount outstanding			Collateral			Net exposure		
Amortised cost	**Total $million**	**Stage 2 financial assets $million**	**Credit impaired financial assets (Stage 3) $million**	**Total[3] $million**	**Stage 2 financial assets $million**	**Credit impaired financial assets (Stage 3) $million**	**Total $million**	**Stage 2 financial assets $million**	**Credit impaired financial assets (Stage 3) $million**
Corporate & Institutional Banking[1]	**169,849**	**9,544**	**1,418**	**21,900**	**2,159**	**568**	**147,949**	**7,385**	**850**
Retail Banking	**100,966**	**2,691**	**435**	**74,539**	**2,042**	**354**	**26,427**	**649**	**81**
Commercial Banking	**27,424**	**3,341**	**486**	**7,098**	**1,252**	**265**	**20,326**	**2,089**	**221**
Private Banking	**15,433**	**714**	**176**	**10,873**	**622**	**175**	**4,560**	**92**	**1**
Central and other items	**9,133**	**1**	**–**	**3,849**	**–**	**–**	**5,284**	**1**	**–**
Total[2]	**322,805**	**16,291**	**2,515**	**118,259**	**6,075**	**1,362**	**204,546**	**10,216**	**1,153**

	31.12.18								
	Amount outstanding			Collateral			Net exposure		
Amortised cost	Total $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million	Total[3] $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million	Total $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million
Corporate & Institutional Banking[1]	166,091	10,234	1,758	15,882	1,314	802	150,209	8,920	956
Retail Banking	101,235	2,705	436	74,485	2,092	324	26,750	613	112
Commercial Banking	26,759	4,331	539	6,767	3,966	302	19,992	365	237
Private Banking	13,616	785	135	9,729	783	135	3,887	2	–
Central and other items	10,270	26	–	6,278	–	–	3,992	26	–
Total[2]	317,971	18,081	2,868	113,141	8,155	1,563	204,830	9,926	1,305

1 Includes loans and advances to banks

2 Excludes FVTPL

3 Excludes collateral held against FVTPL exposures, and is adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Collateral – Corporate & Institutional Banking and Commercial Banking

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 continues to be high at 47 per cent.

Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral. 76 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 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	30.06.19 $million	31.12.18 $million
Maximum exposure	**169,849**	166,091
Property	**6,239**	5,557
Plant, machinery and other stock	**859**	1,067
Cash	**3,733**	2,019
Reverse repos	**712**	528
AAA	**–**	–
A- to AA+	**437**	321
BBB- to BBB+	**36**	207
Lower than BBB-	**89**	–
Unrated	**150**	–
Financial guarantees and insurance	**7,165**	3,697
Commodities	**121**	90
Ships and aircraft	**3,071**	2,924
Total value of collateral	**21,900**	15,882
Net exposure[1]	**147,949**	150,209

1 Excludes collateral held against FVTPL exposures, and is adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Commercial Banking

Amortised cost	30.06.19 $million	31.12.18 $million
Maximum exposure	**27,424**	26,759
Property	**4,762**	4,557
Plant, machinery and other stock	**880**	992
Cash	**713**	486
Reverse repos	**64**	72
A- to AA+	**17**	1
BBB- to BBB+	**47**	71
Financial guarantees and insurance	**469**	502
Commodities	**32**	11
Ships and aircraft	**178**	147
Total value of collateral	**7,098**	6,767
Net exposure[1]	**20,326**	19,992

1 Excludes collateral held against FVTPL exposures, and is adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Collateral – Retail Banking and Private Banking

In Retail Banking and Private Banking, 85 per cent of the portfolio is fully secured. The proportion of unsecured loans remains broadly stable at 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:

	30.06.19				31.12.18			
Amortised cost	**Fully secured $million**	**Partially secured $million**	**Unsecured $million**	**Total $million**	Fully secured $million	Partially secured $million	Unsecured $million	Total $million
Maximum exposure	**98,891**	**631**	**16,877**	**116,399**	96,534	1,383	16,934	114,851
Loans to individuals								
Mortgages	**74,510**	**116**	**–**	**74,626**	75,386	191	23	75,600
CCPL	**154**	**56**	**16,786**	**16,996**	168	102	16,692	16,962
Auto	**620**	**–**	**6**	**626**	671	–	2	673
Secured wealth products	**20,165**	**109**	**–**	**20,274**	17,721	107	172	18,000
Other	**3,442**	**350**	**85**	**3,877**	2,588	983	45	3,616
Total collateral[1]				**85,412**				84,214
Net exposure[2]				**30,987**				30,637
Percentage of total loans	**85%**	**1%**	**14%**		84%	1%	15%	

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/individual impairment provisions and excludes FVTPL

Mortgage loan-to-value ratios by geography

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 44 per cent. Hong Kong, which represents 33 per cent of the Retail Banking mortgage portfolio has an average LTV of 36.5 per cent. All of our other key markets continue to have low portfolio LTVs, (Korea, Singapore and Taiwan at 44.0 per cent, 54.9 per cent and 51.9 per cent respectively).

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

	30.06.19				
Amortised cost	**Greater China & North Asia %**	**ASEAN & South Asia %**	**Africa & Middle East %**	**Europe & Americas %**	**Total %**
Less than 50 per cent	**70.1**	**40.8**	**19.9**	**16.9**	**59.9**
50 per cent to 59 per cent	**13.9**	**18.6**	**13.9**	**10.8**	**15.0**
60 per cent to 69 per cent	**9.0**	**22.4**	**18.6**	**35.6**	**13.4**
70 per cent to 79 per cent	**5.8**	**15.9**	**21.0**	**32.0**	**9.5**
80 per cent to 89 per cent	**1.0**	**1.8**	**14.3**	**4.2**	**1.7**
90 per cent to 99 per cent	**0.1**	**0.2**	**7.0**	**–**	**0.3**
100 per cent and greater	**0.1**	**0.2**	**5.4**	**0.5**	**0.3**
Average portfolio loan-to-value	**41.0**	**51.9**	**67.5**	**54.9**	**44.3**
Loans to individuals – mortgages ($million)	**51,614**	**18,904**	**2,059**	**2,049**	**74,626**

	31.12.18				
Amortised cost	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	67.7	41.5	20.9	19.6	58.5
50 per cent to 59 per cent	14.9	18.8	15.3	21.0	16.0
60 per cent to 69 per cent	10.7	22.0	21.8	30.2	14.4
70 per cent to 79 per cent	5.0	16.0	21.6	26.8	8.8
80 per cent to 89 per cent	1.3	1.5	12.0	2.4	1.7
90 per cent to 99 per cent	0.3	0.1	4.7	–	0.3
100 per cent and greater	0.1	0.1	3.8	–	0.2
Average portfolio loan-to-value	42.0	51.5	65.2	54.2	44.8
Loans to individuals – mortgages ($million)	52,434	19,156	2,126	1,884	75,600

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 exposure remains manufacturing, which constitutes 17 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers (31 December 2018: 17 per cent). 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 4,602 clients.

The financing, insurance and non-banking industry group constitutes 15 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers. Clients are mostly investment grade institutions and this lending forms part of the liquidity management of the Group.

Loans and advances to the energy sector remained at 12 per cent of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The energy sector lending is spread across five subsectors and over 396 clients.

The Group provides loans to commercial real estate counterparties of $16 billion, which represents 6 per cent of total customer loans and advances. In total, $7.1 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 46 per cent, compared with 43 per cent in 2018. The proportion of loans with an LTV greater than 80 per cent has remained at less than 1 per cent during the same period.

The Mortgage portfolio continues to be the largest portion of the Retail Products portfolio, at 64 per cent. Credit cards and personal loans (CCPL) and other unsecured lending remains at 15 per cent of total Retail Products loans and advances.

Industry and Retail Products analysis by geographic region

	30.06.19				
Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	3,560	5,042	3,209	5,650	17,461
Manufacturing	11,803	6,242	3,100	3,638	24,783
Financing, insurance and non-banking	8,748	4,914	1,312	6,945	21,919
Transport, telecom and utilities	6,028	4,077	4,480	1,293	15,878
Food and household products	2,203	4,375	2,588	1,183	10,349
Commercial real estate	9,145	4,945	1,762	291	16,143
Mining and quarrying	2,467	2,624	1,222	1,041	7,354
Consumer durables	4,771	2,153	638	579	8,141
Construction	1,077	1,211	1,153	135	3,576
Trading companies and distributors	1,279	493	246	151	2,169
Government	2,096	8,753	3,410	–	14,259
Other	1,675	1,830	677	982	5,164
Retail Products:					
Mortgages	51,614	18,904	2,059	2,049	74,626
CCPL and other unsecured lending	10,326	4,266	2,291	113	16,996
Auto	–	511	114	1	626
Secured wealth products	8,087	10,116	358	1,713	20,274
Other	2,890	313	670	4	3,877
Net loans and advances to customers	127,769	80,769	29,289	25,768	263,595
Net loans and advances to banks	24,580	14,693	6,202	13,735	59,210

Amortised cost	31.12.18 Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,778	5,279	2,793	6,150	17,000
Manufacturing	10,531	6,298	3,209	3,601	23,639
Financing, insurance and non-banking	8,657	4,653	915	6,662	20,887
Transport, telecom and utilities	5,712	4,177	4,703	1,178	15,770
Food and household products	1,945	4,011	2,798	975	9,729
Commercial real estate	8,148	4,865	1,854	168	15,035
Mining and quarrying	1,683	2,283	1,088	932	5,986
Consumer durables	4,892	2,255	731	524	8,402
Construction	831	1,094	1,225	152	3,302
Trading companies and distributors	1,976	624	391	16	3,007
Government	1,726	8,815	3,113	83	13,737
Other	1,686	1,899	803	824	5,212
Retail Products:					
Mortgages	52,434	19,156	2,126	1,884	75,600
CCPL and other unsecured lending	10,269	4,234	2,459	–	16,962
Auto	–	522	150	1	673
Secured wealth products	6,912	9,055	310	1,723	18,000
Other	2,616	320	679	1	3,616
Net loans and advances to customers	122,796	79,540	29,347	24,874	256,557
Net loans and advances to banks	27,858	11,676	5,573	16,307	61,414

IFRS 9 methodology

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 expected credit loss 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, supported by projections from the Group's in-house research team and outputs from models that project specific economic variables and asset prices.

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 global economic expansion is expected to decelerate following a synchronised upswing in the last few years. In particular, the pace of US economic expansion is expected to ease below trend in the next few years.

While this Base Forecast is the premise for the Group's strategic plan, one of the key requirements of IFRS 9 is that the assessment of provisions should be based on a range of potential outcomes for the future economic environment. 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 expected credit loss under the Base Forecast, it might not end up with a level of provisions that appropriately considers the range of potential outcomes. To address this skewness (or non-linearity) in expected credit loss, IFRS 9 requires the ECL to be the probability-weighted amount calculated for a range of possible outcomes.

To take account of the potential non-linearity in expected credit loss, the Group simulates a set of 50 scenarios around the Base Forecast and calculates the expected credit loss under each of them. These scenarios are generated by a Monte Carlo simulation, which considers the degree of uncertainty (or volatility) around economic outcomes and how these outcomes have tended to move in relation to one another (or correlation). The use of Monte Carlo simulation is motivated by the number and spread of countries in which the Group operates. This implies that the number of countries' macroeconomic variables to forecast is large, but more importantly the observation that a downturn in one part of the world is never perfectly synchronised with downturns everywhere else means that the Group may be challenged to capture a full range of scenarios with a handful of manually tuned scenarios.

While the 50 scenarios do not each have a specific narrative, they reflect a range of plausible hypothetical alternative outcomes for the global economy. Some imply an unwinding of the current shocks and uncertainty leading to higher global economic activity and higher asset prices, while others represent an intensification of current shocks or introduction of new shocks that raise uncertainty, leading to lower global economic activity and lower asset prices.

The table overleaf provides a summary of the Group's Base Forecast, representing the average over five years, alongside the corresponding range seen across the multiple scenarios.

Over the medium term – five years ahead – there has been relatively little change in the forecast level of activity compared to the end of last year, however, with the global industrial cycle slowing there have been some marginal downward revisions to GDP growth over the medium term. China's economy, for example, is expected to grow by an average of around 5.9 per cent over the next five years, compared to 6 per cent previously. Fiscal support by the government in the form of both higher government spending and tax cuts will help offset the effects from any weakness in external demand. Similarly, marginal downward adjustments to economic activity have also been made to trade dependent economies such as Hong Kong and Korea.

With the US economic expansion expected to weaken in the near term, the US Federal Reserve has ended its monetary tightening cycle and the prospects for interest rate cuts in the near term have increased. This has led to downward revisions to interest rate forecasts in countries where central bank policy is tied to US monetary policy. This includes Singapore and Hong Kong where the average for the inter-bank rates over five years have been revised down by at least 40 basis points relative to the forecast level at the end of last year.

The monetary easing stance by the US Federal Reserve and anchored inflation also provide the scope (by limiting capital outflows) for other countries, such as Korea and India, to cut interest rates to support growth. Lower interest rates will provide support to the housing market in Hong Kong, where the market has recently proven to be resilient despite economic pressure from US-China trade tensions. This is reflected in the upward revision to house prices in Hong Kong from previous price expectations. However, country specific factors have weighed on property markets in other countries. Recent government measures to curb prices have led to downward revisions to house price forecasts for both Korea and Singapore.

With the global economic expansion decelerating there has been a marginal downward revision to the price of oil to a five year average $84 from $85 previously.

30.06.19	China			Hong Kong			Korea			Singapore			India		
	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]
GDP growth (YoY%)	**5.9**	**4.5**	**7.4**	**2.9**	**0.3**	**5.2**	**2.8**	**0.8**	**5.0**	**2.6**	**(1.1)**	**6.3**	**7.6**	**5.5**	**9.6**
Unemployment (%)	**3.8**	**3.7**	**3.9**	**3.4**	**2.6**	**4.1**	**3.3**	**2.8**	**3.8**	**3.0**	**2.3**	**3.7**	**N/A[1]**	**N/A[1]**	**N/A[1]**
3-month interest rates (%)	**2.9**	**2.1**	**3.9**	**2.1**	**0.8**	**3.8**	**2.1**	**1.3**	**3.0**	**2.0**	**1.2**	**2.9**	**6.0**	**5.1**	**7.1**
House prices (YoY%)	**5.5**	**2.6**	**8.2**	**3.1**	**(6.8)**	**12.7**	**2.4**	**0.1**	**4.8**	**2.6**	**(4.3)**	**10.0**	**8.4**	**2.5**	**13.7**

31.12.18	China			Hong Kong			Korea			Singapore			India		
	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]
GDP growth (YoY%)	6.0	4.3	7.7	3.0	0.6	5.6	2.9	0.4	5.3	2.4	(1.7)	6.4	7.7	5.6	10.1
Unemployment (%)	4.0	3.8	4.2	3.4	2.4	4.6	3.2	2.4	4.0	3.0	2.3	3.7	N/A[1]	N/A[1]	N/A[1]
3-month interest rates (%)	3.1	2.0	4.3	3.0	1.8	4.2	2.6	1.4	4.0	2.4	1.3	3.8	6.9	5.1	8.9
House prices (YoY%)	5.8	3.4	8.5	2.3	(8.1)	12.1	3.5	1.3	6.1	4.4	(1.5)	10.6	8.4	1.4	15.1

30.06.19	Base forecast	Low[2]	High[3]
Crude price Brent, $ pb	**84**	**46**	**124**

31.12.18	Base forecast	Low[2]	High[3]
Crude price Brent, $ pb	85	40	118

1 Not available

2 Represents the 10th percentile in the range used to determine non-linearity

3 Represents the 90th percentile in the range used to determine non-linearity

The final expected credit loss reported by the Group is a simple average of the expected credit loss for each of the 50 scenarios. The impact of non-linearity on expected credit loss is set out in the table below:

	Including non-linearity $m	Excluding non-linearity $m	Difference %
Total expected credit loss at 30 June 2019[1]	1,042	1,026	1.6
Total expected credit loss at 31 December 2018[1]	1,163	1,139	2.1

1 Total modelled expected credit loss comprises stage 1 and stage 2 balances of $907 million (31 December 2018: $1,031 million) and $135 million (31 December 2018: $132 million) of modelled expected credit loss on stage 3 loans

The average expected credit loss under multiple scenarios is 1.6 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 their limited responsiveness to macroeconomic impacts for structural reasons such as significant collateralisation, as with the Retail Banking mortgage portfolios.

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 expected credit loss 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 expected credit loss to changes in the macroeconomic variables. The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables which might have the greatest impact on overall expected credit loss. 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 assessment.

The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential – that is, likely to result in an impact of at least 1 per cent of the Group's expected credit loss. The Group believes this is plausible, because the number of variables used in the expected credit loss 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.

As the Group has two principal uncertainties related to the macroeconomic outlook, a sensitivity analysis of ECL was undertaken to explore the combined effect of these: extended trade tensions that could lead to a China slowdown with spillovers to emerging markets. In this scenario, current trade policy tensions between the US and China increase dramatically. The US targets trading partners with which it has a material trade deficit and pushes through highly protectionist measures, initiating trade tensions with Asia focused on China. Indirectly, economies reliant on global trade flows are vulnerable to the trade shock. The escalating trade tensions create uncertainty which reduces risk appetite, leading to a decline in asset prices and lower consumption and investment across developed and emerging markets. This leads to a global slowdown and a sharp fall in commodity prices. As an indication, China annual real GDP growth troughs at circa. 4 per cent, representing a marked divergence from the base forecast growth of around 6 per cent, while China exports growth dips negative for the first time since 2009. US GDP slows from a trend rate of about 2 per cent down to 1 per cent. Crude oil prices fall, and residential property indices in China and Hong Kong dip negative. To contextualise this scenario relative to the Monte Carlo generated scenarios, the China and US GDP dips approach the lowest growth boundary of the 50 scenarios in 2019, crude oil remains closer to the middle than to the bottom edge, but the China property price index falls well below the simulated lower bound over a period of years.

Applying this scenario, modelled stage 1 and 2 expected credit loss provisions would be approximately $338 million higher than the reported base case expected credit loss provision (excluding the impact of non-linearity). This includes the impact of exposures transferring to stage 2 from stage 1 but does not consider an increase in stage 3 defaults. The proportion of exposures in stage 2 would increase from 6 per cent to 9 per cent. As expected, this has an impact on our corporate exposures in China, Hong Kong and Singapore. Within Retail Banking, the Group's credit card portfolios in Hong Kong and Singapore were impacted. There was no impact on modelled stage 3 provisions as these primarily relate to unsecured Retail Banking exposures for which the LGD is not sensitive to changes in macroeconomic variables. Note that 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.

Country Risk

Country cross-border risk is the risk that the Group will be unable to obtain payment from counterparties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The profile of the Group's country cross-border exposures as at 30 June 2019 remained 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 cross-border exposure for certain markets.

Country cross-border exposure to China remains predominantly short term with 82 per cent of exposure having a tenor of less than one year. During the first half of 2019, the Group's cross-border exposure to China increased, primarily driven by the medium-term treasury market portfolio.

The increase in cross-border exposure to Hong Kong during the first half of 2019 was primarily driven by short-term trade finance facilities; reflecting a more cautious approach given the subdued global trade environment and domestic economic headwinds.

Singapore's cross-border exposure rose during the first half of 2019 due to an increase in trade finance and lending activities. This was partly offset by reductions in sovereign exposures and amounts outstanding from financial institutions.

India's cross-border exposure increased significantly, primarily driven by a sizeable increase in the corporate loan book, specifically to Indian conglomerates, and a rise in Issuer Risk, trade activity and marketable securities.

The significant increase in cross-border exposure to South Korea reflects a rise in trade finance related exposures and marketable securities held.

The decrease in United Arab Emirates cross-border exposure reflects a reduction in the medium-term loan book. This was partly offset by an increase in trade finance activities and marketable securities held.

Cross-border exposure to developed countries in which the Group does not have a major presence predominantly relates to treasury and liquidity management activities, which can change significantly from period to period. Exposure to such markets also represents global corporate business for customers with interests in our footprint. The movement in exposures to the United States, Germany, Australia and France are all largely attributed to Group liquidity management operations during the year.

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

	30.06.19			31.12.18		
	Less than one year $million	**More than one year $million**	**Total $million**	Less than one year $million	More than one year $million	Total $million
China	**38,533**	**8,383**	**46,916**	37,039	6,458	43,497
United States	**8,900**	**12,878**	**21,778**	15,369	8,986	24,355
Hong Kong	**13,271**	**8,235**	**21,506**	11,451	8,819	20,270
Singapore	**13,431**	**6,361**	**19,792**	12,799	5,921	18,720
India	**12,663**	**7,101**	**19,764**	10,536	5,674	16,210
South Korea	**16,303**	**3,409**	**19,712**	12,210	4,550	16,760
United Arab Emirates	**8,243**	**8,806**	**17,049**	8,531	9,139	17,670
Germany	**3,642**	**7,983**	**11,625**	3,236	7,080	10,316
Australia	**2,573**	**5,848**	**8,421**	2,495	5,335	7,830
France	**2,673**	**5,530**	**8,203**	1,870	4,378	6,248

Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the bank in financial markets. Under the Enterprise Risk Management Framework, the introduction of the Traded Risk Framework in 2018 sought to bring together all risk types exhibiting risk features common to Traded Risk.

These risk 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 Markets.

Market Risk

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

- **Trading book:** the Group provides clients access to financial markets, 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 of our 2018 Annual Report (page 202).

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
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Market Risk changes

The average level of total trading and non-trading VaR in the first half of 2019 was $28.2 million, 36 per cent higher than the second half of 2018 ($20.8 million) and 38 per cent higher than the first half of 2018 ($20.4 million). The actual level of total trading and non-trading VaR as at the end of the first half of 2019 was $31.0 million, 21 per cent higher than in the second half of 2018 ($25.5 million) and 58 per cent higher than the first half of 2018 ($19.6 million). The increase in total average VaR was driven by the non-trading book, which has seen an increase in the bond inventory size in high-quality assets from Treasury Markets and reduced portfolio diversification since the fourth quarter of 2018.

For the trading book, the average level of VaR in the first half of 2019 was $11.1 million, 19 per cent higher than in the second half of 2018 ($9.3 million), and 7 per cent higher than in the first half of 2018 ($10.4 million). Trading activities have remained relatively unchanged and client-driven.

Daily value at risk (VaR at 97.5 per cent, one day)

	6 months ended 30.06.19				6 months ended 31.12.18				6 months ended 30.06.18			
Trading and non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest Rate Risk[3]	**26.8**	**29.5**	**24.1**	**26.7**	19.4	25.9	16.6	25.9	19.1	22.8	16.9	17.7
Foreign Exchange Risk	**4.6**	**8.5**	**2.7**	**3.7**	3.8	7.7	2.5	7.7	4.9	8.6	3.1	3.9
Commodity Risk	**1.2**	**2.2**	**0.8**	**1.2**	1.4	2.1	0.8	1.2	1.2	1.8	0.9	1.8
Equity Risk	**3.3**	**4.6**	**2.5**	**4.5**	3.4	5.5	2.6	2.7	6.2	6.8	4.1	4.7
Total[4]	**28.2**	**31.4**	**24.1**	**31.0**	20.8	26.1	16.4	25.5	20.4	24.4	17.5	19.6

	6 months ended 30.06.19				6 months ended 31.12.18				6 months ended 30.06.18			
Trading[5]	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest Rate Risk[3]	**8.6**	**11.8**	**6.3**	**7.3**	7.4	9.1	6.0	7.9	8.6	11.7	6.4	6.8
Foreign Exchange Risk	**4.6**	**8.5**	**2.7**	**3.7**	3.8	7.7	2.5	7.7	4.9	8.6	3.1	3.9
Commodity Risk	**1.2**	**2.2**	**0.8**	**1.2**	1.4	2.1	0.8	1.2	1.2	1.8	0.9	1.8
Equity Risk	**–**	**0.1**	**–**	**–**	0.1	0.1	–	–	0.1	0.1	–	0.1
Total[4]	**11.1**	**14.0**	**9.2**	**11.0**	9.3	13.6	7.5	13.6	10.4	13.8	7.5	8.1

	6 months ended 30.06.19				6 months ended 31.12.18				6 months ended 30.06.18			
Non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3]	**23.6**	**25.0**	**21.2**	**23.3**	17.8	20.7	15.1	20.7	15.8	17.7	14.1	15.1
Equity risk[6]	**3.3**	**4.6**	**2.5**	**4.5**	3.3	5.4	2.6	2.7	6.2	6.8	4.1	4.6
Total[4]	**23.7**	**27.4**	**20.6**	**26.5**	17.7	21.3	9.2	21.3	16.6	18.8	15.3	16.0

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 Interest rate risk VaR includes Credit Spread Risk arising from securities accounted for as fair value through profit or loss (FVTPL) or fair value 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 IV/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

Risks not in VaR

In the first half of 2019, the main Market Risk not reflected in VaR was currency risk where the exchange rate is currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. The other material Market Risk not reflected in VaR was associated with 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 section on Market Risk in the Standard Chartered PLC Pillar 3 Disclosures for 30 June 2019.

Backtesting

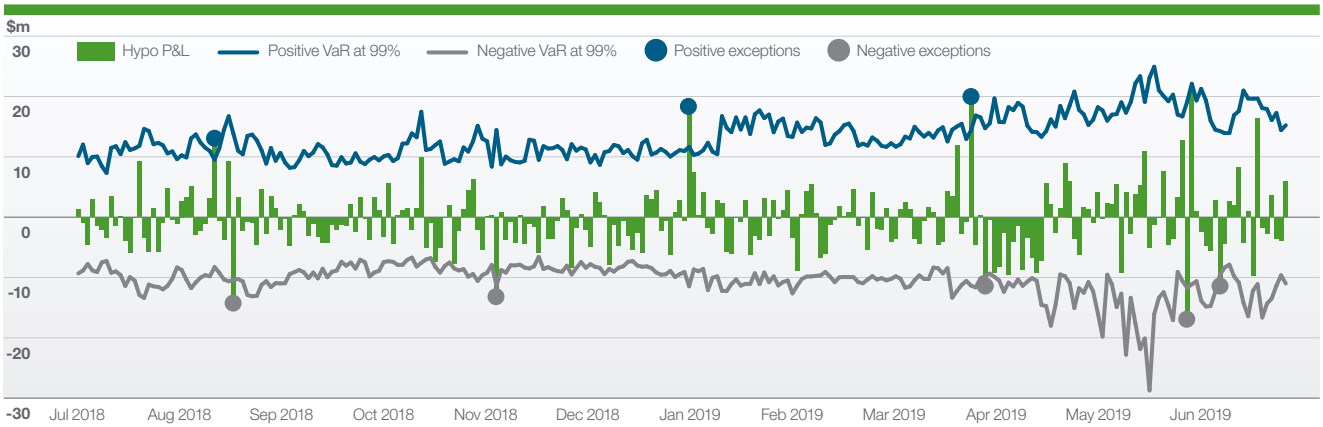
In the first half of 2019, there were three regulatory backtesting exceptions at Group level (in the second half of 2018, there were two regulatory backtesting exceptions at Group level).

A Group exception occurred on 1 April 2019 when markets rallied following the release of strong Chinese manufacturing data. There was also an exception on 30 May 2019 driven by a reduction in USD yields and implied volatility which reversed an increase of the previous day. Additionally, a Group exception occurred on 10 June 2019 when US Treasury yields rallied following reports that proposed tariffs on goods from Mexico to the USA would not be implemented.

In total there have been five 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.

Half year 2019 Backtesting Chart
Internal Model Approach regulatory trading book at Group Level
Hypothetical Profit and Loss (P&L) versus VaR (99 percent, one day)



Average daily income earned from market risk related activities[1]	**6 months ended 30.06.19 $million**	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Trading			
Interest Rate Risk	**3.5**	1.9	4.3
Foreign Exchange Risk	**4.9**	4.0	3.8
Commodity Risk	**0.7**	0.8	0.8
Equity Risk	**–**	–	–
Total	**9.1**	6.7	8.9
Non-trading			
Interest Rate Risk	**1.6**	1.9	2.9
Equity Risk	**(0.2)**	1.0	(0.3)
Total	**1.4**	3.0	2.6

1 Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from Market Risk-related activities. XVA income is included under Interest Rate Risk

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.

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.

Since the beginning of the year there were no significant changes in treasury policies as disclosed in the 2018 Annual Report and Accounts.

In April 2019, the Group resolved the previously disclosed investigations by the US Authorities and the Financial Conduct Authority related to historical sanctions compliance and financial crime controls. These legacy investigation issues were the main regulatory uncertainties facing the Group. We will continue to maintain a strong liquidity position and would continue to optimise this where possible subject to a number of factors including market conditions and current and future regulatory requirements.

The Group has relatively low levels of sterling and euro funding and exposures within the context of the overall Group balance sheet. The result of the UK referendum to leave the EU has therefore not had a material first order liquidity impact to date. A new subsidiary has been established in Germany (Standard Chartered Bank AG) to grow our continental Europe franchise.

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.

At the reporting date, the Group LCR was 139 per cent (2018: 154 per cent) with a prudent surplus to both Board-approved risk appetite and regulatory requirements. The ratio decreased 15 per cent year-to-date due to period end cashflows and a shift in liability mix at the end of the period which led to higher outflows and a smaller increase in our liquidity buffer. We also held adequate liquidity across our footprint to meet all local prudential LCR requirements where applicable.

	30.06.19 $million	31.12.18 $million
Liquidity buffer	**154,897**	149,602
Total net cash outflows	**111,336**	97,443
Liquidity coverage ratio	**139%**	154%

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 30 June 2019, i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario at 30 June 2019 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 30 June 2019 were A+ with stable outlook (Fitch), A with stable outlook (S&P) and A1 with stable outlook (Moody's). A downgrade in the Group's long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. At 30 June 2019, the estimated contractual outflow of a two-notch long-term ratings downgrade is $1.1 billion.

External wholesale borrowing

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Limits are applied to all branches and operating subsidiaries in the Group and as at the reporting date the Group remained within 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 remained broadly unchanged at 63.7 per cent over the first half of 2019 (2018: 63.1 per cent).

	30.06.19 $million	31.12.18 $million
Total loans and advances to customers[1,2]	**260,246**	250,922
Total customer accounts[3]	**408,487**	397,764
Advances-to-deposits ratio	**63.7%**	63.1%

1 Excludes reverse repurchase agreement and other similar secured lending of $2,704 million and includes loans and advances to customers held at fair value through profit and loss of $6,190 million

2 Loans and advances to customers for the purpose of the advances-to-deposits ratio excludes $6,835 million of approved balances held with central banks, confirmed as repayable at the point of stress. The loans and advances to customers balance at 31 December 2018 used in the advances-to-deposits ratio at 31 December 2018 has decreased by $7,412 million from $258,334 million to $250,922 million to exclude approved balances held with central banks. The advances-to-deposits ratio has been restated from 64.9 per cent to 63.1 per cent as a result

3 Includes customer accounts held at fair value through profit or loss of $6,889 million

Net stable funding ratio (NSFR)

On 23 November 2016, the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (net stable funding ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295). The NSFR is due to become a binding regulatory requirement in June 2021 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 $155 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. Cash and balances at central banks at 30 June 2019 in the table below has increased compared to year end as a result of the inclusion of approved term amounts confirmed as repayable at the point of stress.

	30.06.19				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Level 1 securities					
Cash and balances at central banks	**19,065**	**9,300**	**1,072**	**28,401**	**57,838**
Central banks, governments/public sector entities	**24,368**	**10,661**	**1,561**	**33,366**	**69,956**
Multilateral development banks and international organisations	**2,171**	**1,280**	**165**	**7,123**	**10,739**
Other	**–**	**–**	**–**	**1,172**	**1,172**
Total Level 1 securities	**45,604**	**21,241**	**2,798**	**70,062**	**139,705**
Level 2A securities	**7,776**	**1,940**	**61**	**2,768**	**12,545**
Level 2B securities	**–**	**516**	**–**	**2,131**	**2,647**
Total LCR eligible assets	**53,380**	**23,697**	**2,859**	**74,961**	**154,897**

	31.12.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	16,267	2,645	1,416	28,232	48,560
Central banks, governments/public sector entities	33,462	9,900	1,540	30,166	75,068
Multilateral development banks and international organisations	1,543	1,451	195	8,487	11,676
Other	–	–	–	1,125	1,125
Total Level 1 securities	51,272	13,996	3,151	68,010	136,429
Level 2A securities	3,943	1,083	60	5,296	10,382
Level 2B securities	–	1,264	–	1,527	2,791
Total LCR eligible assets	55,215	16,343	3,211	74,833	149,602

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.

	30.06.19									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	58,822	–	–	–	9,305	49,517	–	–	–	58,822
Derivative financial instruments	49,237	–	–	–	–	–	–	49,237	–	49,237
Loans and advances to banks	80,071	344	148	492	–	46,085	14,175	18,353	966	79,579
Loans and advances to customers	306,642	407	1,299	1,706	–	–	242,332	39,561	23,043	304,936
Investment securities	157,530	–	11,369	11,369	3,064	98,097	39,178	–	5,822	146,161
Other assets	39,338	–	15,324	15,324	–	–	14,857	–	9,157	24,014
Current tax assets	507	–	–	–	–	–	–	–	507	507
Prepayments and accrued income	2,797	–	–	–	–	–	1,481	–	1,316	2,797
Interests in associates and joint ventures	2,512	–	–	–	–	–	–	–	2,512	2,512
Goodwill and intangible assets	5,111	–	–	–	–	–	–	–	5,111	5,111
Property, plant and equipment	7,750	–	–	–	–	–	516	–	7,234	7,750
Deferred tax assets	924	–	–	–	–	–	–	–	924	924
Assets classified as held for sale	1,263	–	–	–	–	–	–	–	1,263	1,263
Total	712,504	751	28,140	28,891	12,369	193,699	312,539	107,151	57,855	683,613

	31.12.18									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	57,511	–	–	–	8,152	49,359	–	–	–	57,511
Derivative financial instruments	45,621	–	–	–	–	–	–	45,621	–	45,621
Loans and advances to banks	82,065	447	–	447	–	45,623	13,918	20,698	1,379	81,618
Loans and advances to customers	299,371	497	7	504	–	–	243,802	41,037	14,028	298,867
Investment securities	149,568	–	7,521	7,521	–	95,523	40,591	–	5,933	142,047
Other assets	35,401	–	16,287	16,287	–	–	11,440	–	7,674	19,114
Current tax assets	492	–	–	–	–	–	–	–	492	492
Prepayments and accrued income	2,505	–	–	–	–	–	1,356	–	1,149	2,505
Interests in associates and joint ventures	2,307	–	–	–	–	–	–	–	2,307	2,307
Goodwill and intangible assets	5,056	–	–	–	–	–	–	–	5,056	5,056
Property, plant and equipment	6,490	–	–	–	–	–	400	–	6,090	6,490
Deferred tax assets	1,047	–	–	–	–	–	–	–	1,047	1,047
Assets classified as held for sale	1,328	–	–	–	–	–	–	–	1,328	1,328
Total	688,762	944	23,815	24,759	8,152	190,505	311,507	107,356	46,483	664,003

The Group received $77,246 million (31 December 2018: $82,534 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold or repledged $36,169 million (31 December 2018: $40,552 million) under repurchase agreements.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

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

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are 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 57 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.

	30.06.19								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	49,517	–	–	–	–	–	–	9,305	58,822
Derivative financial instruments	5,853	5,771	4,787	3,781	2,091	4,241	9,508	13,205	49,237
Loans and advances to banks[1,2]	34,904	19,484	12,073	4,366	4,559	2,206	1,987	492	80,071
Loans and advances to customers[1,2]	86,104	37,351	20,710	9,850	9,398	18,524	40,864	83,841	306,642
Of which classified as:									
Investment securities	12,574	15,072	10,276	9,804	15,176	28,839	41,797	23,992	157,530
Other assets	16,107	15,904	1,876	133	114	188	184	25,696	60,202
Total assets	205,059	93,582	49,722	27,934	31,338	53,998	94,340	156,531	712,504
Liabilities									
Deposits by banks[1,3]	35,032	2,679	1,643	625	221	112	506	51	40,869
Customer accounts[1,4]	332,905	52,154	28,361	12,393	12,031	2,902	1,397	2,768	444,911
Derivative financial instruments	5,670	6,227	4,663	4,079	2,583	5,154	10,647	11,330	50,353
Senior debt	291	3,890	605	867	2,891	2,942	6,259	12,713	30,458
Other debt securities in issue[1]	4,500	9,229	7,220	1,452	1,114	460	123	1,388	25,486
Other liabilities	16,378	18,197	3,777	1,107	946	1,027	993	12,318	54,743
Subordinated liabilities and other borrowed funds	–	17	–	–	758	–	4,961	9,509	15,245
Total liabilities	394,776	92,393	46,269	20,523	20,544	12,597	24,886	50,077	662,065
Net liquidity gap	(189,717)	1,189	3,453	7,411	10,794	41,401	69,454	106,454	50,439

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 12 Financial instruments (pages 94 to 96)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of $57.9 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $9.3 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of $36.4 billion

	31.12.18								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	49,359	–	–	–	–	–	–	8,152	57,511
Derivative financial instruments	6,902	5,861	5,827	3,509	2,333	4,458	8,079	8,652	45,621
Loans and advances to banks[1,2]	38,331	20,549	11,209	5,214	2,835	2,584	1,064	279	82,065
Loans and advances to customers[1,2]	84,846	33,756	18,133	11,641	10,321	17,519	39,306	83,849	299,371
Of which classified as									
Investment securities	15,297	13,589	14,131	14,300	17,402	25,695	31,303	17,851	149,568
Other assets	21,155	8,909	2,385	224	135	96	155	21,567	54,626
Total assets	215,890	82,664	51,685	34,888	33,026	50,352	79,907	140,350	688,762
Liabilities									
Deposits by banks[1,3]	30,368	2,593	572	553	397	244	230	60	35,017
Customer accounts[1,4]	331,633	51,553	23,643	10,966	11,634	3,631	1,154	2,967	437,181
Derivative financial instruments	7,467	6,072	6,136	3,544	2,140	5,257	8,886	7,707	47,209
Senior debt	1,259	959	509	5,087	667	2,878	6,327	10,093	27,779
Other debt securities in issue[1]	4,893	9,792	8,062	177	715	1,030	16	1,395	26,080
Other liabilities	22,835	8,698	4,130	852	536	868	401	11,823	50,143
Subordinated liabilities and other borrowed funds	23	17	–	–	–	2,522	4,421	8,018	15,001
Total liabilities	398,478	79,684	43,052	21,179	16,089	16,430	21,435	42,063	638,410
Net liquidity gap	(182,588)	2,980	8,633	13,709	16,937	33,922	58,472	98,287	50,352

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 12 Financial instruments (pages 95 to 96)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of $61.7 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $5.0 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of $39.4 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, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful, given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

	30.06.19								
	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	**35,157**	**2,705**	**1,660**	**631**	**241**	**126**	**525**	**51**	**41,096**
Customer accounts	**333,549**	**52,683**	**29,319**	**12,561**	**12,196**	**3,301**	**1,478**	**3,298**	**448,385**
Derivative financial instruments[1]	**48,522**	**6**	**7**	**71**	**–**	**722**	**738**	**287**	**50,353**
Debt securities in issue	**4,809**	**13,612**	**8,023**	**2,333**	**3,576**	**3,810**	**7,495**	**16,256**	**59,914**
Subordinated liabilities and other borrowed funds	**–**	**–**	**255**	**–**	**1,153**	**606**	**6,569**	**15,233**	**23,816**
Other liabilities	**15,047**	**18,432**	**3,951**	**1,241**	**948**	**1,027**	**995**	**13,369**	**55,010**
Total liabilities	**437,084**	**87,438**	**43,215**	**16,837**	**18,114**	**9,592**	**17,800**	**48,494**	**678,574**

	31.12.18								
	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	30,467	2,609	593	569	409	267	250	62	35,226
Customer accounts	332,115	51,845	24,686	11,094	11,780	3,700	1,226	3,552	439,998
Derivative financial instruments[1]	45,665	137	141	9	91	31	679	456	47,209
Debt securities in issue	6,169	11,345	8,786	5,310	1,628	3,685	7,104	13,000	57,027
Subordinated liabilities and other borrowed funds	23	–	255	–	414	3,169	6,154	13,865	23,880
Other liabilities	19,746	8,757	4,129	892	520	885	407	12,302	47,638
Total liabilities	434,185	74,693	38,590	17,874	14,842	11,737	15,820	43,237	650,978

1 Derivatives are on a discounted basis

Interest Rate Risk in the Banking Book

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

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

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

	30.06.19			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	**USD bloc $million**	**HKD, SGD & KRW bloc $million**	**Other currency bloc $million**	**Total $million**
+ 50 basis points	**20**	**90**	**100**	**210**
– 50 basis points	**(10)**	**(70)**	**(100)**	**(180)**

	31.12.18			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	10	110	90	210
– 50 basis points	(20)	(70)	(90)	(180)

As at 30 June 2019, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points to be an earnings benefit of $210 million. The corresponding impact from a parallel decrease of 50 basis points would result in an earnings reduction of $180 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. NII sensitivity under both the up and down shock remained broadly unchanged since December 2018.

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

Operational Risk

Operational Risks arise from the processes executed within the Group. Risks associated with these processes are mapped into a Group Process Universe where the standardised Control Assessment Standards are applied. The Standards are benchmarked against regulatory requirements.

Operational risk profile

The Operational Risk profile is the Group's overall exposure to non-financial risk, at a given point in time, covering all Principal Risk Types. The Operational Risk profile comprises both Operational Risk events (including losses) and the current exposures to non-financial risks.

Other principal risks

Losses arising from operational failures for other principal risks (for example: Compliance, Conduct, Reputational, Information and Cyber Security, and Financial Crime Risk are reported as operational losses). Operational losses do not include Operational Risk-related credit impairments.

Capital review

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

Capital summary

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

Capital, leverage and RWA	30.06.19	31.12.18
CET1 capital	**13.5%**	14.2%
Tier 1 capital	**15.9%**	16.8%
Total capital	**20.3%**	21.6%
UK leverage	**5.3%**	5.6%
Risk-weighted assets (RWA) $million	**270,739**	258,297

The Group's Common Equity Tier 1 (CET1) capital and Tier 1 leverage position were well above current requirements. For further detail see the Capital section in the Standard Chartered PLC Pillar 3 Disclosures for H1 2019.

The Group's current Pillar 2A requirement is 2.9 per cent of RWA, of which at least 1.6 per cent must be held in CET1. This requirement can vary over time.

The Group's fully phased minimum requirement for own funds and eligible liabilities (MREL) is 21.8 per cent of RWA from 1 January 2022. The Group's combined buffer (the capital conservation, global systemically important institution (G-SII) and countercyclical buffers) is additive to the minimum requirement, resulting in a total MREL requirement of 25.7 per cent of RWA from 1 January 2022. The Group's MREL position was 26.2 per cent of RWA and 9.1 per cent of leverage exposure at 30 June 2019.

The Group has continued its programme of MREL issuance from its holding company in 2019, issuing around $2.8 billion of MREL eligible securities during the period including the Group's inaugural issuance of Australian dollar senior notes. The Group also priced an inaugural SGD750 million Additional Tier 1 (AT1) and its first emerging-markets focused sustainability bond of EUR500 million in the period. As both securities settled after 30 June 2019, they are not included in any regulatory metrics in the period.

In the period, the Group commenced a buy-back of $1 billion of its ordinary share capital with the purpose of reducing the Group's outstanding ordinary shares. The impact of the $1 billion buy-back on the Group's CET1 ratio is a reduction of around 39 basis points, which has been reflected in the capital base.

The Group is a G-SII, with a 1.0 per cent G-SII CET1 buffer. The Standard Chartered PLC 2018 G-SII disclosure is published at: sc.com/fullyearresults

Capital ratios

	30.06.19	31.12.18
CET1	**13.5%**	14.2%
Tier 1 capital	**15.9%**	16.8%
Total capital	**20.3%**	21.6%

CRD IV capital base[1]

	30.06.19 $million	31.12.18 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	**5,615**	5,617
Of which: share premium accounts	**3,989**	3,965
Retained earnings[2]	**24,603**	25,377
Accumulated other comprehensive income (and other reserves)	**11,640**	11,878
Non-controlling interests (amount allowed in consolidated CET1)	**693**	686
Independently reviewed interim and year-end profits	**1,481**	1,072
Foreseeable dividends net of scrip	**(449)**	(527)
CET1 capital before regulatory adjustments	**43,583**	44,103
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	**(677)**	(564)
Intangible assets (net of related tax liability)	**(5,201)**	(5,146)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(92)**	(115)
Fair value reserves related to net losses on cashflow hedges	**68**	10
Deduction of amounts resulting from the calculation of excess expected loss	**(930)**	(875)
Net gains on liabilities at fair value resulting from changes in own Credit Risk	**(68)**	(412)
Defined-benefit pension fund assets	**(10)**	(34)
Fair value gains arising from the institution's own Credit Risk related to derivative liabilities	**(90)**	(127)
Exposure amounts which could qualify for risk-weighting of 1250%	**(72)**	(123)
Total regulatory adjustments to CET1	**(7,072)**	(7,386)
CET1 capital	**36,511**	36,717
AT1 capital instruments	**6,632**	6,704
AT1 regulatory adjustments	**(20)**	(20)
Tier 1 capital	**43,123**	43,401
Tier 2 capital instruments	**11,864**	12,325
Tier 2 regulatory adjustments	**(30)**	(30)
Tier 2 capital	**11,834**	12,295
Total capital	**54,957**	55,696
Total risk-weighted assets	**270,739**	258,297

1 CRD IV capital is prepared on the regulatory scope of consolidation

2 Retained earnings have been reduced to reflect the full $1 billion pro forma impact of the share buy-back programme announced in April 2019

Movement in total capital

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million
CET1 at 1 January/1 July	**36,717**	38,512
Ordinary shares issued in the period and share premium	**25**	10
Share buy-back	**(1,000)**	–
Profit for the period	**1,481**	(485)
Foreseeable dividends net of scrip deducted from CET1	**(449)**	(527)
Difference between dividends paid and foreseeable dividends	**(190)**	43
Movement in goodwill and other intangible assets	**(55)**	(155)
Foreign currency translation differences	**(82)**	(380)
Non-controlling interests	**7**	(9)
Movement in eligible other comprehensive income	**170**	(75)
Deferred tax assets that rely on future profitability	**23**	14
Decrease/(increase) in excess expected loss	**(55)**	(192)
Additional value adjustments (prudential valuation adjustment)	**(113)**	(68)
IFRS 9 day one transitional impact on regulatory reserves	**(43)**	–
Exposure amounts which could qualify for risk-weighting	**51**	(1)
Other	**24**	30
CET1 at 30 June/31 December	**36,511**	36,717
AT1 at 1 January/1 July	**6,684**	6,692
Issuances net of redemptions	**–**	–
Foreign currency translation difference	**(1)**	(8)
Excess on AT1 grandfathered limit (ineligible)	**(71)**	–
AT1 at 30 June/31 December	**6,612**	6,684
Tier 2 capital at 1 January/1 July	**12,295**	12,815
Regulatory amortisation	**(572)**	(461)
Issuances net of redemptions	**–**	–
Foreign currency translation difference	**(15)**	(93)
Tier 2 ineligible minority interest	**51**	29
Recognition of ineligible AT1	**71**	–
Other	**4**	5
Tier 2 capital at 30 June/31 December	**11,834**	12,295
Total capital at 30 June/31 December	**54,957**	55,696

The main movements in capital in the period were:

- The CET1 ratio decreased from 14.2 per cent to 13.5 per cent predominantly because of higher RWAs, the impact of the share buy-back and other distributions partly offset by H1 profit
- CET1 capital decreased by $0.2 billion, due to the share buy-back of $1 billion, other distributions during the period of $0.6 billion, partly offset by profit after tax of $1.5 billion
- AT1 decreased slightly to $ 6.6 billion due to the amount above the AT1 grandfathered limit which is ineligible as AT1
- Tier 2 capital was $0.5 billion lower at $11.8 billion mainly due to the impact of regulatory amortisation, partly offset by the recognition of ineligible AT1 as Tier 2

Risk-weighted assets by business

	30.06.19			
	Credit Risk $million	**Operational Risk $million**	**Market Risk $million**	**Total risk $million**
Corporate & Institutional Banking	**101,744**	**13,261**	**22,981**	**137,986**
Retail Banking	**35,458**	**7,314**	**–**	**42,772**
Commercial Banking	**28,948**	**2,626**	**–**	**31,574**
Private Banking	**5,887**	**728**	**–**	**6,615**
Central & other items	**47,973**	**3,691**	**128**	**51,792**
Total risk-weighted assets	**220,010**	**27,620**	**23,109**	**270,739**

	31.12.18			
	Credit Risk $million	Operational Risk $million	Market Risk $million	Total risk $million
Corporate & Institutional Banking	96,954	13,029	19,008	128,991
Retail Banking	35,545	7,358	–	42,903
Commercial Banking	27,711	2,770	–	30,481
Private Banking	5,103	758	–	5,861
Central & other items	45,825	4,135	101	50,061
Total risk-weighted assets	211,138	28,050	19,109	258,297

Risk-weighted assets by geographic region

	30.06.19 $million	31.12.18 $million
Greater China & North Asia	**84,881**	81,023
ASEAN & South Asia	**93,737**	87,935
Africa & Middle East	**51,705**	53,072
Europe & Americas	**42,809**	40,789
Central & other items	**(2,393)**	(4,522)
Total risk-weighted assets	**270,739**	258,297

Movement in risk-weighted assets

	Credit Risk								
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million	Operational Risk $million	Market Risk $million	Total risk $million
At 1 January 2018	109,368	36,345	29,712	5,134	45,671	226,230	30,478	23,040	279,748
Assets (decline)/growth	1,473	557	1,019	426	2,573	6,048	–	–	6,048
Net credit migration	(2,317)	(191)	321	–	244	(1,943)	–	–	(1,943)
Risk-weighted assets efficiencies	(325)	–	–	–	–	(325)	–	–	(325)
Model, methodology and policy changes	(1,769)	(591)	6	–	76	(2,278)	–	(1,138)	(3,416)
Disposals	–	–	–	–	(626)	(626)	–	–	(626)
Foreign currency translation	(1,240)	(759)	(567)	(50)	(1,292)	(3,908)	–	–	(3,908)
Other non-Credit Risk movements	–	–	–	–	–	–	(2,428)	(1,283)	(3,711)
At 30 June 2018	105,190	35,361	30,491	5,510	46,646	223,198	28,050	20,619	271,867
Assets (decline)/growth	(3,000)	909	(2,366)	(370)	323	(4,504)	–	–	(4,504)
Net credit migration	197	216	(84)	–	250	579	–	–	579
Risk-weighted assets efficiencies	(3,215)	(597)	–	–	(748)	(4,560)	–	–	(4,560)
Model, methodology and policy changes	(1,569)	(80)	60	–	1	(1,588)	–	(810)	(2,398)
Disposals	–	–	–	–	–	–	–	–	–
Foreign currency translation	(649)	(264)	(390)	(37)	(647)	(1,987)	–	–	(1,987)
Other non-Credit Risk movements	–	–	–	–	–	–	–	(700)	(700)
At 31 December 2018	96,954	35,545	27,711	5,103	45,825	211,138	28,050	19,109	258,297
Assets (decline)/growth	**5,808**	**1,650**	**1,405**	**771**	**3,021**	**12,655**	**–**	**–**	**12,655**
Net credit migration	**(320)**	**(831)**	**(51)**	**10**	**45**	**(1,147)**	**–**	**–**	**(1,147)**
Risk-weighted assets efficiencies	**(672)**	**–**	**–**	**–**	**(2,056)**	**(2,728)**	**–**	**–**	**(2,728)**
Model, methodology and policy changes	**–**	**(698)**	**–**	**–**	**1,400**	**702**	**–**	**500**	**1,202**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency translation	**(26)**	**(208)**	**(117)**	**3**	**(262)**	**(610)**	**–**	**–**	**(610)**
Other non-Credit Risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**(430)**	**3,500**	**3,070**
At 30 June 2019	**101,744**	**35,458**	**28,948**	**5,887**	**47,973**	**220,010**	**27,620**	**23,109**	**270,739**

Movements in risk-weighted assets

RWA increased by $12.4 billion, or 4.8 per cent from 31 December 2018 to $270.7 billion. This was mainly due to increases in Credit Risk RWA of $8.9 billion, Market Risk RWA $4.0 billion partly offset by a decrease of $0.4 billion in Operational Risk RWA.

Corporate & Institutional Banking

Credit Risk RWA increased by $4.8 billion to $101.7 billion mainly due to:

- $5.8 billion increase due to asset balance growth in Financial Markets, Corporate Finance and Lending
- $0.7 billion decrease due to RWA efficiencies relating to credit risk mitigation
- $0.3 billion decrease due to net credit migration principally in Corporate Finance, Transaction Banking, and Lending

Retail Banking

Credit Risk RWA decreased by $0.1 billion to $35.5 billion mainly due to:

- $1.7 billion asset balance growth in ASEAN & South Asia and Africa & Middle East
- $0.7 billion RWA reduction following regulatory approval of changes to Korean Personal Loans models
- $0.8 billion decrease from net credit migration primarily in Greater China & North Asia
- $0.2 billion decrease from foreign currency translation mainly due to depreciation of currencies in Greater China & North Asia against the US dollar

Commercial Banking

Credit Risk RWA increased by $1.2 billion to $28.9 billion mainly due to:

- $1.4 billion RWA asset balance growth mainly due to Corporate Finance and Lending
- $0.1 billion decrease from net credit migration
- $0.1 billion decrease from foreign currency translation mainly due to depreciation of currencies in Pakistan and Korea against the US dollar

Private Banking

Credit Risk RWA increased by $0.8 billion to $5.9 billion principally due to asset balance growth in wealth management products.

Central & other items

Central and other items RWA mainly relates to the Treasury Markets liquidity portfolio, the Group's principal joint venture investment, PT Bank Permata Tbk, equity investments and deferred/current tax assets.

Credit Risk RWA increased by $2.1 billion to $48.0 billion mainly due to:

- $3.0 billion increase in Credit Risk RWA is principally due to higher investment securities balance in Treasury
- $1.4 billion increase from the implementation of the IFRS 16 standard relating to leases on property
- $0.3 billion decrease from foreign currency translation mainly due to depreciation of currencies in Pakistan and Korea against the US dollar
- $2.1 billion of benefit from RWA efficiency initiatives on Treasury Markets' exposures

Market Risk

Total market risk RWA (MRWA) increased by $4.0 billion, or 21 per cent from 31 December 2018 to $23.1 billion. This change was due mainly to increased trading book debt security holdings and to internal models approach (IMA) RWA following an increase in regulatory backtesting exceptions, as explained on page 56.

Operational Risk

Operational Risk RWA reduced by $0.4 billion to $27.6 billion, comprising a decrease in the average income over a rolling three-year time horizon, as lower 2018 income replaced higher 2015 income, and a reduced average beta factor, due to a shift towards lower beta businesses. This represents a 1.5 per cent year-on-year reduction in Operational Risk RWA.

UK leverage ratio

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 5.3 per cent, which is above the current minimum requirement of 3.7 per cent. The lower UK leverage ratio in the period was due to the combined impact of an increased exposure measure and slightly lower Tier 1 capital (end point).

UK leverage ratio

	30.06.19 $million	31.12.18 $million
Tier 1 capital (transitional)	**43,123**	43,401
AT1 capital subject to phase out	**(1,671)**	(1,743)
Tier 1 capital (end point)	**41,452**	41,658
Derivative financial instruments	**49,237**	45,621
Derivative cash collateral	**8,826**	10,323
Securities financing transactions (SFTs)	**57,914**	61,735
Loans and advances and other assets	**596,527**	571,083
Total on-balance sheet assets	**712,504**	688,762
Regulatory consolidation adjustments[1]	**(37,066)**	(45,521)
Derivatives adjustments		
Derivatives netting	**(35,463)**	(34,300)
Adjustments to cash collateral	**(11,038)**	(14,827)
Net written credit protection	**1,359**	1,221
Potential future exposure on derivatives	**31,298**	28,498
Total derivatives adjustments	**(13,844)**	(19,408)
Counterparty Risk leverage exposure measure for SFTs	**7,913**	8,281
Off-balance sheet items	**119,047**	115,335
Regulatory deductions from Tier 1 capital	**(6,914)**	(6,847)
UK leverage exposure (end point)	**781,640**	740,602
UK leverage ratio (end point)	**5.3%**	5.6%
UK leverage exposure quarterly average	**788,148**	734,976
UK leverage ratio quarterly average	**5.2%**	5.8%
Countercyclical leverage ratio buffer	**0.1%**	0.1%
G-SII additional leverage ratio buffer	**0.4%**	0.3%

1 Includes adjustment for qualifying central bank claims

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2019 and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2019 that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could have materially affected the financial position or performance of the entity during that period

By order of the Board

Andy Halford
Group Chief Financial Officer

1 August 2019

Independent review report

to Standard Chartered PLC

Conclusion

We have been engaged by Standard Chartered PLC (the Company) including its subsidiaries (together the Group) to review the condensed consolidated interim set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the condensed consolidated interim balance sheet, the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cashflow statement, and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (the UK FCA).

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed consolidated set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Group in accordance with the terms of our engagement to assist the Group in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Group those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusions we have reached.

Paul Furneaux
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London E14 5GL
1 August 2019

Condensed consolidated interim income statement

For the six months ended 30 June 2019

	Notes	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Interest income		**9,843**	9,037	8,227
Interest expense		**(5,225)**	(4,605)	(3,866)
Net interest income		**4,618**	4,432	4,361
Fees and commission income	3	**2,120**	1,915	2,114
Fees and commission expense	3	**(282)**	(292)	(245)
Net trading income	4	**994**	717	966
Other operating income	5	**380**	390	431
Operating income		**7,830**	7,162	7,627
Staff costs		**(3,577)**	(3,496)	(3,578)
Premises costs		**(191)**	(417)	(373)
General administrative expenses		**(953)**	(2,118)	(808)
Depreciation and amortisation		**(577)**	(431)	(426)
Operating expenses	6	**(5,298)**	(6,462)	(5,185)
Operating profit before impairment losses and taxation		**2,532**	700	2,442
Credit impairment	7	**(254)**	(439)	(214)
Other impairment	8	**(44)**	(132)	(50)
Profit from associates and joint ventures		**180**	73	168
Profit before taxation		**2,414**	202	2,346
Taxation	9	**(918)**	(686)	(753)
Profit/(loss) for the period		**1,496**	(484)	1,593
Profit/(loss) attributable to:				
Non-controlling interests		**19**	22	33
Parent company shareholders		**1,477**	(506)	1,560
Profit/(loss) for the period		**1,496**	(484)	1,593
		cents	cents	cents
Earnings per share:				
Basic earnings/(loss) per ordinary share	11	**38.0**	(21.9)	40.7
Diluted earnings/(loss) per ordinary share	11	**37.5**	(21.7)	40.2

The Notes on pages 81 to 121 form an integral part of these financial statements.

Condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2019

	Notes	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Profit/(loss) for the period		**1,496**	(484)	1,593
Other comprehensive income/(loss)				
Items that will not be reclassified to income statement:		**(384)**	129	253
Own credit (losses)/gains on financial liabilities designated at fair value through profit or loss		**(392)**	258	136
Equity instruments at fair value through other comprehensive income		**13**	17	19
Actuarial (losses)/gains on retirement benefit obligations	23	**(49)**	(124)	105
Taxation relating to components of other comprehensive income		**44**	(22)	(7)
Items that may be reclassified subsequently to income statement:		**65**	(363)	(826)
Exchange differences on translation of foreign operations:				
Net losses taken to equity		**(159)**	(454)	(1,008)
Net gains on net investment hedges		**73**	66	216
Share of other comprehensive income from associates and joint ventures		**3**	17	16
Debt instruments at fair value through other comprehensive income:				
Net valuation gains/(losses) taken to equity		**291**	(9)	(119)
Reclassified to income statement		**(58)**	18	13
Net impact of expected credit losses		**3**	8	(8)
Cashflow hedges:				
Net (losses)/gains taken to equity		**(79)**	(15)	49
Reclassified to income statement		**7**	2	5
Taxation relating to components of other comprehensive income		**(16)**	4	10
Other comprehensive loss for the period, net of taxation		**(319)**	(234)	(573)
Total comprehensive income/(loss) for the period		**1,177**	(718)	1,020
Total comprehensive income/(loss) attributable to:				
Non-controlling interests		**11**	9	25
Parent company shareholders		**1,166**	(727)	995
Total comprehensive income/(loss) for the period		**1,177**	(718)	1,020

Condensed consolidated interim balance sheet

As at 30 June 2019

	Notes	30.06.19 $million	31.12.18 $million
Assets			
Cash and balances at central banks		**58,822**	57,511
Financial assets held at fair value through profit or loss	12	**93,402**	87,132
Derivative financial instruments	12,13	**49,237**	45,621
Loans and advances to banks[1]	12	**59,210**	61,414
Loans and advances to customers[2]	12	**263,595**	256,557
Investment securities	12	**128,036**	125,901
Other assets	16	**39,338**	35,401
Current tax assets		**507**	492
Prepayments and accrued income		**2,797**	2,505
Interests in associates and joint ventures		**2,512**	2,307
Goodwill and intangible assets	15	**5,111**	5,056
Property, plant and equipment		**7,750**	6,490
Deferred tax assets		**924**	1,047
Assets classified as held for sale	17	**1,263**	1,328
Total assets		**712,504**	688,762
Liabilities			
Deposits by banks	12	**30,783**	29,715
Customer accounts	12	**401,597**	391,013
Repurchase agreements and other similar secured borrowing	12,14	**5,920**	1,401
Financial liabilities held at fair value through profit or loss	12	**61,781**	60,700
Derivative financial instruments	12,13	**50,353**	47,209
Debt securities in issue	12	**46,672**	46,454
Other liabilities	18	**42,752**	38,309
Current tax liabilities		**550**	676
Accruals and deferred income		**4,893**	5,393
Subordinated liabilities and other borrowed funds	12,21	**15,245**	15,001
Deferred tax liabilities		**549**	563
Provisions for liabilities and charges		**393**	1,330
Retirement benefit obligations	23	**473**	399
Liabilities included in disposal groups held for sale	17	**104**	247
Total liabilities		**662,065**	638,410
Equity			
Share capital and share premium account	22	**7,109**	7,111
Other reserves		**11,640**	11,878
Retained earnings		**26,318**	26,129
Total parent company shareholders' equity		**45,067**	45,118
Other equity instruments	22	**4,961**	4,961
Total equity excluding non-controlling interests		**50,028**	50,079
Non-controlling interests		**411**	273
Total equity		**50,439**	50,352
Total equity and liabilities		**712,504**	688,762

1 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of $1,145 million (31 December 2018: $3,815 million) have been included with loans and advances to banks

2 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of $2,704 million (31 December 2018: $3,151 million) have been included with loans and advances to customers

The Notes on pages 81 to 121 form an integral part of these financial statements.

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2019

	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 shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 1 January 2018	7,097	17,129[1]	54	(77)	53	(45)	(4,454)	25,895	45,652	4,961	333	50,946
Profit for the period	–	–	–	–	–	–	–	1,560	1,560	–	33	1,593
Other comprehensive income/(loss)	–	–	132	(103)	37	46	(783)	106[2]	(565)	–	(8)	(573)
Distributions	–	–	–	–	–	–	–	–	–	–	(27)	(27)
Shares issued, net of expenses[3]	4	–	–	–	–	–	–	–	4	–	–	4
Net own shares adjustment[4]	–	–	–	–	–	–	–	7	7	–	–	7
Share option expense, net of taxation	–	–	–	–	–	–	–	97	97	–	–	97
Dividends[5]	–	–	–	–	–	–	–	(564)	(564)	–	–	(564)
Other movements	–	–	–	–	–	–	–	5	5	–	–	5
As at 30 June 2018	7,101	17,129	186	(180)	90	1	(5,237)	27,106	46,196	4,961	331	51,488
(Loss)/profit for the period	–	–	–	–	–	–	–	(506)	(506)	–	22	(484)
Other comprehensive income/(loss)	–	–	226	19	30	(11)	(375)	(110)[2]	(221)	–	(13)	(234)
Distributions	–	–	–	–	–	–	–	–	–	–	(70)	(70)
Shares issued, net of expenses[3]	10	–	–	–	–	–	–	–	10	–	–	10
Net own shares adjustment[4]	–	–	–	–	–	–	–	(6)	(6)	–	–	(6)
Share option expense, net of taxation	–	–	–	–	–	–	–	61	61	–	–	61
Dividends[5]	–	–	–	–	–	–	–	(411)	(411)	–	–	(411)
Other movements	–	–	–	–	–	–	–	(5)	(5)	–	3[6]	(2)
As at 31 December 2018	**7,111**	**17,129**	**412**	**(161)**	**120**	**(10)**	**(5,612)**	**26,129**	**45,118**	**4,961**	**273**	**50,352**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,477**	**1,477**	**–**	**19**	**1,496**
Other comprehensive (loss)/income	**–**	**–**	**(344)**	**212**	**3**	**(58)**	**(78)**	**(46)[2]**	**(311)**	**–**	**(8)**	**(319)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26)**	**(26)**
Shares issued, net of expenses[3]	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25**	**–**	**–**	**25**
Net own shares adjustment[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(132)**	**(132)**	**–**	**–**	**(132)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**97**	**97**	**–**	**–**	**97**
Dividends[5]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(716)**	**(716)**	**–**	**–**	**(716)**
Cancellation of shares including share buy-back[7]	**(27)**	**27**	**–**	**–**	**–**	**–**	**–**	**(486)**	**(486)**	**–**	**–**	**(486)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)[8]**	**(5)**	**–**	**153[6]**	**148**
As at 30 June 2019	**7,109**	**17,156**	**68**	**51**	**123**	**(68)**	**(5,690)**	**26,318**	**45,067**	**4,961**	**411**	**50,439**

1 Includes capital reserve of $5 million, capital redemption reserve of $13 million and merger reserve of $17,111 million

2 Comprises actuarial (loss)/gain, net of taxation and share from associates and joint ventures $(46) million ($(110) million for the six months ended 31 December 2018 and $106 million for the six months ended 30 June 2018)

3 Comprises share capital of shares issued to fulfil discretionary awards $1 million ($2 million for the six months ended 31 December 2018 and $3 million for the six months ended 30 June 2018), share capital of shares issued to fulfil employee share save options exercised $1 million (nil for the six months ended 31 December 2018 and nil for the six months ended 30 June 2018) and share premium of shares issued to fulfil employee share save options exercised $23 million ($8 million for the six months ended 31 December 2018 and $1 million for the six months ended 30 June 2018)

4 Comprises treasury shares purchased to fulfil discretionary award plans $136 million ($8 million for the six months ended 31 December 2018 and nil for the six months ended 30 June 2018) offset by treasury shares issued to fulfil discretionary award plans $4 million ($2 million for the six months ended 31 December 2018 and $7 million for the six months ended 30 June 2018)

5 Comprises dividends paid net of scrip $495 million ($192 million for the six months ended 31 December 2018 and $347 million for the six months ended 30 June 2018) and dividends on preference shares classified as equity and Additional Tier 1 securities $221 million ($219 million for the six months ended 31 December 2018 and $217 million for the six months ended 30 June 2018). (refer Note 10)

6 Other movements $81 million relates to the Principal Finance business and $72 million relates to the non-controlling interests of our partners in SC Digital Solutions. For the six months ended 31 December 2018, the movement is mainly due to additional share capital issued by Angola subscribed by its non-controlling interests without change in shareholding percentage

7 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 billion. At 30 June 2019, the total number of shares purchased was 54,885,156, representing 1.66% of the ordinary shares in issue. The nominal value of ordinary shares purchased at 30 June 2019 was $27 million and the aggregate consideration paid by the Group was $486 million. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account (refer Note 22)

8 Withholding tax on capitalisation of revenue reserves $4 million

Note 22 includes a description of each reserve.

The Notes on pages 81 to 121 form an integral part of these financial statements.

Condensed consolidated interim cashflow statement

For the six months ended 30 June 2019

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Cashflows from operating activities:			
Profit before taxation	**2,414**	202	2,346
Adjustments for non-cash items and other adjustments included within income statement	**1,092**	1,452	1,183
Change in operating assets	**(22,546)**	16,006	(28,843)
Change in operating liabilities	**23,187**	(6,135)	39,994
Contributions to defined benefit schemes	**(27)**	(105)	(38)
UK and overseas taxes paid	**(929)**	(440)	(330)
Net cash from operating activities	**3,191**	10,980	14,312
Cashflows from investing activities:			
Purchase of property, plant and equipment	**(135)**	(107)	(64)
Disposal of property, plant and equipment	**21**	82	3
Dividends received from subsidiaries, associates and joint ventures	**1**	64	3
Disposal of subsidiaries	**3**	7	–
Purchase of investment securities	**(135,488)**	(132,485)	(143,903)
Disposal and maturity of investment securities	**132,444**	129,136	134,847
Net cash used in investing activities	**(3,154)**	(3,303)	(9,114)
Cashflows from financing activities:			
Issue of ordinary and preference share capital, net of expenses	**25**	10	4
Treasury share issuance	**4**	2	7
Treasury share purchase	**(136)**	(8)	–
Cancellation of shares including share buy-back	**(486)**	–	–
Gross proceeds from issue of subordinated liabilities	**–**	–	500
Interest paid on subordinated liabilities	**(265)**	(360)	(242)
Repayment of subordinated liabilities	**(23)**	145	(2,242)
Proceeds from issue of senior debts	**3,589**	7,845	1,921
Repayment of senior debts	**(2,289)**	(4,566)	(2,464)
Interest paid on senior debts	**(271)**	(285)	(222)
Investment from non-controlling interests	**153**	–	–
Dividends paid to non-controlling interests and preference shareholders	**(247)**	(290)	(243)
Dividends paid to ordinary shareholders	**(495)**	(191)	(348)
Net cash (used in)/from financing activities	**(441)**	2,302	(3,329)
Net (decrease)/increase in cash and cash equivalents	**(404)**	9,979	1,869
Cash and cash equivalents at beginning of the period	**97,500**	88,315	87,231
Effect of exchange rate movements on cash and cash equivalents	**(140)**	(794)	(785)
Cash and cash equivalents at end of the period	**96,956**	97,500	88,315

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Notes to the financial statements

1. Accounting policies

Statement of compliance

The Group's condensed consolidated interim financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. These interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

They should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as issued by the IASB and endorsed by the EU. At 30 June 2019, there was no difference between IFRS endorsed by the EU and the IFRS issued by the IASB in terms of their application to the Group.

The following form part of these interim financial statements:

a) From the start of Risk profile section (page 26) to the end of other principal risks in the same section (page 65) excluding:

- Credit quality by geographic region (page 34)
- Credit quality by industry (page 35)
- Forborne and other modified loans by region (page 43)
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- Encumbrance (page 59)
- Interest Rate Risk in the banking book (page 65)
- Operational Risk (page 65)
- Other principal risks (page 65)

b) Capital review: from the start of 'Capital Requirements Directive (CRD) IV capital base' to the end of 'Movement in total capital' excluding capital ratios and risk-weighted assets (RWA) on page 68

Accounting policies

The accounting policies applied by the Group in the Interim Financial Information are the same as those applied by the Group in the 2018 annual consolidated financial statements, except for the recognition and measurement of applicable leases under IFRS 16 *Leases*, effective from 1 January 2019. The Interim Financial Information has been prepared in accordance with the "Recognition and measurement" requirements of IAS 34.

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, assets held for sale, fair value through other comprehensive income, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

Significant accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied to the consolidated financial statements as at, and for, the year ended 31 December 2018. Summaries of the Group's significant accounting policies are included throughout the 2018 Annual Report.

IFRS and Hong Kong accounting requirements

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

New accounting standards adopted by the Group

IFRS 16 *Leases*

On 1 January 2019, the Group adopted IFRS 16 *Leases,* which has been endorsed by the EU. IFRS 16 replaces IAS17 *Leases.*

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 5.0 per cent.

1. Accounting policies continued

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. The Group has elected to adopt the simplified approach of transition and has not restated comparative information. On 1 January 2019, the Group recognised a lease liability, being the remaining lease payments, including extensions options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of recognition of the lease liability and right-of-use asset as of 1 January 2019 was approximately $1.4 billion, with no adjustment to retained earnings. The asset is presented in 'Property, plant and equipment' and the liability is presented in 'Other liabilities'. These balances are shown in Note 28.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 was adopted by the Group on 1 January 2019 and has been endorsed by the EU. It clarifies the accounting for uncertainties in income taxes and did not result in a material impact to the Group's interim report.

Other amendments and clarifications made to existing standards that are not yet effective are not expected.

Going concern

These interim financial statements were approved by the Board of directors on 1 August 2019. The directors made an assessment of the Group's ability to continue as a going concern and 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 interim financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

2. Segmental information

Basis of preparation

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

Restructuring and other 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 performance period-by period. These adjustments are set out below.

The Group made a provision for regulatory matters of $204 million mostly relating to the resolution of legacy conduct and control issues. Revaluations of Principal Finance exposures together with profits related to the Group's discontinued ship leasing business contributed the majority of the $14 million net restructuring charges in the first half of 2019.

As previously communicated the Group's joint venture investment in Indonesia is no longer considered core and the related profits of $23 million in 2019 are excluded from underlying and reported in other items.

	6 months ended 30.06.19					
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Gains arising on repurchase of senior and subordinated liabilities $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	7,696	–	134	–	–	7,830
Operating expenses	(4,969)	(204)	(125)	–	–	(5,298)
Operating profit/(loss) before impairment losses and taxation	2,727	(204)	9	–	–	2,532
Credit impairment	(254)	–	–	–	–	(254)
Other impairment	(21)	–	(23)	–	–	(44)
Profit from associates and joint ventures	157	–	–	–	23	180
Profit/(loss) before taxation	2,609	(204)	(14)	–	23	2,414

2. Segmental information continued

	6 months ended 31.12.18					
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Gains arising on repurchase of senior and subordinated liabilities $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	7,319	–	(157)	–	–	7,162
Operating expenses	(5,347)	(900)	(215)	–	–	(6,462)
Operating profit/(loss) before impairment losses and taxation	1,972	(900)	(372)	–	–	700
Credit impairment	(447)	–	8	–	–	(439)
Other impairment	(97)	–	(35)	–	–	(132)
Profit from associates and joint ventures	73	–	–	–	–	73
Profit/(loss) before taxation	1,501	(900)	(399)	–	–	202

	6 months ended 30.06.18					
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Gains arising on repurchase of senior and subordinated liabilities $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	7,649	–	(91)	69	–	7,627
Operating expenses	(5,117)	–	(68)	–	–	(5,185)
Operating profit/(loss) before impairment losses and taxation	2,532	–	(159)	69	–	2,442
Credit impairment	(293)	–	79	–	–	(214)
Other impairment	(51)	–	1	–	–	(50)
Profit from associates and joint ventures	168	–	–	–	–	168
Profit/(loss) before taxation	2,356	–	(79)	69	–	2,346

Underlying performance by client segment

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Operating income	**3,607**	**2,595**	**746**	**306**	**442**	**7,696**
External	**3,703**	**2,134**	**799**	**171**	**889**	**7,696**
Inter-segment	**(96)**	**461**	**(53)**	**135**	**(447)**	**–**
Operating expenses	**(2,124)**	**(1,823)**	**(425)**	**(253)**	**(344)**	**(4,969)**
Operating profit before impairment losses and taxation	**1,483**	**772**	**321**	**53**	**98**	**2,727**
Credit impairment	**(110)**	**(154)**	**(35)**	**47**	**(2)**	**(254)**
Other impairment	**(19)**	**–**	**–**	**–**	**(2)**	**(21)**
Profit from associates and joint ventures	**–**	**–**	**–**	**–**	**157**	**157**
Underlying profit before taxation	**1,354**	**618**	**286**	**100**	**251**	**2,609**
Provision for regulatory matters	**–**	**–**	**–**	**–**	**(204)**	**(204)**
Restructuring	**23**	**(1)**	**–**	**(1)**	**(35)**	**(14)**
Share of profits of PT Bank Permata Tbk joint venture	**–**	**–**	**–**	**–**	**23**	**23**
Statutory profit before taxation	**1,377**	**617**	**286**	**99**	**35**	**2,414**
Total assets	**332,599**	**103,320**	**32,821**	**15,654**	**228,110**	**712,504**
Of which: loans and advances to customers including FVTPL	**152,577**	**101,195**	**28,229**	**15,521**	**9,120**	**306,642**
loans and advances to customers	**110,677**	**100,892**	**27,388**	**15,521**	**9,117**	**263,595**
loans held at fair value through profit or loss	**41,900**	**303**	**841**	**–**	**3**	**43,047**
Total liabilities	**386,223**	**142,655**	**34,773**	**18,616**	**79,798**	**662,065**
Of which: customer accounts	**239,816**	**139,256**	**31,876**	**18,473**	**15,490**	**444,911**

2. Segmental information continued

Underlying performance by client segment continued

	6 months ended 31.12.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,409	2,421	685	245	559	7,319
External	3,495	2,080	771	115	858	7,319
Inter-segment	(86)	341	(86)	130	(299)	–
Operating expenses	(2,178)	(1,852)	(463)	(255)	(599)	(5,347)
Operating profit/(loss) before impairment losses and taxation	1,231	569	222	(10)	(40)	1,972
Credit impairment	(161)	(148)	(138)	1	(1)	(447)
Other impairment	(91)	(5)	–	–	(1)	(97)
Profit from associates and joint ventures	–	–	–	–	73	73
Underlying profit/(loss) before taxation	979	416	84	(9)	31	1,501
Provision for regulatory matters	(50)	–	–	–	(850)	(900)
Restructuring	(274)	(64)	(11)	(18)	(32)	(399)
Statutory profit/(loss) before taxation	655	352	73	(27)	(851)	202
Total assets	308,496	103,780	31,379	13,673	231,434	688,762
Of which: loans and advances to customers including FVTPL	146,575	101,635	27,271	13,616	10,274	299,371
loans and advances to customers	104,677	101,235	26,759	13,616	10,270	256,557
loans held at fair value through profit or loss	41,898	400	512	–	4	42,814
Total liabilities	369,316	140,328	37,260	19,733	71,773	638,410
Of which: customer accounts	243,019	136,691	34,860	19,622	2,989	437,181

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,451	2,620	706	271	601	7,649
External	3,560	2,413	799	155	722	7,649
Inter-segment	(109)	207	(93)	116	(121)	–
Operating expenses	(2,218)	(1,884)	(460)	(275)	(280)	(5,117)
Operating profit/(loss) before impairment losses and taxation	1,233	736	246	(4)	321	2,532
Credit impairment	(81)	(119)	(106)	(1)	14	(293)
Other impairment	(59)	–	–	–	8	(51)
Profit from associates and joint ventures	–	–	–	–	168	168
Underlying profit/(loss) before taxation	1,093	617	140	(5)	511	2,356
Restructuring	(76)	(4)	(1)	(6)	8	(79)
Gains arising on repurchase of senior and subordinated liabilities	3	–	–	–	66	69
Statutory profit/(loss) before taxation	1,020	613	139	(11)	585	2,346
Total assets	310,487	103,581	32,347	13,616	234,843	694,874
Of which: loans and advances to customers including FVTPL	143,297	101,530	28,571	13,565	9,756	296,719
loans and advances to customers	106,780	101,017	28,213	13,565	9,756	259,331
loans held at fair value through profit or loss	36,517	513	358	–	–	37,388
Total liabilities	384,593	135,384	35,024	19,938	68,447	643,386
Of which: customer accounts	246,667	132,254	32,696	19,830	3,567	435,014

2. Segmental information continued

Underlying performance by region

	6 months ended 30.06.19					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	**3,080**	**2,136**	**1,340**	**794**	**346**	**7,696**
Operating expenses	**(1,826)**	**(1,292)**	**(850)**	**(715)**	**(286)**	**(4,969)**
Operating profit before impairment losses and taxation	**1,254**	**844**	**490**	**79**	**60**	**2,727**
Credit impairment	**(70)**	**(84)**	**(49)**	**(66)**	**15**	**(254)**
Other impairment	**(8)**	**–**	**–**	**–**	**(13)**	**(21)**
Profit from associates and joint ventures	**153**	**–**	**–**	**–**	**4**	**157**
Underlying profit before taxation	**1,329**	**760**	**441**	**13**	**66**	**2,609**
Provision for regulatory matters	**–**	**–**	**–**	**–**	**(204)**	**(204)**
Restructuring	**(3)**	**(16)**	**(2)**	**(15)**	**22**	**(14)**
Share of profits of PT Bank Permata Tbk joint venture	**–**	**23**	**–**	**–**	**–**	**23**
Statutory profit/(loss) before taxation	**1,326**	**767**	**439**	**(2)**	**(116)**	**2,414**
Net interest margin	**1.48%**	**1.96%**	**3.10%**	**0.55%**		**1.59%**
Total assets	**275,414**	**151,714**	**59,189**	**214,126**	**12,061**	**712,504**
Of which: loans and advances to customers including FVTPL	**134,440**	**82,826**	**30,161**	**59,215**	**–**	**306,642**
loans and advances to customers	**127,769**	**80,769**	**29,289**	**25,768**	**–**	**263,595**
loans held at fair value through profit or loss	**6,671**	**2,057**	**872**	**33,447**	**–**	**43,047**
Total liabilities	**240,802**	**132,763**	**37,000**	**215,504**	**35,996**	**662,065**
Of which: customer accounts	**196,994**	**101,594**	**29,621**	**116,702**	**–**	**444,911**

	6 months ended 31.12.18					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,060	1,898	1,228	800	333	7,319
Operating expenses	(1,909)	(1,351)	(891)	(717)	(479)	(5,347)
Operating profit/(loss) before impairment losses and taxation	1,151	547	337	83	(146)	1,972
Credit impairment	(54)	(184)	(192)	(15)	(2)	(447)
Other impairment	(66)	(1)	–	–	(30)	(97)
Profit from associates and joint ventures	49	19	–	–	5	73
Underlying profit/(loss) before taxation	1,080	381	145	68	(173)	1,501
Provision for regulatory matters	–	–	–	(50)	(850)	(900)
Restructuring	(80)	17	(59)	(3)	(274)	(399)
Statutory profit/(loss) before taxation	1,000	398	86	15	(1,297)	202
Net interest margin	1.42%	2.09%	2.94%	0.50%		1.56%
Total assets	269,765	147,049	57,800	201,912	12,236	688,762
Of which: loans and advances to customers including FVTPL	130,669	81,905	29,870	56,927	–	299,371
Total liabilities	238,249	127,478	36,733	198,853	37,097	638,410
Of which: customer accounts	196,870	96,896	29,916	113,499	–	437,181

2. Segmental information continued

Underlying performance by region continued

	6 months ended 30.06.18					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,097	2,073	1,376	870	233	7,649
Operating expenses	(1,903)	(1,360)	(919)	(736)	(199)	(5,117)
Operating profit before impairment losses and taxation	1,194	713	457	134	34	2,532
Credit impairment	(17)	(138)	(70)	(68)	–	(293)
Other impairment	(44)	7	–	17	(31)	(51)
Profit from associates and joint ventures	156	7	–	3	2	168
Underlying profit before taxation	1,289	589	387	86	5	2,356
Restructuring	(26)	88	(41)	(5)	(95)	(79)
Gains arising on repurchase of senior and subordinated liabilities	–	–	–	3	66	69
Statutory profit/(loss) before taxation	1,263	677	346	84	(24)	2,346
Net interest margins	1.46%	2.03%	3.12%	0.44%		1.59%
Total assets	268,294	147,017	58,343	208,599	12,621	694,874
Of which: loans and advances to customers including FVTPL	132,679	82,078	30,967	50,995	–	296,719
Total liabilities	235,214	126,815	38,493	210,002	32,862	643,386
Of which: customer accounts	190,305	95,228	31,540	117,941	–	435,014

Additional segmental information (statutory)

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Net interest income	**2,093**	**1,638**	**464**	**159**	**264**	**4,618**
Net fees and commission income	**810**	**777**	**146**	**123**	**(18)**	**1,838**
Other income	**835**	**180**	**138**	**25**	**196**	**1,374**
Operating income	**3,738**	**2,595**	**748**	**307**	**442**	**7,830**

	6 months ended 31.12.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	1,779	1,587	436	150	480	4,432
Net fees and commission income	733	695	133	82	(20)	1,623
Other income	736	140	115	13	103	1,107
Operating income	3,248	2,422	684	245	563	7,162

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	1,691	1,577	427	147	519	4,361
Net fees and commission income	763	884	151	110	(39)	1,869
Other income	904	158	128	16	191	1,397
Operating income	3,358	2,619	706	273	671	7,627

2. Segmental information continued

	6 months ended 30.06.19					
	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	**1,736**	**1,257**	**760**	**455**	**410**	**4,618**
Other income	**1,391**	**878**	**580**	**339**	**24**	**3,212**
Operating income	**3,127**	**2,135**	**1,340**	**794**	**434**	**7,830**

	6 months ended 31.12.18					
	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	1,674	1,286	726	381	365	4,432
Other income	1,381	620	502	425	(198)	2,730
Operating income	3,055	1,906	1,228	806	167	7,162

	6 months ended 30.06.18					
	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	1,677	1,275	767	311	331	4,361
Other income	1,418	811	610	562	(135)	3,266
Operating income	3,095	2,086	1,377	873	196	7,627

	6 months ended 30.06.19							
	Hong Kong $million	**Korea $million**	**China $million**	**Singapore $million**	**India $million**	**UAE $million**	**UK $million**	**US $million**
Net interest income	**1,019**	**329**	**316**	**523**	**301**	**199**	**266**	**129**
Other income	**881**	**176**	**129**	**347**	**201**	**128**	**64**	**236**
Operating income	**1,900**	**505**	**445**	**870**	**502**	**327**	**330**	**365**

	6 months ended 31.12.18							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	951	331	311	518	336	183	157	123
Other income	948	144	88	180	125	97	227	211
Operating income	1,899	475	399	698	461	280	384	334

	6 months ended 30.06.18							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	903	341	337	531	310	182	137	120
Other income	945	193	83	319	165	175	307	213
Operating income	1,848	534	420	850	475	357	444	333

3. Net fees and commission

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Fees and commissions income	**2,120**	1,915	2,114
Fees and commissions expense	**(282)**	(292)	(245)
Net fees and commission	**1,838**	1,623	1,869

Total fee income arising from financial instruments that are not fair valued through profit or loss is $777 million (31 December 2018: $779 million and 30 June 2018: $699 million) and arising from trust and other fiduciary activities is $79 million (31 December 2018: $66 million and 30 June 2018: $78 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $69 million (31 December 2018: $88 million and 30 June 2018: $55 million) and arising from trust and other fiduciary activities is $14 million (31 December 2018: $13 million and 30 June 2018: $14 million).

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Transaction Banking	**530**	**5**	**111**	**–**	**–**	**646**
Trade	**222**	**5**	**82**	**–**	**–**	**309**
Cash Management	**216**	**–**	**29**	**–**	**–**	**245**
Securities Services	**92**	**–**	**–**	**–**	**–**	**92**
Financial Markets	**133**	**–**	**12**	**–**	**–**	**145**
Corporate Finance	**104**	**–**	**13**	**2**	**–**	**119**
Lending and Portfolio Management	**39**	**–**	**9**	**–**	**–**	**48**
Principal Finance	**4**	**–**	**–**	**–**	**–**	**4**
Wealth Management	**–**	**591**	**1**	**119**	**–**	**711**
Retail Products	**–**	**181**	**–**	**2**	**–**	**183**
Treasury	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Others	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Net fees and commission	**810**	**777**	**146**	**123**	**(18)**	**1,838**

	6 months ended 31.12.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	511	6	105	–	–	622
Trade	212	6	77	–	–	295
Cash Management	213	–	28	–	–	241
Securities Services	86	–	–	–	–	86
Financial Markets	105	–	12	–	–	117
Corporate Finance	103	–	10	–	–	113
Lending and Portfolio Management	34	–	5	–	–	39
Principal Finance	(20)	–	–	–	–	(20)
Wealth Management	–	515	1	81	–	597
Retail Products	–	174	–	1	–	175
Treasury	–	–	–	–	(10)	(10)
Others	–	–	–	–	(10)	(10)
Net fees and commission	733	695	133	82	(20)	1,623

3. Net fees and commission continued

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	555	6	118	–	–	679
Trade	236	6	86	–	–	328
Cash Management	216	–	32	–	–	248
Securities Services	103	–	–	–	–	103
Financial Markets	101	–	13	–	–	114
Corporate Finance	78	–	11	–	–	89
Lending and Portfolio Management	23	–	8	–	–	31
Principal Finance	6	–	–	–	–	6
Wealth Management	–	652	1	109	–	762
Retail Products	–	229	–	1	–	230
Treasury	–	–	–	–	(12)	(12)
Others	–	(3)	–	–	(27)	(30)
Net fees and commission	763	884	151	110	(39)	1,869

4. Net trading income

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Net trading income	**994**	717	966
Significant items within net trading income include:			
Gains on instruments held for trading	**1,111**	812	944
Gains/(losses) on financial assets mandatorily at fair value through profit or loss	**56**	(27)	(77)
Gains/(losses) on financial assets designated at fair value through profit or loss	**12**	24	(13)
(Losses)/gains on financial liabilities designated at fair value through profit or loss	**(297)**	(135)	165

5. Other operating income

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Other operating income includes:			
Rental income from operating lease assets	**265**	285	288
Net gains/(losses) on disposal of fair value through other comprehensive income investments	**58**	(18)	(13)
Losses on disposal of investment securities	**(17)**	–	–
Net gain on sale of businesses	**–**	9	–
Dividend income	**6**	16	9
Gains arising on repurchase of senior and subordinated liabilities	**–**	–	69[1]
Other	**68**	98	78
	380	390	431

1 On 14 June 2018, Standard Chartered PLC repurchased in part, £245.7 million of its £750 million 4.375 per cent senior debt 2038 and £372.5 million of its £900 million 5.125 per cent subordinated debt 2034. On the same date, Standard Chartered Bank repurchased in part, £95.1 million of its £200 million 7.75 per cent subordinated notes (callable 2022). This activity resulted in an overall gain of £69 million for the Group

6. Operating expenses

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Staff costs:			
Wages and salaries	**2,729**	2,694	2,745
Social security costs	**98**	75	96
Other pension costs (Note 23)	**199**	178	187
Share-based payment costs	**107**	62	104
Other staff costs	**444**	487	446
	3,577	3,496	3,578

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Premises and equipment expenses:			
Rental of premises[1]	**19**	188	186
Other premises and equipment costs	**164**	218	177
Rental of computers and equipment	**8**	11	10
	191	417	373
General administrative expenses:			
UK bank levy	**–**	324	–
Provision for regulatory matters	**204**	900	–
Other general administrative expenses	**749**	894	808
	953	2,118	808
Depreciation and amortisation:			
Property, plant and equipment:			
Premises[1]	**179**	42	44
Equipment	**52**	47	47
Operating lease assets	**129**	156	148
	360	245	239
Intangibles:			
Software	**213**	181	182
Acquired on business combinations	**4**	5	5
	577	431	426
Total operating expenses	**5,298**	6,462	5,185

1 As a result of IFRS 16, rental expenses of premises has decreased and has been replaced by depreciation on premises (being the right-of-use asset) and interest expenses (on the lease liability)

7. Credit impairment

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Net credit impairment against profit on loans and advances to banks and customers	**259**	413	194
Net credit impairment against profit or loss during the period relating to debt securities	**9**	11	(4)
Net credit impairment relating to financial guarantees and loan commitments	**(14)**	15	24
Credit impairment[1]	**254**	439	214

1 No material purchased or originated credit-impaired (POCI) assets

8. Other impairment

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Impairment of fixed assets	**36**	103	47
Impairment of other intangible assets	**6**	25	21
Other	**2**	4	(18)
Other impairment	**44**	132	50

9. Taxation

The following table provides analysis of taxation charge in the period.

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
The charge for taxation based upon the profit for the period comprises:			
Current tax:			
United Kingdom corporation tax at 19 per cent (31 December 2018 and 30 June 2018: 19 per cent):			
Current tax charge on income for the period	**10**	(2)	3
Adjustments in respect of prior periods (including double tax relief)	**(1)**	3	46
Foreign tax:			
Current tax charge on income for the period	**829**	391	718
Adjustments in respect of prior periods	**(54)**	(17)	(88)
	784	375	679
Deferred tax:			
Origination/reversal of temporary differences	**139**	274	(20)
Adjustments in respect of prior periods	**(5)**	37	94
	134	311	74
Tax on profits on ordinary activities	**918**	686	753
Effective tax rate	**38.0%**	nm[1]	32.1%

1 Not meaningful

The tax charge for the period of $918 million (31 December 2018: $686 million and 30 June 2018: $753 million) on a profit before tax of $2,414 million (31 December 2018: $202 million and 30 June 2018: $2,346 million) reflects the impact of capital gains tax arising on internal restructuring to establish the Hong Kong hub, non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

Foreign tax includes current tax of $117 million (31 December 2018: $66 million and 30 June 2018: $103 million) on the profits assessable in Hong Kong.

Deferred tax includes origination or reversal of temporary differences of $(4) million (31 December 2018: $20 million and 30 June 2018: $(3) million) provided at a rate of 16.5 per cent (31 December 2018: 16.5 per cent) on the profits assessable in Hong Kong.

10. Dividends

The Board has decided to adopt a formulaic approach to setting the interim dividend for 2019, being one-third of the prior year full-year dividend per share.

Ordinary equity shares

	30.06.19		31.12.18[1]		30.06.18[1]	
	Cents per share	**$million**	Cents per share	$million	Cents per share	$million
2018/2017 final dividend declared and paid during the period	**15**	**495**	–	–	11	363
2018 interim dividend declared and paid during the period	**–**	**–**	6	198	–	–

1 The amounts are gross of scrip adjustments

The 2018 final dividend of 15 cents per ordinary share ($495 million) was paid to eligible shareholders on 16 May 2019, and is recognised in these interim accounts.

Interim 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 as stated above relate to the prior year and the 2018 interim dividend of 6 cents per ordinary share ($198 million) was paid to eligible shareholders on 22 October 2018.

2019 recommended interim dividend

The 2019 interim dividend of 7 cents per ordinary share will be paid in pounds sterling, Hong Kong dollars or US dollars on 21 October 2019 to shareholders on the UK register of members at the close of business in the UK on 9 August 2019. The 2019 interim dividend will be paid in Indian rupees on 21 October 2019 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 August 2019.

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.

		30.06.19 $million	31.12.18 $million	30.06.18 $million
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each	**26**	27	26
	6.409 per cent preference shares of $5 each	**16**	14	12
		42	41	38
Additional Tier 1 securities: $5 billion fixed rate resetting perpetual subordinated contingent convertible securities		**179**	178	179
		221	219	217
Dividends on these preference shares are treated as interest expense and accrued accordingly.				
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each	**5**	4	5
	8 1/4 per cent preference shares of £1 each	**5**	5	5
		10	9	10

11. Earnings per ordinary share

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Profit/(loss) for the period attributable to equity holders	**1,496**	(484)	1,593
Non-controlling interests	**(19)**	(22)	(33)
Dividend payable on preference shares and AT1 classified as equity	**(221)**	(219)	(217)
Profit/(loss) for the period attributable to ordinary shareholders	**1,256**	(725)	1,343
Items normalised:			
Provision for regulatory matters	**204**	900	–
Restructuring	**14**	399	79
Profit from associates and joint ventures	**(23)**	–	–
Gains arising on repurchase of subordinated liabilities	**–**	–	(69)
Tax on normalised items	**172**	(27)	131
Underlying profit	**1,623**	547	1,484
Basic – Weighted average number of shares (millions)	**3,304**	3,306	3,303
Diluted – Weighted average number of shares (millions)	**3,348**	3,340	3,337
Basic earnings/(loss) per ordinary share (cents)	**38.0**	(21.9)	40.7
Diluted earnings/(loss) per ordinary share (cents)	**37.5**	(21.7)	40.2
Underlying basic earnings per ordinary share (cents)	**49.1**	16.5	44.9
Underlying diluted earnings per ordinary share (cents)	**48.5**	16.4	44.5

12. Financial instruments

The Group's classification of its financial assets and liabilities is summarised in the following tables.

		Assets at fair value							
Assets	Notes	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	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	58,822	58,822
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		152	–	3,501	–	–	3,653	–	3,653
Loans and advances to customers[1]		1,619	–	4,571	–	–	6,190	–	6,190
Reverse repurchase agreements and other similar secured lending	14	–	–	54,065	–	–	54,065	–	54,065
Debt securities, alternative Tier 1 and other eligible bills		26,889	–	739	307	–	27,935	–	27,935
Equity shares		1,094	–	357	108	–	1,559	–	1,559
		29,754	–	63,233	415	–	93,402	–	93,402
Derivative financial instruments	13	48,413	824	–	–	–	49,237	–	49,237
Loans and advances to banks[1]		–	–	–	–	–	–	59,210	59,210
Of which: reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	1,145	1,145
Loans and advances to customers[1]		–	–	–	–	–	–	263,595	263,595
Of which: reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	2,704	2,704
Investment securities									
Debt securities, alternative Tier 1 and other eligible bills		–	–	–	–	115,603	115,603	12,150	127,753
Equity shares		–	–	–	–	283	283	–	283
		–	–	–	–	115,886	115,886	12,150	128,036
Other assets	16	–	–	–	–	–	–	36,234	36,234
Assets held for sale	17	72	–	293	526	–	891	141	1,032
Total at 30 June 2019		78,239	824	63,526	941	115,886	259,416	430,152	689,568

1 Further analysed in Risk review and Capital review (pages 26 to 72)

12. Financial instruments continued

Assets	Notes	Assets at fair value: 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	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	57,511	57,511
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		146	–	3,622	–	–	3,768	–	3,768
Loans and advances to customers[1]		1,074	–	3,854	–	–	4,928	–	4,928
Reverse repurchase agreements and other similar secured lending	14	–	–	54,769	–	–	54,769	–	54,769
Debt securities, alternative Tier 1 and other eligible bills		21,246	–	393	337	–	21,976	–	21,976
Equity shares		1,347	–	233	111	–	1,691	–	1,691
		23,813	–	62,871	448	–	87,132	–	87,132
Derivative financial instruments	13	45,108	513	–	–	–	45,621	–	45,621
Loans and advances to banks[1]		–	–	–	–	–	–	61,414	61,414
Of which: reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	3,815	3,815
Loans and advances to customers[1]		–	–	–	–	–	–	256,557	256,557
Of which: reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	3,151	3,151
Investment securities									
Debt securities, alternative Tier 1 and other eligible bills		–	–	–	–	116,335	116,335	9,303	125,638
Equity shares		–	–	–	–	263	263	–	263
		–	–	–	–	116,598	116,598	9,303	125,901
Other assets	16	–	–	–	–	–	–	32,678	32,678
Assets held for sale	17	78	–	358	451	–	887	135	1,022
Total at 31 December 2018		68,999	513	63,229	899	116,598	250,238	417,598	667,836

1 Further analysed in Risk review and Capital review (pages 26 to 72)

12. Financial instruments continued

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	757	757	–	757
Customer accounts		–	–	6,889	6,889	–	6,889
Repurchase agreements and other similar secured borrowing	14	–	–	39,834	39,834	–	39,834
Debt securities in issue		–	–	9,272	9,272	–	9,272
Short positions		5,029	–	–	5,029	–	5,029
		5,029	–	56,752	61,781	–	61,781
Derivative financial instruments	13	48,491	1,862	–	50,353	–	50,353
Deposits by banks		–	–	–	–	30,783	30,783
Customer accounts		–	–	–	–	401,597	401,597
Repurchase agreements and other similar secured borrowing	14	–	–	–	–	5,920	5,920
Debt securities in issue		–	–	–	–	46,672	46,672
Other liabilities	18	–	–	–	–	41,083	41,083
Subordinated liabilities and other borrowed funds	21	–	–	–	–	15,245	15,245
Liabilities included in disposal groups held for sale	17	40	–	–	40	–	40
Total at 30 June 2019		53,560	1,862	56,752	112,174	541,300	653,474

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	318	318	–	318
Customer accounts		–	–	6,751	6,751	–	6,751
Repurchase agreements and other similar secured borrowing	14	–	–	43,000	43,000	–	43,000
Debt securities in issue		–	–	7,405	7,405	–	7,405
Short positions		3,226	–	–	3,226	–	3,226
		3,226	–	57,474	60,700	–	60,700
Derivative financial instruments	13	45,580	1,629	–	47,209	–	47,209
Deposits by banks		–	–	–	–	29,715	29,715
Customer accounts		–	–	–	–	391,013	391,013
Repurchase agreements and other similar secured borrowing	14	–	–	–	–	1,401	1,401
Debt securities in issue		–	–	–	–	46,454	46,454
Other liabilities	18	–	–	–	–	37,945	37,945
Subordinated liabilities and other borrowed funds	21	–	–	–	–	15,001	15,001
Liabilities included in disposal groups held for sale	17	198	–	–	198	–	198
Total at 31 December 2018		49,004	1,629	57,474	108,107	521,529	629,636

12. Financial instruments continued

Financial liabilities designated at fair value through profit or loss

	30.06.19 $million	31.12.18 $million
Carrying balance aggregate fair value	**56,752**	57,474
Amount contractually obliged to repay at maturity	**56,708**	57,974
Difference between aggregate fair value and contractually obliged to repay at maturity	**44**	(500)
Cumulative change in fair value accredited to Credit risk difference	**84**	476

The net fair value loss on financial liabilities designated at fair value through profit or loss was $297 million for the period (31 December 2018: net gain of $30 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this note.

Valuation of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of this, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the Group's non-performance risk. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either Market Risks or Credit Risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cashflow 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 99)
- 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 104)
- 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

12. Financial instruments continued

Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 100)

→ **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 cashflow 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 cashflow 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 cashflows 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 credit spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
- **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

12. 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 cashflow 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 cashflows 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 cashflows
- **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 cashflows using the prevailing money market rates for debts with a similar Credit Risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio reprices within one month, and approximately half reprices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cashflows expected to be received, including assumptions relating to prepayment rates and Credit Risk. Expected cashflows 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 consist 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 reprice 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.

	01.01.19 $million	**Movement during the period $million**	**30.06.19 $million**	01.01.18 $million	Movement during the year $million	31.12.18 $million
Bid-offer valuation adjustment	**67**	**10**	**77**	82	(15)	67
CVA	**196**	**(12)**	**184**	229	(33)	196
DVA	**(143)**	**42**	**(101)**	(66)	(77)	(143)
Model valuation adjustment	**6**	**–**	**6**	6	–	6
FVA	**60**	**(26)**	**34**	79	(19)	60
Other fair value adjustments	**59**	**1**	**60**	65	(6)	59
Total	**245**	**15**	**260**	395	(150)	245
Income Deferrals						
Day 1 and other deferrals	**100**	**(4)**	**96**	83	17	100
Total	**100**	**(4)**	**96**	83	17	100

Note: Bracket represents an asset and credit to the income statement

12. Financial instruments continued

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid-market basis in the revaluation systems, a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems
- **Credit valuation adjustment (CVA):** The Group makes CVA adjustment against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by 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 certain key wrong-way exposures. The Group also captures the uncertainties associated with wrong-way risk in its Prudential Valuation Adjustments
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. 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 life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cashflows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **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 may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated. 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 OCA on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group's OCA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA adjustments will reverse over time as its liabilities mature. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cashflows using a yield curve adjusted for market observed secondary senior unsecured credit spreads. The OCA at 30 June 2019 is $84 million, other comprehensive income loss $392 million (31 December 2018: $476 million, other comprehensive income gain $394 million).

Fair value hierarchy – financial instruments held at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- **Level 3:** Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

12. 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
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	3,653	–	3,653
Loans and advances to customers	–	5,720	470	6,190
Reverse repurchase agreements and other similar secured lending	–	54,065	–	54,065
Debt securities, alternative Tier 1 and other eligible bills	9,571	18,215	149	27,935
Of which:				
Government bonds and treasury bills	7,850	8,217	–	16,067
Issued by corporates other than financial institutions[2]	64	5,538	149	5,751
Issued by financial institutions[2]	1,657	4,460	–	6,117
Equity shares	1,190	–	369	1,559
Derivative financial instruments	552	48,637	48	49,237
Of which:				
Foreign exchange	58	27,488	39	27,585
Interest rate	17	20,274	9	20,300
Credit	–	555	–	555
Equity and stock index options	–	28	–	28
Commodity	477	292	–	769
Investment securities				
Debt securities, alternative Tier 1 and other eligible bills	61,929	53,515	159	115,603
Of which:				
Government bonds and treasury bills	43,889	19,360	109	63,358
Issued by corporates other than financial institutions[2]	6,353	12,170	50	18,573
Issued by financial institutions[2]	11,687	21,985	–	33,672
Equity shares	30	–	253	283
Total financial instruments at 30 June 2019[1]	73,272	183,805	1,448	258,525
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	721	36	757
Customer accounts	–	6,889	–	6,889
Repurchase agreements and other similar secured borrowing	–	39,834	–	39,834
Debt securities in issue	–	8,810	462	9,272
Short positions	2,986	2,043	–	5,029
Derivative financial instruments	625	49,068	660	50,353
Of which:				
Foreign exchange	51	28,284	15	28,350
Interest rate	49	19,318	391	19,758
Credit	–	1,268	29	1,297
Equity and stock index options	–	64	225	289
Commodity	525	134	–	659
Total financial instruments at 30 June 2019[1]	3,611	107,365	1,158	112,134

1 The above table does not include held for sale assets of $891 million and liabilities of $40 million. These are reported in Note 17 together with their fair value hierarchy

2 Include covered bonds of $3,170 million, securities issued by Multilateral Development Banks/International Organisations of $11,238 million and State-owned agencies and development banks of $18,223 million

There were no significant changes to valuation or levelling approaches in 2019.

There were no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

12. Financial instruments continued

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	3,768	–	3,768
Loans and advances to customers	–	4,436	492	4,928
Reverse repurchase agreements and other similar secured lending	–	54,769	–	54,769
Debt securities, alternative Tier 1 and other eligible bills	8,097	13,562	317	21,976
Of which:				
Government bonds and treasury bills	6,699	6,851	–	13,550
Issued by corporates other than financial institutions[2]	178	3,241	317	3,736
Issued by financial institutions[2]	1,220	3,470	–	4,690
Equity shares	1,364	–	327	1,691
Derivative financial instruments	907	44,702	12	45,621
Of which:				
Foreign exchange	149	31,242	7	31,398
Interest rate	4	12,237	5	12,246
Credit	–	252	–	252
Equity and stock index options	–	89	–	89
Commodity	754	882	–	1,636
Investment securities				
Debt securities, alternative Tier 1 and other eligible bills	67,624	48,299	412	116,335
Of which:				
Government bonds and treasury bills	52,329	17,928	412	70,669
Issued by corporates other than financial institutions[2]	8,366	9,839	–	18,205
Issued by financial institutions[2]	6,929	20,532	–	27,461
Equity shares	29	4	230	263
Total financial instruments at 31 December 2018[1]	78,021	169,540	1,790	249,351
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	314	4	318
Customer accounts	–	6,751	–	6,751
Repurchase agreements and other similar secured borrowing	–	43,000	–	43,000
Debt securities in issue	–	6,966	439	7,405
Short positions	1,999	1,227	–	3,226
Derivative financial instruments	809	45,995	405	47,209
Of which:				
Foreign exchange	137	32,655	7	32,799
Interest rate	15	12,583	355	12,953
Credit	–	273	8	281
Equity and stock index options	–	32	35	67
Commodity	657	452	–	1,109
Total financial instruments at 31 December 2018[1]	2,808	104,253	848	107,909

1 The above table does not include held for sale assets of $887 million and liabilities of $198 million. These are reported in Note 17 together with their fair value hierarchy

2 Include covered bonds of $5,466 million, securities issued by Multilateral Development Banks/International Organisations $7,432 million and State-owned agencies and development banks of $7,549 million

There were no significant changes to valuation or levelling approaches in 2018.

There were no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the period.

12. 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.

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	**58,822**	**–**	**58,822**	**–**	**58,822**
Loans and advances to banks	**59,210**	**–**	**59,121**	**–**	**59,121**
Of which: reverse repurchase agreements and other similar secured lending	**1,145**	**–**	**1,155**	**–**	**1,155**
Loans and advances to customers	**263,595**	**–**	**22,883**	**241,028**	**263,911**
Of which: reverse repurchase agreements and other similar secured lending	**2,704**	**–**	**1,673**	**1,033**	**2,706**
Investment securities[2]	**12,150**	**–**	**11,647**	**25**	**11,672**
Other assets[1]	**36,234**	**–**	**36,234**	**–**	**36,234**
Assets held for sale	**141**	**–**	**40**	**101**	**141**
At 30 June 2019	**430,152**	**–**	**188,747**	**241,154**	**429,901**
Liabilities					
Deposits by banks	**30,783**	**–**	**30,776**	**–**	**30,776**
Customer accounts	**401,597**	**–**	**401,734**	**–**	**401,734**
Repurchase agreements and other similar secured borrowing	**5,920**	**–**	**5,920**	**–**	**5,920**
Debt securities in issue	**46,672**	**19,239**	**27,383**	**–**	**46,622**
Subordinated liabilities and other borrowed funds	**15,245**	**15,422**	**69**	**–**	**15,491**
Other liabilities[1]	**41,083**	**–**	**41,083**	**–**	**41,083**
At 30 June 2019	**541,300**	**34,661**	**506,965**	**–**	**541,626**

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	57,511	–	57,511	–	57,511
Loans and advances to banks	61,414	–	61,357	–	61,357
Of which: reverse repurchase agreements and other similar secured lending	3,815	–	3,842	–	3,842
Loans and advances to customers	256,557	–	18,514	238,797	257,311
Of which: reverse repurchase agreements and other similar secured lending	3,151	–	2,409	744	3,153
Investment securities[2]	9,303	–	8,953	8	8,961
Other assets[1]	32,678	–	32,673	–	32,673
Assets held for sale	135	–	135	–	135
At 31 December 2018	417,598	–	179,143	238,805	417,948
Liabilities					
Deposits by banks	29,715	–	29,715	–	29,715
Customer accounts	391,013	–	391,018	–	391,018
Repurchase agreements and other similar secured borrowing	1,401	–	1,401	–	1,401
Debt securities in issue	46,454	17,009	29,195	–	46,204
Subordinated liabilities and other borrowed funds	15,001	14,505	23	–	14,528
Other liabilities[1]	37,945	–	37,945	–	37,945
At 31 December 2018	521,529	31,514	489,297	–	520,811

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 $5,488 million at H1 2019 and $4,716 million at FY 2018

12. Financial instruments continued

Level 3 summary and significant unobservable inputs

The following table presents the Group's primary Level 3 financial instruments which are held at fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs.

	Value at 30 June 2019					
Instrument	**Assets $million**	**Liabilities $million**	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to customers	**470**		Comparable pricing/yield	Price/yield	NA	NA
			Discounted cashflows	Recovery rates	25.5% – 100%	95.2%
Debt securities, alternative Tier 1 and other eligible securities	**51**		Discounted cashflows	Recovery rates	44.2%	44.2%
Government bonds and treasury bills	**109**		Discounted cashflows	Price/yield	0.0% – 11.0%	6.7%
Asset-backed securities	**148**		Discounted cashflows	Price/yield	0.0% – 5.0%	4.0%
Equity shares (includes private equity investments)[3]	**622**		Comparable pricing/yield	EV/EBITDA multiples	3.3x – 9.2x	4.8x
				P/E multiples	16.5x	16.5x
				P/B multiples	0.6x – 1.0x	1.0x
				P/S multiples	N/A	N/A
				Liquidity discount	10.0% – 20.0%	16.5%
			Discounted cashflows	Discount rates	9.1% – 16.3%	9.9%
Derivative financial instruments Of which:						
Foreign exchange	**39**	**15**	Option pricing model	Foreign exchange option implied volatility	1.2% – 7.4%	5.0%
			Discounted cashflows	Foreign exchange curves	6.5% – 7.2%	6.9%
Interest rate	**9**	**391**	Discounted cashflows	Interest rate curves	2.4% – 16.6%	10.7%
			Discounted cashflows	Credit spreads	1.0% – 3.6%	1.0%
Credit	**–**	**29**	Discounted cashflows	Credit spreads	0.6% – 1.5%	1.0%
Equity and stock index	**–**	**225**	Internal pricing model	Equity correlation	-70.0% – 85.0%	N/A
				Equity-FX correlation	-80.0% – 82.3%	N/A
Deposits by banks		**36**	Discounted cashflows	Credit spreads	1.0%	1.0%
Debt securities in issue		**462**	Discounted cashflows	Credit spreads	0.2% – 4.0%	1.2%
		–	Internal pricing model	Equity correlation	-70.0% – 85.0%	N/A
		–		Equity-FX correlation	-80.0% – 82.3%	N/A
Total	**1,448**	**1,158**				

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 30 June 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. The shares will continue to be valued at the initial offering price until such time as a reliable means of valuing the cashflows and underlying assets is possible or additional sales are observable

12. Financial instruments 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 cashflows in a discounted cashflow 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
- **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
- **EV/EBITDA ratio multiples** This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples** This is the ratio of the Market Capitalisation to the net income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple** This is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple** This is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **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
- **Discount rate** refers to the rate of return used to convert expected cashflows into present value
- **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
- **Foreign exchange curves** is the term structure for the 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
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the Credit Risk of an instrument
- **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
- **Commodities correlation:** This refers to the correlation between two commodity underlyings over a specified time

12. Financial instruments continued

Level 3 movement tables – financial assets

The table below analyses movements in Level 3 financial assets carried at fair value.

	Held at fair value through profit or loss				Investment securities		
Assets	Loans and advances to customers $million	Debt securities, alternative Tier 1 and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities, alternative Tier 1 and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2019	492	317	327	12	412	230	1,790
Total gains/(losses) recognised in income statement	(3)	(23)	(16)	1	3	–	(38)
Net trading income	(3)	(23)	(16)	1	–	–	(41)
Other operating income	–	–	–	–	3	–	3
Total (losses)/gains recognised in other comprehensive income (OCI)	–	–	–	–	(327)	4	(323)
Fair value through OCI reserve	–	–	–	–	–	12	12
Exchange difference	–	–	–	–	(327)	(8)	(335)
Purchases	29	46	69	58	202	16	420
Sales	(8)	(155)	(12)	(20)	–	–	(195)
Settlements	(121)	(3)	–	(2)	(58)	–	(184)
Transfers out[1]	–	(86)	(74)	(3)	(73)	–	(236)
Transfers in[2]	81	53	75	2	–	3	214
At 30 June 2019	470	149	369	48	159	253	1,448
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 30 June 2019	1	–	–	3	–	–	4

1 Transfers out include debt securities, alternative Tier 1 and other eligible bills, equity shares and derivative financial instruments where the valuation parameters became observable during the period and were transferred to Level 1 and Level 2

2 Transfers in primarily relate to loans and advances, debt securities, alternative Tier 1 and other eligible bills, equity shares and derivative financial instruments where the valuation parameters become unobservable during the period

12. Financial instruments continued

Level 3 movement tables – financial assets

The table below analyses movements in Level 3 financial assets carried at fair value.

	Held at fair value through profit or loss						Investment securities		
Assets	Loans and advances to banks $million	Loans and advances to customers $million	Reverse repurchase agreements and other similar secured lending	Debt securities, alternative Tier 1 and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities, alternative Tier 1 and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2018	71	717	–	431	1,100	40	318	150	2,827
Total gains/(losses) recognised in income statement	2	13	–	(44)	(10)	(3)	22	–	(20)
Net trading income	2	13	–	(44)	(10)	(3)	–	–	(42)
Other operating income	–	–	–	–	–	–	22	–	22
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	–	(2)	40	38
Fair value through OCI reserve	–	–	–	–	–	–	–	41	41
Exchange difference	–	–	–	–	–	–	(2)	(1)	(3)
Purchases	–	328	55	120	143	70	445	38	1,199
Sales	–	(254)	–	(215)	(176)	(40)	–	(5)	(690)
Settlements	(71)	(261)	–	(6)	–	(14)	(210)	–	(562)
Transfers out[1]	(101)	(112)	(55)	(8)	(743)	(43)	(161)	(1)	(1,224)
Transfers in[2]	99	61	–	39	13	2	–	8	222
At 31 December 2018	–	492	–	317	327	12	412	230	1,790
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 2018	–	(2)	–	–	22	(3)	–	–	17

1 Transfers out include loans and advances, reverse repurchase agreements, debt securities, alternative Tier 1 and other eligible bills, equity shares and derivative financial instruments where the valuation parameters became observable during the year, and were transferred to Level 1 and Level 2. Transfers out further relates to $743 million equity shares held for sale

2 Transfers in primarily relate to loans and advances, debt securities, alternative Tier 1 and other eligible bills, equity shares and derivative financial instruments where the valuation parameters become unobservable during the year

12. Financial instruments continued

Level 3 movement tables – financial liabilities

	30.06.19			
	Deposits by banks $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2019	4	439	405	848
Total losses recognised in income statement – net trading income	–	23	51	74
Net trading income	–	23	51	74
Issues	32	240	197	469
Settlements	–	(240)	(190)	(430)
Transfers out[1]	–	–	(9)	(9)
Transfers in[2]	–	–	206	206
At 30 June 2019	36	462	660	1,158
Total unrealised losses/(gains) recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 30 June 2019	–	14	(6)	8

	31.12.18			
	Deposits by banks $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2018	69	442	25	536
Total losses/(gains) recognised in income statement – net trading income	1	(22)	30	9
Issues	4	167	439	610
Settlements	(70)	(148)	(103)	(321)
Transfers out[1]	–	–	(2)	(2)
Transfers in[2]	–	–	16	16
At 31 December 2018	4	439	405	848
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 2018	–	(5)	8	3

1 Transfers out during the period/year primarily relate to derivative financial instruments where the valuation parameters became observable during the period/year and were transferred to Level 2 financial liabilities

2 Transfers in during the period/year primarily relate to derivative financial instruments where the valuation parameters become unobservable during the period/year

12. 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 analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Fair value through other comprehensive income		
	Net exposure $million	Favourable changes $million	Unfavourable changes $million	Net exposure $million	Favourable changes $million	Unfavourable changes $million
Financial instruments held at fair value						
Loans and advances	**470**	**477**	**452**	**–**	**–**	**–**
Debt securities, alternative Tier 1 and other eligible bills	**149**	**150**	**148**	**159**	**159**	**159**
Equity shares	**369**	**406**	**332**	**253**	**278**	**228**
Derivative financial instruments	**(612)**	**(579)**	**(645)**	**–**	**–**	**–**
Deposits by banks	**(36)**	**(35)**	**(37)**	**–**	**–**	**–**
Debt securities in issue	**(462)**	**(436)**	**(488)**	**–**	**–**	**–**
At 30 June 2019	**(122)**	**(17)**	**(238)**	**412**	**437**	**387**
Financial instruments held at fair value						
Loans and advances	492	498	481	–	–	–
Debt securities, alternative Tier 1 and other eligible bills	317	339	295	412	415	409
Equity shares	327	360	294	230	253	207
Derivative financial instruments	(393)	(376)	(410)	–	–	–
Deposits by banks	(4)	(4)	(4)	–	–	–
Debt securities in issue	(439)	(417)	(461)	–	–	–
At 31 December 2018	300	400	195	642	668	616

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	30.06.19 $million	31.12.18 $million
Held at fair value through profit or loss	Possible increase	**105**	100
	Possible decrease	**(116)**	(105)
Fair value through other comprehensive income	Possible increase	**25**	26
	Possible decrease	**(25)**	(26)

13. Derivative financial instruments

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.

	30.06.19			31.12.18		
Derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**996,234**	**11,399**	**11,474**	2,080,513	16,457	17,264
Currency swaps and options	**1,549,950**	**16,186**	**16,876**	856,660	14,941	15,535
	2,546,184	**27,585**	**28,350**	2,937,173	31,398	32,799
Interest rate derivative contracts:						
Swaps	**4,089,329**	**34,184**	**33,427**	3,693,897	20,378	20,909
Forward rate agreements and options	**420,988**	**2,103**	**2,305**	489,943	1,400	1,586
Exchange traded futures and options	**843,532**	**156**	**169**	775,518	121	111
	5,353,849	**36,443**	**35,901**	4,959,358	21,899	22,606
Credit derivative contracts	**52,245**	**555**	**1,297**	39,343	252	281
Equity and stock index options	**2,469**	**28**	**289**	2,960	89	67
Commodity derivative contracts	**94,114**	**769**	**659**	69,601	1,636	1,109
Gross total derivatives	**8,048,861**	**65,380**	**66,496**	8,008,435	55,274	56,862
Offset	**–**	**(16,143)**	**(16,143)**	–	(9,653)	(9,653)
Net total derivatives	**8,048,861**	**49,237**	**50,353**	8,008,435	45,621	47,209

The notional amounts of the contract are not offset and do not represent the Group's actual exposure to Credit Risk. This Credit Risk is limited to the current cost of replacing contracts with a positive mark to market to the Group should the counterparty default.

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.

Derivatives held for hedging

Included in the table above are derivatives held for hedging purposes as follows:

	30.06.19			31.12.18		
	Notional principal amounts $million	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	**64,599**	**579**	**907**	63,675	306	573
Currency swaps	**9,337**	**35**	**781**	8,963	30	942
	73,936	**614**	**1,688**	72,638	336	1,515
Derivatives designated as cashflow hedges:						
Interest rate swaps	**9,682**	**36**	**112**	10,733	59	67
Forward foreign exchange contracts	**187**	**–**	**23**	184	–	18
Currency swaps	**3,416**	**50**	**8**	2,701	57	22
	13,285	**86**	**143**	13,618	116	107
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	**5,129**	**124**	**31**	5,200	61	7
Total derivatives held for hedging	**92,350**	**824**	**1,862**	91,456	513	1,629

14. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing

Reverse repurchase agreements and other similar secured lending

	30.06.19 $million	31.12.18 $million
Banks	**18,353**	20,698
Customers	**39,561**	41,037
	57,914	61,735
Of which:		
Fair value through profit or loss	**54,065**	54,769
Banks	**17,208**	16,883
Customers	**36,857**	37,886
Held at amortised cost	**3,849**	6,966
Banks	**1,145**	3,815
Customers	**2,704**	3,151

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:

	30.06.19 $million	31.12.18 $million
Securities and collateral received (at fair value)	**78,961**	84,557
Securities and collateral which can be repledged or sold (at fair value)	**77,246**	82,534
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	**36,169**	40,552

14. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing continued

Repurchase agreements and other similar secured borrowing

	30.06.19 $million	31.12.18 $million
Banks	**9,329**	4,984
Customers	**36,425**	39,417
	45,754	44,401
Of which:		
Fair value through profit or loss	**39,834**	43,000
Banks	**7,931**	4,777
Customers	**31,903**	38,223
Held at amortised cost	**5,920**	1,401
Banks	**1,398**	207
Customers	**4,522**	1,194

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions.

	30.06.19				
Collateral pledged against repurchase agreements	**Fair value through profit or loss $million**	**Fair value through other comprehensive income $million**	**Amortised cost $million**	**Off-balance sheet $million**	**Total $million**
On-balance sheet					
Debt securities, alternative Tier 1 and other eligible bills	**3,282**	**6,409**	**324**	**–**	**10,015**
Off-balance sheet					
Repledged collateral received	**–**	**–**	**–**	**36,169**	**36,169**
At 30 June 2019	**3,282**	**6,409**	**324**	**36,169**	**46,184**

	31.12.18				
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Fair value through other comprehensive income $million	Amortised cost $million	Off-balance sheet $million	Total $million
On-balance sheet					
Debt securities, alternative Tier 1 and other eligible bills	2,060	1,974	49	–	4,083
Off-balance sheet					
Repledged collateral received	–	–	–	40,552	40,552
At 31 December 2018	2,060	1,974	49	40,552	44,635

15. Goodwill and intangible assets

	30.06.19				31.12.18			
	Goodwill $million	**Acquired intangibles $million**	**Computer software $million**	**Total $million**	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost	**3,089**	**483**	**3,000**	**6,572**	3,116	510	2,835	6,461
Provision for amortisation	**–**	**450**	**1,011**	**1,461**	–	458	947	1,405
Net book value	**3,089**	**33**	**1,989**	**5,111**	3,116	52	1,888	5,056

	30.06.18			
	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost	3,187	559	2,616	6,362
Provision for amortisation	–	461	927	1,388
Net book value	3,187	98	1,689	4,974

At 30 June 2019, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $2,801 million (31 December 2018: $2,801 million), of which nil was recognised in 2019 (31 December 2018: nil).

Outcome of impairment assessment

At 30 June 2019, the Group performed a review of the goodwill that has been assigned to the Group's cash-generating units for indicators of impairment, considering whether there were any reduced expectations for future cashflows and/or fluctuations in the discount rate or the assumptions. The results of this review indicated that there is no goodwill impairment to be recognised.

It continues to be possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate would potentially result in the carrying amount of goodwill exceeding the recoverable amount in the future. Refer to Note 17, Goodwill and intangible assets, in the 2018 Annual Report.

16. Other assets

	30.06.19 $million	31.12.18 $million
Financial assets held at amortised cost (Note 12):		
Hong Kong SAR Government certificates of indebtedness (Note 18)[1]	**6,498**	5,964
Cash collateral	**8,826**	10,323
Acceptances and endorsements	**5,291**	4,923
Unsettled trades and other financial assets	**15,619**	11,468
	36,234	32,678
Non-financial assets:		
Commodities[2]	**2,773**	2,488
Other assets	**331**	235
	39,338	35,401

1 The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

2 Commodities are carried at fair value and classified as Level 2

17. Assets held for sale and associated liabilities

Assets held for sale	30.06.19 $million	31.12.18 $million
Debt securities	**5**	14
Equity shares	**886**	873
Financial assets held at fair value through profit or loss[1]	**891**	887
Loans and advances to banks	**–**	112
Loans and advances to customers	**141**	23
Financial assets held at amortised cost	**141**	135
Goodwill and intangible assets	**69**	71
Property, plant and equipment[2]	**117**	170
Others	**45**	65
	1,263	1,328

1 Principal Finance assets of $891 million (31 December 2018: $887 million), classified as financial assets held at fair value through profit or loss comprising debt securities ($5 million) and equity shares ($886 million), is expected to be disposed of by the end of 2019

2 Aircraft classified as held for sale by Pembroke Air Leasing Finance for $111 million (31 December 2018: $162 million) is included within property, plant and equipment

Reported below are the associated financial liabilities held for sale of the Principal Finance business amounting to $40 million (31 December 2018: $198 million), all of which are classified under Level 3. The transactions are expected to complete in 2019.

Liabilities held for sale	30.06.19 $million	31.12.18 $million
Derivative financial instruments[1]	**40**	198
Financial liabilities held at fair value through profit or loss	**40**	198
Other liabilities	**61**	48
Accruals and deferred income	**3**	–
Provisions for liabilities and charges	**–**	1
	104	247

1 The derivative liability is a fixed price forward sale contract to sell the Principal Finance assets

18. Other liabilities

	30.06.19 $million	31.12.18 $million
Financial liabilities held at amortised cost (Note 12)		
Notes in circulation[1]	**6,498**	5,964
Acceptances and endorsements	**5,291**	4,923
Cash collateral	**8,105**	9,259
Unsettled trades and other financial liabilities	**21,189**	17,799
	41,083	37,945
Non-financial liabilities		
Cash-settled share-based payments	**37**	32
Property leases[2]	**1,334**	–
Equipment leases[2]	**18**	–
Other liabilities	**280**	332
	42,752	38,309

1 Hong Kong currency notes in circulation of $6,498 million (31 December 2018: $5,964 million) that are secured by the Government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (Note 16)

2 Other non-financial liabilities now includes the present value of lease liabilities, as required by IFRS 16 from 1 January 2019

19. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and risk-weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	30.06.19 $million	31.12.18 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**35,922**	36,511
Other contingent liabilities	**5,345**	5,441
	41,267	41,952
Commitments		
Documentary credits and short-term trade-related transactions	**5,073**	3,982
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	**71,606**	71,467
Less than one year	**36,279**	37,041
Unconditionally cancellable	**40,406**	39,220
	153,364	151,710
Capital commitments		
Contracted capital expenditure approved by the directors but not provided for in these accounts[1]	**37**	450

1 Of which: the Group has commitments totalling $25 million to purchase aircraft for delivery in 2019 (31 December 2018: $439 million).

The Group's share of contingent liabilities and commitments relating to joint ventures is $nil billion (31 December 2018: $0.2 billion). As set out in Note 20, 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.

20. Legal and regulatory matters

Claims and other proceedings

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 these 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.

Investigations into, and resolutions with respect to, historical sanctions and financial crime control issues

In April 2019, the Group announced that it had resolved the previously disclosed investigations by (i) the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System, the Department of Justice (DOJ), the New York County District Attorney's Office (DANY) and the Office of Foreign Assets Control (together, the US Authorities) concerning historical violations of US sanctions laws and regulations from 2007 through to 2014 and (ii) the Financial Conduct Authority (FCA) concerning the effectiveness and governance of historical financial crime controls in the Group's UK correspondent banking business and in its UAE branches (the 2019 Resolutions). Under the terms of the 2019 Resolutions, the Group agreed to pay a total of $947 million in monetary penalties to the US Authorities and £102 million to the FCA. The Group took a $900 million provision, which included these matters, in its 2018 financial statements and took a further and final charge of $186 million in the first quarter of 2019. As part of the 2019 Resolutions, the Group's Deferred Prosecution Agreements, which were originally entered into with the DOJ and DANY (and subsequently extended) as part of settlements in 2012 with the US Authorities relating to US sanctions compliance, were also further extended to 9 April 2021. The monitorship previously imposed by the DOJ expired on 31 March 2019.

Settlement relating to FX trading

In January 2019, the Group reached a settlement with the NYDFS regarding past control failures and improper conduct related to the Group's FX trading and sales business between 2007 and 2013. As part of this settlement, the Group agreed to pay a civil monetary penalty of $40 million to the NYDFS. A provision was made in the Group's 2018 financial statements relating to this settlement.

Other proceedings

Since November 2014, a number of lawsuits have been filed in the United States District Courts for the Southern and Eastern Districts of New York against a number of banks (including Standard Chartered Bank) on behalf of plaintiffs who are, or are relatives of, victims of various terrorist attacks in Iraq. Five of the lawsuits were filed in late December 2018. 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. Based on the facts currently known, it is not possible for the Group to predict the outcome of these lawsuits.

The Director of Public Prosecutions (DPP) and related agencies in Kenya are investigating Standard Chartered Kenya Limited (SCBK) and other banks in connection with the alleged theft of funds from Kenya's State Department of Public Service, Youth and Gender Affairs. This investigation follows fines being imposed on those banks, including SCBK, by the Central Bank of Kenya regarding adequacy of controls related to the processing of the allegedly stolen funds. The DPP has announced that it has received recommendations from the Kenyan Directorate of Criminal Investigations that charges should be brought against a number of banks, including SCBK, bank officials and other individuals. There may be penalties or other financial consequences for SCBK in connection with this investigation.

21. Subordinated liabilities and other borrowed funds

	30.06.19				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	**10,140**	**1,443**	**2,965**	**521**	**15,069**
Floating rate subordinated debt	**161**	**15**	**–**	**–**	**176**
Total	**10,301**	**1,458**	**2,965**	**521**	**15,245**

	31.12.18				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	9,905	1,414	2,966	528	14,813
Floating rate subordinated debt	161	15	–	12	188
Total	10,066	1,429	2,966	540	15,001

Redemptions and repurchases during the period

On 27 June 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable 2017).

On 27 March 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 50 million floating rate notes 2022 (callable 2017).

On 12 February 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 70 million floating rate subordinated notes 2021 (callable 2016).

22. Share capital, other equity and reserves

Group and Company

	Number of ordinary shares millions	Ordinary share capital[1] $million	Share premium[2] $million	Total share capital & share premium $million	Other equity instruments $million
At 1 January 2018	3,296	1,648	5,449	7,097	4,961
Capitalised on scrip dividend	2	1	(1)	–	–
Shares issued	6	3	1	4	–
At 30 June 2018	3,304	1,652	5,449	7,101	4,961
Shares issued	4	2	8	10	–
At 31 December 2018	**3,308**	**1,654**	**5,457**	**7,111**	**4,961**
Capitalised on scrip dividend	**–**	**–**	**–**	**–**	**–**
Shares issued	**4**	**2**	**23**	**25**	**–**
Cancellation of shares including share buy-back	**(54)**	**(27)**	**–**	**(27)**	**–**
At 30 June 2019	**3,258**	**1,629**	**5,480**	**7,109**	**4,961**

1 Issued and fully paid ordinary shares of 50 cents each

2 Includes $1,494 million of share premium relating to preference capital

Share buy-back

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 billion. The buy-back will reduce the number of outstanding ordinary shares and will be debited against the Group's retained earnings. Further the nominal value of the shares will be transferred from the share capital to the Capital Redemption Reserve account within equity. The nominal value of ordinary shares purchased at 30 June 2019 was $27 million and the aggregate consideration paid by the Group was $486 million. The table below outlines the details of the ordinary shares purchased from 1 May 2019 to 30 June 2019. At 30 June 2019, the total number of shares purchased was 54,885,156, representing 1.66 per cent of the ordinary shares in issue. All shares purchased were subsequently cancelled.

	Number of ordinary shares	Average price paid per share £	Aggregate price paid £	Aggregate price paid $
	54,885,156	**6.9479**	**381,336,010**	**486,231,013**

22. Share capital, other equity instruments and reserves continued

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 3,368,576 shares were issued under employee share plans at prices between nil and 620 pence.

Preference share capital

At 30 June 2019, the Company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the Company and are classified in equity.

The available profits of the Company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

Other equity instruments

On 2 April 2015, Standard Chartered PLC issued $2,000 million fixed rate resetting perpetual subordinated contingent convertible securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs. On 18 August 2016, Standard Chartered PLC issued a further $2,000 million fixed rate resetting perpetual subordinated contingent convertible securities as AT1 securities, raising $1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued a further $1,000 million fixed rate resetting perpetual subordinated contingent convertible securities as AT1 securities, raising $992 million after issue costs. All the issuances were made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest 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 2 April 2015 for the period from (and including) the issue date to (but excluding) 2 April 2020 is a fixed rate of 6.50 per cent per annum. The first reset date for the interest rate is 2 April 2020 and each date falling five, or an integral multiple of five years after the first reset date
- The interest rate in respect of the securities issued on 18 August 2016 for the period from (and including) the issue date to (but excluding) 2 April 2022 is a fixed rate of 7.50 per cent per annum. The first reset date for the interest rate is 2 April 2022 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 18 January 2017 for the period from (and including) the issue date to (but excluding) 2 April 2023 is a fixed rate of 7.75 per cent per annum. The first reset date for the interest rate is 2 April 2023 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on each of the securities will be payable semi-annually in arrears on 2 April and 2 October in each year, accounted for as a dividend
- Interest on the securities is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price, should the fully loaded Common Equity Tier 1 (CET1) ratio of the Group fall below 7.0 per cent. Approximately 572 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

The securities rank behind the claims against Standard Chartered PLC of: (a) unsubordinated creditors; (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the AT1 securities in a winding-up occurring prior to the conversion trigger.

22. Share capital, other equity and reserves continued

Reserves

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- Merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company
- Own credit adjustment (OCA) reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Following the Group's decision to early apply this IFRS 9 requirement, the cumulative OCA component of financial liabilities designated at fair value through profit or loss has been transferred from opening retained earnings to the OCA reserve. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income (OCI) 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 OCI debt reserve represents the unrealised fair value gains and losses in respect of financial assets classified as fair value through OCI, 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. Fair value through OCI equity reserve represents unrealised fair value gains and losses in respect of financial assets classified as fair value through OCI, net of taxation. Gains and losses are recorded in this reserve and never recycled to the income statement
- Cashflow 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 are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

As at 30 June 2019, the distributable reserves of Standard Chartered PLC (the Company) were $14.6 billion (31 December 2018: $15.1 billion). These comprised retained earnings and $12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust ('2004 Trust') and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust ('1995 Trust'). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust			2004 Trust			Total		
Number of shares	**30.06.19**	31.12.18	30.06.18	**30.06.19**	31.12.18	30.06.18	**30.06.19**	31.12.18	30.06.18
Shares purchased during the period	**646,283**	1,017,941	–	**15,703,928**	–	–	**16,350,211**	1,017,941	–
Market price of shares purchased ($million)	**5**	8	–	**131**	–	–	**136**	8	–
Shares held at the end of the period	**–**	2,354,820	1,336,879	**2,370,743**	16,755	16,755	**2,370,743**	2,371,575	1,353,634
Maximum number of shares held during the period							**14,424,640**	2,371,575	3,787,015

23. Retirement benefit obligations

Retirement benefit obligations comprise:

	30.06.19 $million	31.12.18 $million	30.06.18 $million
Total market value of assets	**2,464**	2,410	2,506
Present value of the plans liabilities	**(2,917)**	(2,796)	(2,838)
Defined benefit plans obligation	**(453)**	(386)	(332)
Defined contribution plans obligation	**(20)**	(13)	(16)
Net obligation	**(473)**	(399)	(348)

Retirement benefit charge comprises:

	6 months ended 30.06.19 $million	6 months ended 31.12.18 $million	6 months ended 30.06.18 $million
Defined benefit plans	**40**	40	41
Defined contribution plans	**159**	138	146
Charge against profit (Note 6)	**199**	178	187
The pension cost for defined benefit plans was:			
Current service cost	**31**	32	35
Past service cost and curtailments	**3**	2	–
Gain on settlements	**–**	1	–
Interest income on pension plan assets	**(34)**	(33)	(35)
Interest on pension plan liabilities	**40**	38	41
Total charge to profit before deduction of tax	**40**	40	41
(Returns)/losses on plan assets excluding interest income	**(132)**	82	31
Losses/(gains) on liabilities	**181**	42	(136)
Total losses/(gains) recognised directly in statement of comprehensive income before tax	**49**	124	(105)
Deferred taxation	**(4)**	(12)	6
Total losses/(gains) after tax	**45**	112	(99)

24. Related party transactions

Directors and officers

As at 30 June 2019, Standard Chartered Bank had in place a charge over $83 million (31 December 2018: $83 million, 30 June 2018: $73 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

There were no changes in the related party transactions described in the Annual Report 2018 that have had a material effect on the financial position or performance of the Group in the period ended 30 June 2019. All related party transactions that have taken place in the period ended 30 June 2019 were similar in nature to those disclosed in the Annual Report 2018.

Associate and joint ventures

The following transactions with related parties are on an arm's-length basis.

	30.06.19				31.12.18			
	China Bohai Bank $million	**Clifford Capital $million**	**PT Bank Permata $million**	**Seychelles International Mercantile Banking Corporation Limited $million**	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million	Seychelles International Mercantile Banking Corporation Limited $million
Assets								
Loans and advances	**–**	**–**	**65**	**–**	–	22	58	–
Derivative assets	**1**	**–**	**–**	**–**	2	–	–	–
Total assets	**1**	**–**	**65**	**–**	2	22	58	–
Liabilities								
Deposits	**345**	**–**	**27**	**11**	266	–	35	11
Total liabilities	**345**	**–**	**27**	**11**	266	–	35	11
Loan commitments and other guarantees	**–**	**50**	**–**	**–**	–	–	–	–
Total net income	**4**	**–**	**2**	**–**	6	–	6	–

25. Post balance sheet events

An interim dividend for half year 2019 of 7 cents per ordinary share was declared by the directors on 1 August 2019.

26. Corporate governance

The directors confirm that, throughout the period, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules. The directors also confirm that the announcement of these results has been reviewed by the Company's Audit Committee. The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Hong Kong Listing Rules and that having made specific enquiry of all directors, the directors of the Company have complied with the required standards of the adopted code of conduct throughout the period.

As previously announced, since 31 December 2018 the following changes to the composition of the Board have taken place. Carlson Tong was appointed to the Board as an independent non-executive director and as a member of the Audit Committee, the Board Risk Committee and the Board Financial Crime Risk Committee on 21 February 2019. Dr Han Seung-soo, an independent non-executive director, retired from the Board and as a member of the Brand, Values and Conduct Committee on 23 February 2019. Om Bhatt, an independent non-executive director, stepped down from the Board and as a member of the Board Risk Committee and Brand, Values and Conduct Committee on 23 February 2019. David Tang was appointed to the Board as an independent non-executive director and a member of the Brand, Values and Conduct Committee on 12 June 2019. Biographies for each of the directors and a list of the committees' membership can be found at sc.com. Members of the Audit and Board Risk Committees receive a fee of GBP 35,000 per committee, per year. Members of the Board Financial Crime Risk Committee and Brand, Values and Conduct Committee receive a fee of GBP 30,000 per committee, per year.

In compliance with Rule 13.51B (1) of the Hong Kong Listing Rules the Company confirms that on 10 May 2019 it was announced that Gay Huey Evans, independent non-executive director was elected as Chair of the Board of The London Metal Exchange, to take effect from December 2019.

27. Statutory accounts

The information in this half year report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This document was approved by the Board on 1 August 2019. The statutory accounts for the year ended 31 December 2018 have been audited by the Company's auditors and delivered to the Registrar of Companies in England and Wales. The report of the auditors was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 of the Companies Act 2006.

28. Transition to IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 *Leases*, which has been endorsed by the EU. IFRS 16 replaces IAS 17 *Leases*. The key accounting policies, significant judgements and significant estimates are detailed in Note 1.

As of 30 June 2019, the right-of-use assets in respect of property leases and equipment leases were $1,288 million and $19 million respectively. Right-of-use assets are presented in 'Property, plant equipment' on the Group's balance sheet.

The corresponding property lease liabilities and equipment lease liabilities were $1,334 million and $18 million respectively. Lease liabilities are presented in 'Other liabilities' on the Group's balance sheet.

The total charge to the income statement for the six months ended 30 June 2019 was $175 million. Of this, $34 million was recognised as 'Interest expense' on lease liabilities and $141 million was recognised as 'Depreciation and amortisation' on the right-of-use assets.

The difference between right-of-use assets and lease liabilities recognised on 1 January 2019 is due existing prepayments and accruals recognised under IAS 17 as of 31 December 2018 being included in the measurement of the right-of-use assets.

The difference between operating lease commitments as disclosed in the Group's 2018 Annual Report and the newly recognised lease liabilities is a result of dissimilar recognition basis between the old and new standards. IFRS 16 requires preparers to assess the lease term used to measure assets and liabilities to include "reasonably certain" renewal or termination options, whereas previously IAS 17 required disclosure of "non-cancellable" lease commitments. The consequences of this are:

- Under IFRS 16, for some leases the Group includes lease renewal options which it is reasonably certain will be exercised in the measurement of right-of-use assets and lease liabilities. These renewal options would not have been included in the previous operating lease commitment disclosure
- In certain jurisdictions, the Group has a unilateral right to cancel building leases with notice of 3 months or less and without incurring a significant financial penalty. In previous disclosures, the Group would exclude cashflows beyond the non-cancellable period as permitted under IAS 17, but under IFRS 16 the Group would only exclude these cashflows from lease measurement if it was reasonably certain the termination clause would be exercised

Supplementary financial information

1. 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.

	6 months ended 30.06.19							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	**1,854**	**505**	**445**	**871**	**502**	**327**	**330**	**365**
Operating expenses	**(938)**	**(390)**	**(323)**	**(484)**	**(328)**	**(210)**	**(342)**	**(296)**
Operating profit/(loss) before impairment losses and taxation	**916**	**115**	**122**	**387**	**174**	**117**	**(12)**	**69**
Credit impairment	**(36)**	**7**	**(43)**	**(7)**	**(41)**	**(26)**	**(15)**	**(50)**
Other impairment	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit from associates and joint ventures	**–**	**–**	**153**	**–**	**–**	**–**	**–**	**–**
Underlying profit/(loss) before taxation	**872**	**122**	**232**	**380**	**133**	**91**	**(27)**	**19**
Total assets employed	**158,434**	**50,832**	**31,702**	**84,532**	**31,036**	**20,934**	**150,284**	**53,320**
Of which: loans and advances to customers including FVTPL	**73,924**	**32,059**	**15,725**	**46,953**	**16,154**	**10,673**	**41,903**	**15,008**
Total liabilities employed	**142,036**	**44,965**	**27,523**	**83,526**	**21,188**	**14,467**	**154,052**	**53,447**
Of which: customer accounts	**118,556**	**36,132**	**20,513**	**63,702**	**15,808**	**10,702**	**86,514**	**26,335**

	6 months ended 31.12.18							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,903	475	399	702	467	280	378	334
Operating expenses	(983)	(393)	(342)	(497)	(333)	(220)	(341)	(300)
Operating profit before impairment losses and taxation	920	82	57	205	134	60	37	34
Credit impairment	(42)	2	(21)	(59)	(101)	(140)	(6)	(7)
Other impairment	(64)	(4)	–	10	1	–	(7)	–
Profit from associates and joint ventures	–	–	49	–	–	–	–	–
Underlying profit/(loss) before taxation	814	80	85	156	34	(80)	24	27
Total assets employed	153,372	51,306	30,272	81,882	29,886	19,847	136,967	48,706
Of which: loans and advances to customers including FVTPL	71,971	33,435	12,894	46,342	16,567	10,749	41,248	13,464
Total liabilities employed	139,332	45,347	27,158	80,200	20,554	13,679	148,041	42,301
Of which: customer accounts	116,999	36,894	21,801	58,415	16,306	10,517	93,096	16,218

	6 months ended 30.06.18							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,849	534	422	845	482	357	441	333
Operating expenses	(961)	(404)	(333)	(512)	(344)	(233)	(330)	(321)
Operating profit before impairment losses and taxation	888	130	89	333	138	124	111	12
Credit impairment	(15)	(3)	(9)	(56)	(29)	(56)	(45)	(29)
Other impairment	(45)	5	–	(10)	(2)	–	24	–
Profit from associates and joint ventures	–	–	156	–	–	–	–	–
Underlying profit/(loss) before taxation	828	132	236	267	107	68	90	(17)
Total assets employed	153,021	52,536	31,639	83,211	27,370	18,477	140,227	52,578
Of which: loans and advances to customers including FVTPL	73,390	33,289	13,959	46,022	15,958	11,100	37,828	11,173
Total liabilities employed	135,252	46,942	28,693	82,305	18,049	14,373	154,925	45,610
Of which: customer accounts	112,948	38,029	21,492	59,619	14,397	11,890	94,960	18,190

2. Analysis of underlying performance by Retail Banking and Commercial Banking segments

Retail Banking

	6 months ended 30.06.19				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Operating income	**1,520**	**707**	**349**	**19**	**2,595**
Operating expenses	**(979)**	**(531)**	**(301)**	**(12)**	**(1,823)**
Operating profit before impairment losses and taxation	**541**	**176**	**48**	**7**	**772**
Credit impairment	**(65)**	**(63)**	**(26)**	**–**	**(154)**
Underlying profit before taxation	**476**	**113**	**22**	**7**	**618**
Restructuring	**–**	**(1)**	**–**	**–**	**(1)**
Statutory profit before taxation	**476**	**112**	**22**	**7**	**617**
Loans and advances to customers including FVTPL	**67,192**	**28,103**	**5,371**	**529**	**101,195**
Customer accounts	**95,598**	**34,152**	**8,440**	**1,066**	**139,256**

	6 months ended 31.12.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,401	640	361	19	2,421
Operating expenses	(987)	(524)	(330)	(11)	(1,852)
Operating profit before impairment losses and taxation	414	116	31	8	569
Credit impairment	(41)	(70)	(37)	–	(148)
Other impairment	(5)	–	–	–	(5)
Underlying profit/(loss) before taxation	368	46	(6)	8	416
Restructuring	(17)	(17)	(30)	–	(64)
Statutory profit/(loss) before taxation	351	29	(36)	8	352
Loans and advances to customers including FVTPL	67,718	27,812	5,595	510	101,635
Customer accounts	95,086	32,120	8,433	1,052	136,691

	6 months ended 30.06.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,485	712	404	19	2,620
Operating expenses	(972)	(559)	(338)	(15)	(1,884)
Operating profit before impairment losses and taxation	513	153	66	4	736
Credit impairment	(31)	(65)	(23)	–	(119)
Underlying profit before taxation	482	88	43	4	617
Restructuring	(1)	(3)	–	–	(4)
Statutory profit before taxation	481	85	43	4	613
Loans and advances to customers including FVTPL	66,897	28,128	5,973	532	101,530
Customer accounts	90,840	31,292	8,987	1,135	132,254

2. Analysis of underlying performance by Retail Banking and Commercial Banking segments continued

Commercial Banking

	6 months ended 30.06.19			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	**301**	**278**	**167**	**746**
Operating expenses	**(177)**	**(143)**	**(105)**	**(425)**
Operating profit before impairment losses and taxation	**124**	**135**	**62**	**321**
Credit impairment	**(9)**	**(13)**	**(13)**	**(35)**
Underlying profit before taxation	**115**	**122**	**49**	**286**
Statutory profit before taxation	**115**	**122**	**49**	**286**
Loans and advances to customers including FVTPL	**14,051**	**9,255**	**4,923**	**28,229**
Customer accounts	**19,018**	**9,694**	**3,164**	**31,876**

	6 months ended 31.12.18			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	289	260	136	685
Operating expenses	(191)	(170)	(102)	(463)
Operating profit before impairment losses and taxation	98	90	34	222
Credit impairment	(6)	(48)	(84)	(138)
Underlying profit/(loss) before taxation	92	42	(50)	84
Restructuring	(6)	(3)	(2)	(11)
Statutory profit/(loss) before taxation	86	39	(52)	73
Loans and advances to customers including FVTPL	13,926	9,118	4,227	27,271
Customer accounts	22,011	9,720	3,129	34,860

	6 months ended 30.06.18			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	295	263	148	706
Operating expenses	(198)	(160)	(102)	(460)
Operating profit before impairment losses and taxation	97	103	46	246
Credit impairment	(17)	(25)	(64)	(106)
Underlying profit/(loss) before taxation	80	78	(18)	140
Restructuring	(1)	–	–	(1)
Statutory profit/(loss) before taxation	79	78	(18)	139
Loans and advances to customers including FVTPL	14,628	9,281	4,662	28,571
Customer accounts	20,496	9,282	2,918	32,696

3. 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.

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,519	9	424	–	–	1,952
Trade	366	9	184	–	–	559
Cash Management	983	–	240	–	–	1,223
Securities Services	170	–	–	–	–	170
Financial Markets	1,339	–	157	–	–	1,496
Foreign Exchange	508	–	95	–	–	603
Rates	338	–	19	–	–	357
Commodities	75	–	14	–	–	89
Credit and Capital Markets	279	–	6	–	–	285
Capital Structuring Distribution Group	146	–	10	–	–	156
Other Financial Markets	(7)	–	13	–	–	6
Corporate Finance[1]	601	–	48	2	–	651
Lending and Portfolio Management	159	–	110	–	–	269
Wealth Management	–	778	2	195	–	975
Retail Products	–	1,809	3	109	–	1,921
CCPL and other unsecured lending	–	625	–	–	–	625
Deposits	–	896	3	92	–	991
Mortgage and Auto	–	239	–	17	–	256
Other Retail Products	–	49	–	–	–	49
Treasury	–	–	–	–	559	559
Other	(11)	(1)	2	–	(117)	(127)
Total underlying operating income	3,607	2,595	746	306	442	7,696

1 In Dec 2018, it was decided to discontinue the Ship Operating Lease business; any future profits and losses will be reported as restructuring. Prior periods have not been restated

3. Analysis of operating income by product and segment continued

	6 months ended 31.12.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,457	10	411	–	–	1,878
Trade	344	10	180	–	–	534
Cash Management	950	–	231	–	–	1,181
Securities Services	163	–	–	–	–	163
Financial Markets	1,080	–	131	–	–	1,211
Foreign Exchange	390	–	81	–	–	471
Rates[1]	246	–	11	–	–	257
Commodities	76	–	12	–	–	88
Credit and Capital Markets[1]	125	–	6	–	–	131
Capital Structuring Distribution Group	152	–	10	–	–	162
Other Financial Markets	91	–	11	–	–	102
Corporate Finance	709	–	49	–	–	758
Lending and Portfolio Management	141	–	99	–	–	240
Wealth Management	–	671	2	135	–	808
Retail Products	–	1,742	2	110	–	1,854
CCPL and other unsecured lending	–	614	–	–	–	614
Deposits	–	864	1	92	–	957
Mortgage and Auto	–	223	–	18	–	241
Other Retail Products	–	41	1	–	–	42
Treasury	–	–	–	–	595	595
Other	22	(2)	(9)	–	(36)	(25)
Total underlying operating income	3,409	2,421	685	245	559	7,319

1 Following a reorganisation of certain product teams within Financial Markets, $46 million of income that was in H1 2018 reported within Credit and Capital Markets has been transferred to Rates during Q3 2018. Prior periods have not been restated

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,430	10	400	–	–	1,840
Trade	385	10	194	–	–	589
Cash Management	875	–	206	–	–	1,081
Securities Services	170	–	–	–	–	170
Financial Markets	1,248	–	153	–	–	1,401
Foreign Exchange	439	–	91	–	–	530
Rates	281	–	17	–	–	298
Commodities	92	–	12	–	–	104
Credit and Capital Markets	187	–	6	–	–	193
Capital Structuring Distribution Group	133	–	14	–	–	147
Other Financial Markets	116	–	13	–	–	129
Corporate Finance	616	–	49	–	–	665
Lending and Portfolio Management	174	–	104	–	–	278
Wealth Management	–	820	1	170	–	991
Retail Products	–	1,793	2	101	–	1,896
CCPL and other unsecured lending	–	696	–	–	–	696
Deposits	–	739	3	83	–	825
Mortgage and Auto	–	314	–	18	–	332
Other Retail Products	–	44	(1)	–	–	43
Treasury	–	–	–	–	628	628
Other	(17)	(3)	(3)	–	(27)	(50)
Total underlying operating income	3,451	2,620	706	271	601	7,649

4. Average balance sheets and yields

The following tables set out the average balances and yields for the Group's assets and liabilities for the periods ended 30 June 2019, 31 December 2018 and 30 June 2018. 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

	6 months ended 30.06.19			
	Average non-interest earning balance $million	**Average interest earning balance $million**	**Interest income $million**	**Gross yield %**
Cash and balances at central banks	**18,068**	**30,318**	**189**	**1.26**
Gross loans and advances to banks	**2,306**	**84,011**	**1,356**	**3.25**
Gross loans and advances to customers	**–**	**318,653**	**5,851**	**3.70**
Impairment provisions against loans and advances to banks and customers	**–**	**(5,030)**	**–**	**–**
Investment securities	**2,794**	**156,817**	**2,447**	**3.15**
Property, plant and equipment and intangible assets	**10,945**	**–**	**–**	**–**
Prepayments, accrued income and other assets	**79,040**	**–**	**–**	**–**
Investment associates and joint ventures	**2,547**	**–**	**–**	**–**
Total average assets	**115,700**	**584,769**	**9,843**	**3.39**

	6 months ended 31.12.18			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Cash and balances at central banks	21,126	32,238	193	1.19
Gross loans and advances to banks	(109)	86,389	1,210	2.78
Gross loans and advances to customers	–	302,311	5,527	3.63
Impairment provisions against loans and advances to banks and customers	–	(5,384)	–	–
Investment securities	2,456	146,438	2,107	2.85
Property, plant and equipment and intangible assets	10,825	–	–	–
Prepayments, accrued income and other assets	74,894	–	–	–
Investment associates and joint ventures	2,439	–	–	–
Total average assets	111,631	561,992	9,037	3.19

	6 months ended 30.06.18			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Cash and balances at central banks	28,382	33,230	171	1.04
Gross loans and advances to banks	2,809	85,661	1,083	2.55
Gross loans and advances to customers	–	301,476	5,091	3.41
Impairment provisions against loans and advances to banks and customers	–	(6,023)	–	–
Investment securities	2,625	139,870	1,882	2.71
Property, plant and equipment and intangible assets	10,492	–	–	–
Prepayments, accrued income and other assets	82,047	–	–	–
Investment associates and joint ventures	2,477	–	–	–
Total average assets	128,832	554,214	8,227	2.99

4. Average balance sheets and yields continued

Average liabilities

	6 months ended 30.06.19			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	**6,027**	**39,264**	**613**	**3.15**
Customer accounts:				
Current accounts and savings deposits	**38,489**	**179,706**	**989**	**1.11**
Time and other deposits	**8,390**	**217,373**	**2,625**	**2.44**
Debt securities in issue	**–**	**57,510**	**608**	**2.13**
Accruals, deferred income and other liabilities	**87,681**	**4**	**–**	**–**
Subordinated liabilities and other borrowed funds	**–**	**14,877**	**390**	**5.29**
Non-controlling interests	**9**	**–**	**–**	**–**
Shareholders' funds	**50,054**	**–**	**–**	**–**
Total average liabilities and shareholders' funds	**190,650**	**508,734**	**5,225**	**2.07**
Net yield				**1.32**
Net interest margin				**1.59**

	6 months ended 31.12.18			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	5,899	33,529	372	2.20
Customer accounts:				
Current accounts and savings deposits	37,585	174,397	940	1.07
Time and other deposits	9,309	205,271	2,230	2.16
Debt securities in issue	(26)	53,488	682	2.53
Accruals, deferred income and other liabilities	98,040	–	–	–
Subordinated liabilities and other borrowed funds	–	14,922	381	5.06
Non-controlling interests	22	–	–	–
Shareholders' funds	49,711	–	–	–
Total average liabilities and shareholders' funds	200,540	481,608	4,605	1.90
Net yield				1.29
Net interest margin				1.56

	6 months ended 30.06.18			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	6,748	35,481	439	2.50
Customer accounts:				
Current accounts and savings deposits	40,255	182,578	727	0.80
Time and other deposits	8,000	197,362	1,867	1.91
Debt securities in issue	301	54,496	447	1.65
Accruals, deferred income and other liabilities	92,341	–	–	–
Subordinated liabilities and other borrowed funds	–	16,652	386	4.67
Non-controlling interests	74	–	–	–
Shareholders' funds	50,779	–	–	–
Total average liabilities and shareholders' funds	198,498	486,569	3,866	1.60
Net yield				1.39
Net interest margin				1.59

Convenience translation of selected financial statements into Indian Rupees

In compliance with Regulation 71(3) read with Schedule IV part B of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, the Consolidated financial statements (pages 129 to 133) are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 68.9180 as at 30 June 2019 as published by the Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

5. Condensed consolidated interim income statement (translated to INR)

For the six months ended 30 June 2019

	6 months ended 30.06.19 Rs.million	6 months ended 31.12.18 Rs.million	6 months ended 30.06.18 Rs.million
Interest income	**678,360**	622,812	566,988
Interest expense	**(360,097)**	(317,367)	(266,437)
Net interest income	**318,263**	305,445	300,550
Fees and commission income	**146,106**	131,978	145,693
Fees and commission expense	**(19,435)**	(20,124)	(16,885)
Net trading income	**68,504**	49,414	66,575
Other operating income	**26,189**	26,878	29,704
Operating income	**539,628**	493,591	525,638
Staff costs	**(246,520)**	(240,937)	(246,589)
Premises costs	**(13,163)**	(28,739)	(25,706)
General administrative expenses	**(65,679)**	(145,968)	(55,686)
Depreciation and amortisation	**(39,766)**	(29,704)	(29,359)
Operating expenses	**(365,128)**	(445,348)	(357,339)
Operating profit before impairment losses and taxation	**174,500**	48,243	168,298
Credit impairment	**(17,505)**	(30,255)	(14,748)
Other impairment	**(3,032)**	(9,097)	(3,446)
Profit from associates and joint ventures	**12,405**	5,031	11,578
Profit before taxation	**166,368**	13,921	161,682
Taxation	**(63,268)**	(47,278)	(51,895)
Profit/(loss) for the period	**103,101**	(33,357)	109,786
Profit/(loss) attributable to:			
Non-controlling interests	**1,309**	1,516	2,274
Parent company shareholders	**101,792**	(34,873)	107,512
Profit/(loss) for the period	**103,101**	(33,357)	109,786
	Rupees	Rupees	Rupees
Earnings per share:			
Basic earnings/(loss) per ordinary share	**26.2**	(15.1)	28.0
Diluted earnings/(loss) per ordinary share	**25.9**	(15.0)	27.7

6. Condensed consolidated interim statement of comprehensive income (translated to INR)

For the six months ended 30 June 2019

	6 months ended 30.06.19 Rs.million	6 months ended 31.12.18 Rs.million	6 months ended 30.06.18 Rs.million
Profit/(loss) for the period	**103,101**	(33,357)	109,786
Other comprehensive (loss)/income			
Items that will not be reclassified to income statement:	**(26,465)**	8,890	17,436
Own credit (losses)/gains on financial liabilities designated at fair value through profit or loss	**(27,016)**	17,781	9,373
Equity instruments at fair value through other comprehensive income	**896**	1,172	1,309
Actuarial (losses)/gains on retirement benefit obligations	**(3,377)**	(8,546)	7,236
Taxation relating to components of other comprehensive income	**3,032**	(1,516)	(482)
Items that may be reclassified subsequently to income statement:	**4,480**	(25,017)	(56,926)
Exchange differences on translation of foreign operations:			
Net losses taken to equity	**(10,958)**	(31,289)	(69,469)
Net gains on net investment hedges	**5,031**	4,549	14,886
Share of other comprehensive income from associates and joint ventures	**207**	1,172	1,103
Debt instruments at fair value through other comprehensive income:			
Net valuation gains/(losses) taken to equity	**20,055**	(620)	(8,201)
Reclassified to income statement	**(3,997)**	1,241	896
Net impact of expected credit losses	**207**	551	(551)
Cashflow hedges:			
Net (losses)/gains taken to equity	**(5,445)**	(1,034)	3,377
Reclassified to income statement	**482**	138	345
Taxation relating to components of other comprehensive income	**(1,103)**	276	689
Other comprehensive loss for the period, net of taxation	**(21,985)**	(16,127)	(39,490)
Total comprehensive income/(loss) for the period	**81,117**	(49,483)	70,296
Total comprehensive income/(loss) attributable to:			
Non-controlling interests	**758**	620	1,723
Parent company shareholders	**80,358**	(50,103)	68,573
Total comprehensive income/(loss) for the period	**81,117**	(49,483)	70,296

7. Condensed consolidated interim balance sheet (translated to INR)

As at 30 June 2019

	30.06.19 Rs.million	31.12.18 Rs.million
Assets		
Cash and balances at central banks	**4,053,895**	3,963,543
Financial assets held at fair value through profit or loss	**6,437,079**	6,004,963
Derivative financial instruments	**3,393,316**	3,144,108
Loans and advances to banks[1]	**4,080,635**	4,232,530
Loans and advances to customers[2]	**18,166,440**	17,681,395
Investment securities	**8,823,985**	8,676,845
Other assets	**2,711,096**	2,439,766
Current tax assets	**34,941**	33,908
Prepayments and accrued income	**192,764**	172,640
Interests in associates and joint ventures	**173,122**	158,994
Goodwill and intangible assets	**352,240**	348,449
Property, plant and equipment	**534,115**	447,278
Deferred tax assets	**63,680**	72,157
Assets classified as held for sale	**87,043**	91,523
Total assets	**49,104,351**	47,468,100
Liabilities		
Deposits by banks	**2,121,503**	2,047,898
Customer accounts	**27,677,262**	26,947,834
Repurchase agreements and other similar secured borrowing	**407,995**	96,554
Financial liabilities held at fair value through profit or loss	**4,257,823**	4,183,323
Derivative financial instruments	**3,470,228**	3,253,550
Debt securities in issue	**3,216,541**	3,201,517
Other liabilities	**2,946,382**	2,640,180
Current tax liabilities	**37,905**	46,589
Accruals and deferred income	**337,216**	371,675
Subordinated liabilities and other borrowed funds	**1,050,655**	1,033,839
Deferred tax liabilities	**37,836**	38,801
Provisions for liabilities and charges	**27,085**	91,661
Retirement benefit obligations	**32,598**	27,498
Liabilities included in disposal groups held for sale	**7,167**	17,023
Total liabilities	**45,628,196**	43,997,940
Equity		
Share capital and share premium account	**489,938**	490,076
Other reserves	**802,206**	818,608
Retained earnings	**1,813,784**	1,800,758
Total parent company shareholders' equity	**3,105,928**	3,109,442
Other equity instruments	**341,902**	341,902
Total equity excluding non-controlling interests	**3,447,830**	3,451,345
Non-controlling interests	**28,325**	18,815
Total equity	**3,476,155**	3,470,159
Total equity and liabilities	**49,104,351**	47,468,100

1 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.78,911 million (31 December 2018: Rs.262,922 million) has been included with loans and advances to banks

2 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.186,354 million (31 December 2018: Rs.217,161 million) has been included with loans and advances to customers

8. Condensed consolidated interim statement of changes in equity

For the year ended 30 June 2019

	Share capital and share premium account Rs.million	Capital and merger reserves Rs.million	Own credit adjustment reserve Rs.million	Fair value through other comprehensive income reserve – debt Rs.million	Fair value through other comprehensive income reserve – equity Rs.million	Cashflow hedge reserve Rs.million	Translation reserve Rs.million	Retained earnings Rs.million	Parent company shareholders' equity Rs.million	Other equity instruments Rs.million	Non-controlling interests Rs.million	Total Rs.million
As at 1 January 2018	489,111	1,180,496[1]	3,722	(5,307)	3,653	(3,101)	(306,961)	1,784,632	3,146,245	341,902	22,950	3,511,096
Profit for the period	–	–	–	–	–	–	–	107,512	107,512	–	2,274	109,786
Other comprehensive income/(loss)	–	–	9,097	(7,099)	2,550	3,170	(53,963)	7,305[2]	(38,939)	–	(551)	(39,490)
Distributions	–	–	–	–	–	–	–	–	–	–	(1,861)	(1,861)
Shares issued, net of expenses[3]	276	–	–	–	–	–	–	–	276	–	–	276
Net own shares adjustment[4]	–	–	–	–	–	–	–	482	482	–	–	482
Share option expense, net of taxation	–	–	–	–	–	–	–	6,685	6,685	–	–	6,685
Dividends[5]	–	–	–	–	–	–	–	(38,870)	(38,870)	–	–	(38,870)
Other movements	–	–	–	–	–	–	–	345	345	–	–	345
As at 30 June 2018	489,387	1,180,496	12,819	(12,405)	6,203	69	(360,924)	1,868,091	3,183,736	341,902	22,812	3,548,450
(Loss)/profit for the period	–	–	–	–	–	–	–	(34,873)	(34,873)	–	1,516	(33,356)
Other comprehensive income/(loss)	–	–	15,575	1,309	2,068	(758)	(25,844)	(7,581)[2]	(15,231)	–	(896)	(16,127)
Distributions	–	–	–	–	–	–	–	–	–	–	(4,824)	(4,824)
Shares issued, net of expenses[3]	689	–	–	–	–	–	–	–	689	–	–	689
Net own shares adjustment[4]	–	–	–	–	–	–	–	(414)	(414)	–	–	(414)
Share option expense, net of taxation	–	–	–	–	–	–	–	4,204	4,204	–	–	4,204
Dividends[5]	–	–	–	–	–	–	–	(28,325)	(28,325)	–	–	(28,325)
Other movements	–	–	–	–	–	–	–	(345)	(345)	–	207[6]	(138)
As at 31 December 2018	**490,076**	**1,180,496**	**28,394**	**(11,096)**	**8,270**	**(689)**	**(386,768)**	**1,800,758**	**3,109,442**	**341,902**	**18,815**	**3,470,159**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**101,792**	**101,792**	**–**	**1,309**	**103,101**
Other comprehensive (loss)/income	**–**	**–**	**(23,708)**	**14,611**	**207**	**(3,997)**	**(5,376)**	**(3,170)[2]**	**(21,433)**	**–**	**(551)**	**(21,985)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,792)**	**(1,792)**
Shares issued, net of expenses[3]	**1,723**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,723**	**–**	**–**	**1,723**
Net own shares adjustment[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,097)**	**(9,097)**	**–**	**–**	**(9,097)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,685**	**6,685**	**–**	**–**	**6,685**
Dividends[5]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(49,345)**	**(49,345)**	**–**	**–**	**(49,345)**
Cancellation of shares including share buy-back[7]	**(1,861)**	**1,861**	**–**	**–**	**–**	**–**	**–**	**(33,494)**	**(33,494)**	**–**	**–**	**(33,494)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(345)[8]**	**(345)**	**–**	**10,544[6]**	**10,200**
As at 30 June 2019	**489,938**	**1,182,357**	**4,686**	**3,515**	**8,477**	**(4,686)**	**(392,143)**	**1,813,784**	**3,105,928**	**341,902**	**28,325**	**3,476,155**

1 Includes capital reserve of Rs.345 million, capital redemption reserve of Rs.896 million and merger reserve of Rs.1,179,256 million

2 Comprises actuarial (loss)/gain, net of taxation and share from associates and joint ventures Rs.(3,170) million (Rs(7,581) million for the six months ended 31 December 2018 and Rs.7,305million for the six months ended 30 June 2018)

3 Comprises share capital of shares issued to fulfil discretionary awards Rs.69 million (Rs.138 million for the six months ended 31 December 2018 and Rs.207 million for the six months ended 30 June 2018), share capital of shares issued to fulfil employee share save options exercised Rs.69 million (nil for the six months ended 31 December 2018 and nil for the six months ended 30 June 2018) and share premium of shares issued to fulfil employee share save options exercised Rs.1,585 million (Rs.551 million for the six months ended 31 December 2018 and Rs.69 million for the six months ended 30 June 2018)

4 Comprises treasury shares purchased to fulfil discretionary award plans Rs.9,373 million (Rs.551 million for the six months ended 31 December 2018 and nil for the six months ended 30 June 2018) offset by treasury shares issued to fulfil discretionary award plans Rs.276 million (Rs.138 million for the six months ended 31 December 2018 and Rs.482 million for the six months ended 30 June 2018)

5 Comprises dividends paid net of scrip Rs.34,114 million (Rs.13,232 million for the six months ended 31 December 2018 and Rs.23,915 million for the six months ended 30 June 2018) and dividends on preference shares classified as equity and Additional Tier 1 securities Rs.15,231 million (Rs.15,093 million for the six months ended 31 December 2018 and Rs.14,955 million for the six months ended 30 June 2018). (refer Note 10)

6 Other movements Rs.5,582 million relates to the Principal Finance business and Rs.4,962 million relates to the non-controlling interests of our partners in SC Digital Solutions. For the six months ended 31 December 2018, the movement is mainly due to additional share capital issued by Angola subscribed by its non-controlling interests without change in shareholding percentage

7 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 Rs.69 billion. At 30 June 2019, the total number of shares purchased was 54,885,156, representing 1.66% of the ordinary shares in issue. The nominal value of ordinary shares purchased at 30 June 2019 was Rs.1,861 million and the aggregate consideration paid by the Group was Rs.33,494 million. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account (refer Note 22)

8 Withholding tax on capitalisation of revenue reserves Rs.276 million

9. Condensed consolidated interim cashflow statement (translated to INR)

For the six months ended 30 June 2019

	6 months ended 30.06.19 Rs.million	6 months ended 31.12.18 Rs.million	6 months ended 30.06.18 Rs.million
Cashflows from operating activities:			
Profit before taxation	**166,368**	13,921	161,682
Adjustments for non-cash items and other adjustments included within income statement	**75,258**	100,069	81,530
Change in operating assets	**(1,553,825)**	1,103,102	(1,987,802)
Change in operating liabilities	**1,598,002**	(422,812)	2,756,306
Contributions to defined benefit schemes	**(1,861)**	(7,236)	(2,619)
UK and overseas taxes paid	**(64,025)**	(30,324)	(22,743)
Net cash from operating activities	**219,917**	756,720	986,354
Cashflows from investing activities:			
Purchase of property, plant and equipment	**(9,304)**	(7,374)	(4,411)
Disposal of property, plant and equipment	**1,447**	5,651	207
Dividends received from subsidiaries, associates and joint ventures	**69**	4,411	207
Disposal of subsidiaries	**207**	482	–
Purchase of investment securities	**(9,337,562)**	(9,130,601)	(9,917,507)
Disposal and maturity of investment securities	**9,127,776**	8,899,795	9,293,386
Net cash used in operating activities	**(217,367)**	(227,636)	(628,119)
Cashflows from financing activities:			
Issue of ordinary and preference share capital, net of expenses	**1,723**	689	276
Treasury share issuance	**276**	138	482
Treasury share purchase	**(9,373)**	(551)	–
Cancellation of shares including share buy-back	**(33,494)**	–	–
Gross proceeds from issue of subordinated liabilities	**–**	–	34,459
Interest paid on subordinated liabilities	**(18,263)**	(24,810)	(16,678)
Repayment of subordinated liabilities	**(1,585)**	9,993	(154,514)
Proceeds from issue of senior debts	**247,347**	540,662	132,391
Repayment of senior debts	**(157,753)**	(314,680)	(169,814)
Interest paid on senior debts	**(18,677)**	(19,642)	(15,300)
Investment from non-controlling interests	**10,544**	–	–
Dividends paid to non-controlling interests and preference shareholders	**(17,023)**	(19,986)	(16,747)
Dividends paid to ordinary shareholders	**(34,114)**	(13,163)	(23,983)
Net cash (used in)/from financing activities	**(30,393)**	158,649	(229,428)
Net (decrease)/increase in cash and cash equivalents	**(27,843)**	687,733	128,808
Cash and cash equivalents at beginning of the period	**6,719,505**	6,086,493	6,011,786
Effect of exchange rate movements on cash and cash equivalents	**(9,649)**	(54,721)	(54,101)
Cash and cash equivalents at end of the period	**6,682,014**	6,719,505	6,086,493

Summary of significant differences between Indian GAAP and IFRS

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 with comparatives as at 31 December 2018 and 30 June 2018 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit or loss attributable to parent company shareholders for the periods ended 30 June 2019 and 31 December 2018 and 30 June 2018 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 30 June 2019. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. In addition, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject to and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Monetary assets and liabilities are translated at the closing rate at the date of that statement of financial position. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The functional and presentation currency of the Group is US dollars.

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)

There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount, the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

At each balance sheet date:

- Foreign currency monetary items should be reported using the closing rate
- Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction
- Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)

Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to or has rights to direct relevant activities, or has the right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This also includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)

Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

No specific guidance is given by Indian GAAP on consolidation of structured entities.

Business combinations

IFRS (IFRS 3 Business Combinations)

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values with the excess over this fair value when compared with the acquisition cost recognised as goodwill.

For acquisitions occurring on or after 1 January 2004, IFRS 3 requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and, if considered to have a finite life, amortised through the income statement over an appropriate period.

Business combinations continued

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

The Group's policy for non-controlling interests is generally not to recognise non-controlling interests at their fair value, but to recognise them based on their proportionate share of the fair value of the identifiable net assets acquired.

Indian GAAP (AS 14 Accounting for Amalgamations)

Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition. Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation. Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill

IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)

IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)

Goodwill arising on amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified. For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance. In practice, there is either no amortisation or amortisation not exceeding 10 years. Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets

IFRS (IAS 38 Intangible Assets)

Intangible assets are recognised if they are deemed separable and arise from contractual or other legal rights. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)

Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)

The Group's policy is to hold all property, plant, aviation, shipping and equipment fixed assets at cost less depreciation and consequently tangible fixed assets are not subject to revaluation. Fixed assets are, however, subject to impairment testing.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. Borrowing costs that are directly attributable to the acquisition or construction of an asset must be capitalised as part of that asset.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)

Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS-IFRS 9 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 (FVTPL). 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.

Whether financial assets are held at amortised cost or at FVOCI depends 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 cashflows.

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.

Financial assets that have SPPI characteristics and which are held within a business model whose objective is to hold financial assets to collect contractual cashflows ('hold to collect') are recorded at amortised cost.

Recognition and measurement of financial instruments continued

Conversely, financial assets that have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets ('hold to collect and sell') are classified as FVOCI.

Equity instruments designated as FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition at FVOCI on an instrument-by-instrument basis. 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 FVTPL

Financial assets that are not held at amortised cost or which are not held at FVOCI are held at FVTPL. Financial assets and liabilities held at FVTPL are either mandatorily classified FVTPL or irrevocably designated at FVTPL at initial recognition.

Mandatorily classified at FVTPL

Financial assets and liabilities that are mandatorily held at FVTPL include:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short-term
- 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

Designated at FVTPL

Financial assets and liabilities may be designated at FVTPL 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').

Financial liabilities may also be designated at FVTPL where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to 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 FVTPL are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

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 that date. The fair value of a liability includes the risk that the Group will not be able to honour its obligations.

Initial recognition

Purchases and sales of financial assets and liabilities held at FVTPL, and debt securities classified as financial assets held at FVOCI 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 that are not subsequently measured at FVTPL.

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. Foreign exchange gains and losses are recognised in the income statement.

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 a separate component of equity.

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.

Financial assets and liabilities mandatorily held at FVTPL and financial assets designated at FVTPL are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the income statement unless the instrument is part of a cashflow hedging relationship. Contractual interest income on financial assets held at FVTPL is recognised as interest income in a separate line in the income statement.

Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL 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 FVTPL is recognised in profit or loss.

Recognition and measurement of financial instruments continued

Indian GAAP (AS 13 Investments)

For investments and loans and advances, the Reserve Bank of India (RBI) outlines classification criteria and measurement requirements which differ from those set out in IFRS.

AS 13 requires investments to be categorised as follows:

- Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss
- Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity

Loans and advances are recognised at transaction or originated value only.

Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

Derivatives

IFRS (IFRS 9/IAS 39 Financial Instruments: Recognition and Measurement)

IFRS 9 requires that all derivatives be recognised on-balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings, or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

The Group continues to apply the hedge accounting requirements of IAS 39 rather than the requirements of IFRS 9.

Indian GAAP

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement. In the absence of specific guidance, equity options are carried at the lower of cost or market value.

For banks, there are guidelines prescribed by RBI on measurement and accounting of interest rate swaps and forward rate agreements entered into for hedging purposes.

Impairment of financial assets

Under IFRS 9 the impairment of financial assets is as follows:

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). For less material Retail Banking loan portfolios, the Group has adopted simplified approaches based on historical roll rates or loss rates.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

Cash shortfalls are discounted using the effective interest rate 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
Financial assets held at FVOCI – Debt instruments	Other comprehensive income (FVOCI expected credit loss reserve)
Loan commitments	Provisions for liabilities and charges
Financial guarantees	Provisions for liabilities and charges

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.

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.

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 cashflows 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.

Irrevocable lending commitments to a credit-impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Recognition continued

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cashflows 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 cashflows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Indian GAAP (AS 13 Investments)

Long-term investments are written down when there is a decline in fair value which is deemed to be other than temporary.

Impairments may be reversed through the income statement in subsequent periods if the investment rises in value or the reasons for the impairment no longer exist.

In accordance with RBI regulations, in respect of available-for- sale investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for impairment no longer exist.

For loans and advances, the RBI regulations stipulate minimum provision based on days past due along with other factors. Additionally, RBI regulations require banks to hold provisions in respect of standard assets and for specific Country Risk exposures.

Derecognition of financial instruments – IFRS 9

Financial assets are derecognised when the rights to receive cashflows 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 cashflows and the original cashflows is more than 10 per cent.

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.

IFRS – classification debt/equity

The substance of a financial instrument, rather than its legal form, governs its classification. A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingents Liabilities and Contingent Assets)

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

Pension obligations

IFRS (IAS 19 Employee Benefits)

For defined contribution plans, contributions are charged to operating expenses. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The net interest expense on the net defined liability for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Indian GAAP (AS 15 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. The expected return on plan assets is based on market expectation for the returns over the entire life of the related obligation. Actuarial gains or losses are recognised immediately in the statement of income.

Share-based compensation

IFRS (IFRS 2 Share-based Payments)

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Interest income and expense

IFRS (IFRS 9)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cashflows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (AS 9 Revenue Recognition)

As per AS 9, interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. There is no specific effective interest rate requirement for loans and investments.

Dividends

IFRS (IAS 10 Events After the Reporting Date)

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company, however, is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Accounting and disclosure of dividends is similar to IFRS with effect from 1 April 2016.

Leases

Indian GAAP (AS 19 Leases)

As per AS 19, Leases are classified as Operating or Finance leases. Leases are classified as finance leases where the significant risk and rewards of ownership of the leased item are transferred to the lessee but the title remains with the lessor. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Other supplementary information

A. Our Fair Pay Charter

The Group's Fair Pay Charter sets out the principles we use to determine and deliver pay for all employees globally. In 2019 we published our first Fair Pay Report internally to all colleagues to explain how our performance and reward approach meets the principles of the Charter, and to provide an update on areas we are working on to enhance our approach. Our Fair Pay Charter is set out in the Group's 2018 Annual Report and Accounts together with a summary of how we apply the principles.

B. Group Share Plans

2011 Standard Chartered Share Plan (the 2011 Plan)

The 2011 Plan was approved by shareholders in May 2011 and is the Group's main share plan. Since approval, it has been used to deliver various types of share awards:

- Long Term Incentive Plan ('LTIP') awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return ('TSR'); return on equity ('RoE') with a common equity tier 1 ('CET1') underpin; strategic measures; earnings per share ('EPS') growth; and return on risk-weighted assets ('RoRWA'). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway 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 two years.

2001 Performance Share Plan (2001 PSP) – closed

The Group's previous plan for delivering performance shares was the 2001 PSP. There are no outstanding vested awards under this plan. This plan is closed and no further awards will be granted under this plan.

2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS) – closed

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are no outstanding vested awards under these plans. These plans are closed and no further awards will be granted under these plans.

All Employee Sharesave Plans

2013 Sharesave Plan

The 2013 Sharesave Plan was approved by shareholders in May 2013. Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 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 deliver shares under the 2013 Sharesave Plan, 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 remaining life of the 2013 Sharesave Plan is three years.

Valuation of share awards

The valuation models used in determining the fair values of share awards granted under the Group's share plans are detailed in the Group's 2018 Annual Report and Accounts.

B. Group Share Plans continued

Reconciliation of share award movements for the period to 30 June 2019

	2011 Plan[1]				
	LTIP	Deferred/ restricted shares	PSP[1]	Sharesave	Weighted average Sharesave exercise price (£)
Outstanding at 1 January 2019	27,003,333	26,612,980	4,270	13,724,361	5.48
Granted[2]	2,763,220	14,812,688	–	–	–
Lapsed	(2,989,541)	(1,032,940)	–	(1,217,746)	5.51
Exercised	(4,579,973)	(9,352,168)	(4,270)	(2,879,471)	5.58
Outstanding at 30 June 2019	22,197,039	31,040,560	–	9,627,144	5.45
Exercisable as at 30 June 2019	46,123	2,986,102	–	32,532	5.60
Range of exercise prices (£)	–	–	–	5.13-6.20	
Intrinsic value of vested but not exercised options ($million)	0.42	27.11	–	0.06	
Weighted average contractual remaining life (years)	7.31	8.6	–	2.09	
Weighted average share price for awards exercised during the period (£)	6.22	6.19	6.95	6.56	

1 Employees do not contribute towards the cost of these awards

2 114,346,920 (DRSA/RSA) granted on 11 March 2019, 186,955 (DRSA/RSA) granted as notional dividend on 08 March 2019, 2,530,325 (LTIP) granted on 11 March 2019, 232,895 (LTIP) granted as notional dividend on 08 March 2019, 278,813 (DRSA/RSA) granted on 24 June 2019

C. Group Chairman and independent non-executive directors' interests in ordinary shares as at 30 June 2019[1,2]

	Shares beneficially held as at 30 June 2019	Shares beneficially held as at 31 December 2018
Chairman		
J Viñals	18,500	18,500
Independent non-executive directors		
N Kheraj	40,571	40,571
O P Bhatt[3]	–	2,000
Dr L Cheung	2,571	2,571
Mr D P Conner	10,000	10,000
Dr B E Grote	60,041	60,041
Dr Han Seung-soo, KBE[4]	–	3,474
C M Hodgson	2,571	2,571
G Huey Evans, OBE	2,615	2,615
Dr N Okonjo-Iweala	2,034	2,034
D Tang[5]	2,000	–
C Tong[6]	2,000	–
J M Whitbread	3,615	3,615

1 Independent non-executive directors are required to hold shares with a nominal value of $1,000. All the directors have met this requirement

2 The beneficial interests of the Chairman and independent non-executive directors and their related parties in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares. None of the directors used ordinary shares as collateral for any loans. 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

3 Om Bhatt stepped down from the Board on 23 February 2019

4 Dr Han Seung-soo retired from the Board on 23 February 2019

5 David Tang was appointed to the Board on 12 June 2019

6 Carlson Tong was appointed to the Board on 21 February 2019

D. Executive directors' interests in ordinary shares as at 30 June 2019

Scheme interests awarded, exercised and lapsed during the period

The following table shows the changes in share interests. Employees, including executive directors, are not permitted to engage in any personal hedging strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

	Changes in interests during the period 1 January to 30 June 2019							
	As at 1 January	Awarded[1]	Dividends awarded[2]	Exercised[3]	Lapsed	As at 30 June	Performance period end	Vesting date
W T Winters[4]								
Restricted shares (buy-out)	314,916	–	–	–	–	314,916	–	22 Sep 2019
LTIP 2016–18	496,390	–	4,710	138,735	362,365	–	11 Mar 2019	4 May 2019
	124,097	–	–	–	90,591	33,506	11 Mar 2019	4 May 2020
	124,097	–	–	–	90,591	33,506	11 Mar 2019	4 May 2021
	124,097	–	–	–	90,591	33,506	11 Mar 2019	4 May 2022
	124,100	–	–	–	90,593	33,507	11 Mar 2019	4 May 2023
LTIP 2017–19	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2020
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2021
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2022
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2023
	118,551	–	–	–	–	118,551	13 Mar 2020	13 Mar 2024
LTIP 2018–20	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2021
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2022
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2023
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2024
	108,379	–	–	–	–	108,379	9 Mar 2021	9 Mar 2025
LTIP 2019–21	–	133,065	–	–	–	133,065	11 Mar 2022	11 Mar 2022
	–	133,065	–	–	–	133,065	11 Mar 2022	11 Mar 2023
	–	133,065	–	–	–	133,065	11 Mar 2022	11 Mar 2024
	–	133,065	–	–	–	133,065	11 Mar 2022	11 Mar 2025
	–	133,067	–	–	–	133,067	11 Mar 2022	11 Mar 2026
A N Halford[5]								
LTIP 2016–18	296,417	–	2,812	82,844	216,385	–	11 Mar 2019	4 May 2019
	74,104	–	–	–	54,096	20,008	11 Mar 2019	4 May 2020
	74,104	–	–	–	54,096	20,008	11 Mar 2019	4 May 2021
	74,104	–	–	–	54,096	20,008	11 Mar 2019	4 May 2022
	74,105	–	–	–	54,096	20,009	11 Mar 2019	4 May 2023
LTIP 2017–19	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2020
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2021
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2022
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2023
	73,394	–	–	–	–	73,394	13 Mar 2020	13 Mar 2024
LTIP 2018–20	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2021
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2022
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2023
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2024
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2025
LTIP 2019-21	–	85,094	–	–	–	85,094	11 Mar 2022	11 Mar 2022
	–	85,094	–	–	–	85,094	11 Mar 2022	11 Mar 2023
	–	85,094	–	–	–	85,094	11 Mar 2022	11 Mar 2024
	–	85,094	–	–	–	85,094	11 Mar 2022	11 Mar 2025
	–	85,096	–	–	–	85,096	11 Mar 2022	11 Mar 2026
Sharesave	1,612	–	–	1,612	–	–	–	1 Dec 2018

1 For the LTIP 2019-21 awards granted to Bill Winters and Andy Halford on 11 March 2019, the values granted were: Bill Winters: £3.3 million; Andy Halford: £2.1 million. The number of shares awarded in respect of the LTIP 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. Performance measures apply to 2019-21 LTIP awards. The share price at grant was the closing price on the day before the grant date

2 Dividend equivalent shares may be awarded on vesting for awards granted prior to 1 January 2018

3 On 7 May 2019, Bill Winters exercised the 2016-18 LTIP award over a total of 138,735 shares. The closing share price on the day before exercise was £6.91. On 7 May 2019, Andy Halford exercised the 2016-18 LTIP award over a total of 82,844 shares. The closing share price on the day before exercise was £6.91. On 1 March 2019, Andy Halford exercised a Sharesave option under the 2013 Sharesave Plan at an exercise price of £5.5776 per share

4 The unvested share awards held by Bill Winters are conditional rights under the 2011 Plan. Bill does not have to pay towards these awards

5 The unvested share awards held by Andy Halford are conditional rights under the 2011 Plan. Andy does not have to pay towards these awards

Further details relating to the above awards and individual shareholding requirements can be found in the 2018 Annual Report and Accounts.

D. Executive directors' interests in ordinary shares as at 30 June 2019 continued

Shareholdings and share interests

The following table summarises the executive directors' shareholdings and share interests[1].

	Shareholdings		Share awards	
	Shares held beneficially[2,3]	Vested but unexercised share awards	Unvested share awards not subject to performance measures[4]	Unvested share awards subject to performance measures
W T Winters	1,388,163	–	448,941	1,799,969
A N Halford	600,006	–	80,033	1,127,966

1 All figures are as at 30 June 2019 unless stated otherwise. No director had either (i) an interest in Standard Chartered PLC's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in Standard Chartered PLC's ordinary shares

2 The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used ordinary shares as collateral for any loans

3 The shares held beneficially include shares awarded to deliver the executive directors' salary shares

4 27 per cent of the 2016-18 LTIP award is no longer subject to performance measures due to achievement against 2016-18 strategic measures

E. Share price information

The middle market price of an ordinary share at the close of business on 30 June 2019 was 714.2 pence. The share price range during the first half of 2019 was 575.7 pence to 714.2 pence (based on the closing middle market prices).

F. 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.

G. Code for Financial Reporting Disclosure

The UK Finance Code for Financial Reporting Disclosure sets out five disclosure principles together with supporting guidance. The principles are that UK banks will: provide high-quality, meaningful and decision useful disclosures; review and enhance their financial instrument disclosures for key areas of interest; assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited. The Group's interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Code's principles.

Shareholder information

Dividend and interest payment dates

2019 interim dividend	
Ex-dividend date	8 August 2019 (UK), 7 August 2019 (HK)
Record date for dividend	9 August 2019
Dividend payment date	21 October 2019

2019 final dividend	(provisional only)
Results and dividend announcement date	27 February 2020

Preference shares	Next half-yearly dividend
7 3/8 per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2019
8 ¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2019
6.409 per cent Non-cumulative preference shares of $5 each	30 July 2019, 30 October 2019
7.014 per cent Non-cumulative preference shares of $5 each	30 July 2019

Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 Rights Issues)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2006	11 October 2006	20.83c/11.14409p/HK$1.622699	£13.2360/$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK$3.926106	£14.2140/$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK$1.794713	£15.2560/$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK$4.380092	£16.2420/$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.984124[1]	£17.394/$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK$3.623404/INR1.9975170[1]	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.13797125[1]	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK$3.9776083375/INR2.6667015[1]	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.349803950[1]	£13.417/$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK$4.4048756997/INR2.976283575[1]	£17.40/$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK$2.233204992/INR1.6813[1]	£15.362/$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK$4.43464736/INR3.354626[1]	£11.949$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK$2.2340016000/INR1.671842560[1]	£12.151/$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK$4.43329/INR3.514059[1]	£9.797/$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK$1.115985456/INR0.86139372[1]	£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[1]	£7.7600/$10.83451
Interim 2018	22 October 2018	6.00c/4.59747p/HK$0.46978/INR0.3696175[1]	£6.7104/$8.51952
Final 2018	16 May 2019	15.00c/11.569905p/HK$1.176260/INR0.957691650[1]	N/A

1 The INR dividend is per Indian Depository Receipt

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and you will still receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information please 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. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from sharegift.org. There is no implication for Capital Gains Tax (no gain no loss) when you donate shares to charity and UK tax payers may be able to claim income tax relief on the value of their donation.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

The Company's ordinary shares are listed on the Official List and traded on the London Stock Exchange. The Company's ordinary shares are also listed on The Stock Exchange of Hong Kong Limited, and through Indian Depository Receipts on the Bombay Stock Exchange and National Stock Exchange of India.

If you have any enquiries relating to your shareholding and you hold your shares on the United Kingdom register, please contact our registrar Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, or contact the shareholder helpline 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.

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Fintech Private Limited, Karvy Selenium, Tower B, Plot 31-32, Financial District, Nanakramguda, Hyderabad 500032, India.

Chinese translation

If you would like a Chinese version of this Half Year Report, please contact: Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. 本半年報告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 Half-Year Report, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong and the United States will be sent to you with your dividend documents.

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.

Alternative performance measures

An alternative performance measure is 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. The following are key alternative performance measures used by the Group to assess financial performance and financial position.

Measure	Definition
Constant currency basis	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: → Operating income → Operating expenses → Profit before tax → RWAs or Risk-weighted assets
Underlying	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: → Operating income → Operating expense → Profit before tax → Earnings per share → Cost to income ratio → Jaws → RoE or Return on equity → RoTE or Return on tangible equity
Advances-to-deposits/customer advances-to-deposits (ADR) ratio	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.
Cost to income ratio	The proportion of total operating expenses to total operating income.
Cover ratio	The ratio of impairment provisions for each stage to the gross loan exposure for each stage.
Cover ratio after collateral/cover ratio including collateral	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.
Jaws	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.
Loan loss rate	Total credit impairment for loans and advances to customers over average loans and advances to customers.
Net tangible asset value per share	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.
NIM or Net interest margin	Net interest income divided by average interest-earning assets.
RAR per FTE or Risk adjusted revenue per full-time equivalent	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.
RoE or Return on equity	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.
RoTE or Return on ordinary shareholders tangible equity	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 intangible assets for the reporting period.
TSR or Total shareholder return	The total return of the Group's equity (share price growth and dividends) to investors.

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.

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 28 countries and territories.

Basic underlying earnings per share (EPS)
Represents the underlying 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 IV or Capital Requirements Directive IV
A capital adequacy legislative package adopted by EU member states. CRD IV 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.

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.

CRE or Commercial real estate
Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by 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 transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

DTA or Deferred tax asset
Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

DTL or Deferred tax liability
Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

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 underlying earnings per share (EPS)
Represents the underlying earnings divided by the diluted weighted average number of 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 28 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.

Forborne – not impaired loans
Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

Free deliveries
A transaction where a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making immediate payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving immediate payment.

Free funds
Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/unfunded exposures
Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where 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 IV 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. The G-SIB buffer is being phased in by 1 January 2019. In the EU, the G-SIB buffer is implemented via CRD IV as Global Systemically Important Institutions (G-SII) buffer requirement.

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.

IMA approach or internal model approach
The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD IV/CRR.

IAS or International Accounting Standard
A standard that forms part of the International Financial Reporting Standards framework.

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 IV that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk-based backstop measure.

Liquid asset ratio
Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquidation portfolio
A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

LCR or Liquidity coverage ratio
The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

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
This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks
Amounts loaned to credit institutions including securities bought under Reverse repo.

LTV or loan-to-value ratio
A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due
Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

Loans subject to forbearance – impaired
Loans where the terms have been renegotiated on terms not consistent with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

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 earnings'.

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.

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 (SE) 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 after 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).

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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