Standard Chartered

Half Year Report 2016

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

Highlights

For the six months ended 30 June 2016

"We have made good progress in the year since I joined, strengthening our bank, becoming more efficient and investing in our future. By maintaining our financial strength and completing our transformation we will be able to weather near-term volatility, fix our legacy issues, capture significant underlying opportunities as they arise, and, in time, generate returns above our cost of capital. The environment remains challenging but we are getting on with the plan."

Bill Winters, *Group Chief Executive*

Financial performance summary

Underlying profit before tax

$1.0bn

a significant improvement on the preceding second half loss

Underlying operating income

$6.8bn

stable in each of the first two quarters, although down 20 per cent year-on-year

Underlying operating expenses

$4.0bn

tightly controlled and down 13 per cent year-on-year excluding regulatory costs. Cost savings are funding investment plans which will increase throughout the rest of the year

Underlying loan impairment

$1.1bn

down significantly both year-on-year and half-on-half. Stresses remain and we continue to be watchful

Restructuring charges

$115m

the total charges to date are almost $2bn, or two thirds of our estimate of around $3bn

Normalised basic earnings per share

14.2 cents

(H2 2015: negative 52.4 cents)

Normalised return on ordinary shareholders' equity

2.1 per cent

(H2 2015: negative 6.2 per cent)

The Board has not declared an interim ordinary dividend for 2016

Strong balance sheet

Common Equity Tier 1 (CET1) ratio

13.1 per cent

slightly above the Group's 12-13 per cent target range

Minimum requirement for own funds and eligible liabilities (MREL)

c.25 per cent

well positioned

Liquidity coverage ratio

above 100 per cent

(H2 2015: above 100 per cent)

Advances to deposits ratio

71.5 per cent

(H2 2015: 72.8 per cent)

Leverage ratio

5.5 per cent

(H2 2015: 5.5 per cent)

Uncertainty on the eventual outcome of regulatory reforms to finalise banks' capital requirements

Disciplined balance sheet management, optimised risk-weighted assets and increased quality of deposits

Progress against the strategy

- Encouraging signs of stabilisation in income and balance sheet momentum
- On track to deliver gross cost efficiencies in excess of $1 billion in 2016
- Launched the first phase of investment plans
- Exited $674 million gross loans and advances related to the liquidation portfolio in the period
- Signed or completed seven non-core divestments since November 2015

Summary and outlook

- We are making good progress on the actions we set out in November and have returned to underlying profitability
- Economies have slowed and the outlook is more cautious than in November 2015:
  - Interest rate expectations are lower and for longer than predicted
  - Growth rates have slowed in key markets like Hong Kong and Singapore, and in the US
  - Global trade volumes are down
  - Uncertainty following the UK's referendum on EU membership may impact global growth
- We expect 2016 performance to remain subdued
- It is likely to take us longer to deliver the return on equity we set out in November
- Opportunities are compelling and we are creating the platform to generate value for clients and shareholders

Comparators have been re-presented to reflect the reorganisation of the Group. These changes were detailed in our re-presentation announcement on 5 July 2016.

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. H1 refers to the six months ended 30 June and H2 refers to the six months ended 31 December.

Those disclosures marked 'Unaudited' are not within the scope of KPMG LLP's review report.

Standard Chartered PLC is headquartered in London where it is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; BSE/NSE STAN.IN.

Summary of results

For the six months ended 30 June 2016

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Results			
Underlying operating income[1]	**6,810**	6,944	8,495
Statutory operating income	**6,935**	6,520	8,769
Impairment losses on loans and advances and other credit risk provisions[1]	**(1,096)**	(2,356)	(1,652)
Other impairment[1]	**(213)**	(225)	(86)
Goodwill impairment[1]	**–**	(362)	–
Underlying profit/(loss) before taxation[1]	**994**	(990)	1,824
Statutory profit/(loss) before taxation	**893**	(3,621)	2,098
Profit/(loss) attributable to parent company shareholders	**509**	(3,706)	1,512
Profit/(loss) attributable to ordinary shareholders[2]	**394**	(3,822)	1,462
Balance sheet			
Total assets	**660,989**	640,483	694,956
Total equity	**48,821**	48,512	49,344
Loans and advances to customers	**265,874**	261,403	282,339
Customer deposits	**371,698**	359,127	388,795
Total capital base	**57,166**	59,021	59,493
	cents	cents	cents
Information per ordinary share			
Earnings per share – normalised[3]	**14.2**	(52.4)	46.3
– basic	**12.0**	(144.7)	55.7
Ordinary dividend per share[4]	**–**	–	13.7
Net asset value per share	**1,371.9**	1,366.0	1,802.6
Tangible net asset value per share	**1,225.8**	1,224.1	1,586.4
Ratios			
Return on ordinary shareholders' equity – normalised basis[3]	**2.1%**	(6.2)%	5.4%
Advances to deposits ratio	**71.5%**	72.8%	72.6%
Liquid asset ratio	**28.0%**	30.9%	31.4%
Cost to income ratio – normalised basis[3]	**66.5%**	78.3%	59.2%
Capital ratios			
Common Equity Tier 1	**13.1%**	12.6%	11.5%
Total capital	**19.5%**	19.5%	18.2%
Leverage ratio	**5.5%**	5.5%	5.0%

1. Presented on an underlying basis, further details are set out on page 7
2. Profit/(loss) attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares and Additional Tier 1 securities classified as equity (see note 11 on page 90)
3. Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items presented in note 12 on page 91. The H1 2015 comparatives for earnings per share have been adjusted for the impact of bonus element included in the November 2015 rights issue
4. Represents the total ordinary dividend per share for the respective years together with the interim ordinary dividend per share declared and paid in those years. The H1 2015 ordinary dividend per share has been adjusted for the impact of bonus element included in the November 2015 rights issue. Further details are set out in note 11 on page 90

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Chairman's statement

The Group's performance in the first half of 2016 has demonstrated the Management Team's early progress on the actions we believe will drive a sustainable improvement in financial returns. Importantly, we have returned to underlying profitability in the period, despite the more difficult market conditions. Our employees remain highly engaged, committed to doing good business in the right way for our clients, and determined to restore the Group's performance.

We understand that there is a long way to go to achieve the level of returns we need to deliver for shareholders. The execution of this initial phase of the strategy has started well and we remain committed to building our business in the areas that will drive the Group's future performance. We have launched the first phase of our investment plans into areas such as Wealth Management, mobile banking and renminbi services. These are some of the areas where we believe we have a long-term competitive advantage.

Group Chief Executive Bill Winters and the Management Team are building on the foundations of the Group's strong balance sheet, long-standing client and community relationships, and well established brand. Our markets are attractive through the medium and long term, our franchise is hard to replicate and we remain well positioned to support wealth creation in Asia, Africa and the Middle East. There is a degree of economic uncertainty following the UK's referendum on European Union membership but the majority of our business operates in other parts of the world and is relatively less impacted.

The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment to support future growth, whilst at the same time preserving strong capital ratios. With the support of shareholders and through concerted management actions, the Group is operating on a strong capital position and is working on improving profitability from the current weak levels. We are making good progress operationally, but it is early days and no interim ordinary dividend is proposed. Consistent with our previous commitments, the Board will review the position at the end of the year.

We firmly believe that we must be an industry leader in the fight against financial crime. To achieve this goal, we continue to invest in people, systems and training. These efforts and investments will provide superior and sustainable benefits for shareholders and make us a stronger, more resilient company, embodying our brand promise, Here for good.

Finally, I announced last year my intention to stand down from the Board during 2016. I am therefore delighted to announce that José Viñals will be appointed as the new Chairman of the Group. José will join as Chairman designate on 3 October and will become Chairman and join the Board on 1 December. This handover period will ensure a smooth transition and allow José to get to know the Group, its shareholders and clients, the Management Team and employees. Throughout this period, the Board, José and I are fully committed to supporting the Management Team in the delivery of the Group's strategy.

Sir John Peace
Chairman

3 August 2016

Group Chief Executive's review

In the year since I joined Standard Chartered we have taken decisive steps to reveal and restore the Group's strengths. We have stabilised our balance sheet, increased our efficiency and made significant investments in our future. We returned to our roots, refocusing our attention on serving corporate and retail clients operating in the real economy.

The progress we have made has been hard won, and has been achieved against a backdrop of deteriorating external conditions. Interest rate expectations are lower for longer than previously predicted, growth in our markets is slow and global trade volumes are down. Although our performance has substantially improved, income growth remains muted and returns are weak. The strategy we set out last November was designed to endure through this type of environment. By maintaining our financial strength and completing our transformation during this period of heightened political and economic uncertainty, we will be able to weather near-term volatility, fix our legacy issues, and capture significant underlying opportunities as they arise.

We have returned to underlying profitability and we are making early progress on our planned strategic actions. We are completely focused on restoring returns and establishing the ability to grow. I am encouraged that the decline in Group income has slowed and that we have seen sequential quarter on quarter stability. Whilst income is down 2 per cent compared with the second half of last year, income in the first two quarters of 2016 was around the same level as in the fourth quarter last year. This is despite our tightened risk tolerances, the actions we have taken on low-returning risk-weighted assets (RWAs) and external headwinds that are at least as strong as, and in several cases stronger than, last year. I am also encouraged by the steady improvement in loan impairment, but note the continued growth in non-performing loans in our ongoing business, reflecting the continuing difficult economic conditions in our markets.

Today I will set out where we have made progress and describe the outlook for the future.

Securing the foundations

We have further strengthened our capital position, tightened our risk tolerances, diversified our balance sheet and established more robust controls. We have also created a common set of conduct requirements to which all of our staff will adhere.

Last year, we identified around $100 billion of RWAs, representing around a third of the Group total, to be restructured. We have made progress in four important respects:

1) We highlighted a portfolio of around $8 billion in gross loans and advances contributing to $20 billion of the Group's RWAs which were beyond our tightened risk tolerance and that we intended to liquidate. In the first half of this year we took an incremental impairment charge of $200 million and reduced gross loans and advances by $674 million. We have a clear line of sight over each of the remaining exposures in this portfolio and expect to complete the exit of the majority of these relationships before the end of next year.
2) We identified around $50 billion of low-returning RWAs in our Corporate & Institutional Banking and Commercial Banking client segments. In most cases, these RWAs relate to clients who value our franchise and our proposition, but where our existing relationship with them was too narrow. We have taken steps to rectify this having already optimised returns on $15 billion to date of the approximately $50 billion RWAs under review. While this is encouraging, market conditions have placed incremental pressure on returns from some clients outside of this original group. This has meant that the positive progress against these low-returning clients has not yet translated into returns for the Corporate & Institutional Banking and Commercial Banking segments

3) We have approximately $30 billion of RWAs to restructure or reposition to improve returns in Korea and in our two businesses in Indonesia
   i) In Korea, we have taken decisive action to improve the cost-income ratio. We have reduced headcount since November, and we are building income momentum, for example through our strategic partnerships with Shinsegae and Emart, the country's largest retailer, and with Samsung. After a loss in 2015, it is encouraging to see two successive quarters of profitability in Korea in the first half, but there is still much more potential to unlock
   ii) In Indonesia we are exploring the best way to achieve a single, properly scaled presence, either by merging our branch with our joint venture or by selling one of the entities. These discussions are ongoing
4) We said we would exit peripheral businesses that together represent around $5 billion of RWAs. Since November, we have signed or completed 7 non-core divestments that have released $0.6 billion of RWAs to add to RWAs released as part of the closure of our Institutional Cash Equities and Equity Derivative businesses. As with each of these four commitments, there is more we can do here, but each step forward releases finite resources that we can re-invest

Our collective restructuring actions to date have cost almost $2.0 billion, two thirds of the original estimated total cost of around $3 billion.

Getting lean and focused

In addition to securing the foundations, we are assertively managing our cost base, and are on track to deliver more than $1 billion in cost efficiencies in 2016. Excluding regulatory costs, operating expenses in the first half were down 13 per cent year-on-year, reflecting savings from the restructuring actions and senior staff redundancy exercise completed towards the end of last year. We are now in the process of identifying potential efficiencies to deliver our targeted cost savings for 2017. Beyond the Group commitments, what is especially encouraging is how our staff are responding and identifying their own ways to become more efficient and more effective in serving our clients.

Building returns in Corporate & Institutional Banking

Simon Cooper joined the Group in April 2016 to run Corporate & Institutional Banking. He spent several weeks getting to know our business and meeting our key people and clients. Having done so, he has identified three immediate priorities to drive better returns:

1) We will re-focus on the clients and products where we have a competitive advantage. We have the capital, liquidity, geographic reach and product capability to be a valued strategic partner. Simon and his team have identified the clients and industries that are important drivers of the real economy in our markets, but where we have not yet captured a significant share of their business. We have plans in place to improve our relationship with these clients. This will build a more diverse and resilient business which is more relevant to the industries and clients who are shaping the future.
   We are also investing in areas that differentiate us and where we can generate good returns, such as domestic debt capital markets, strengthening our network and serving our clients' ecosystems by engaging their buyers, suppliers and staff. We are also continuing to build scale in our securities services offering across our markets
2) Our Corporate & Institutional Banking client segment will become a more efficient user of capital. As well as executing on our plans to manage up or out low returning RWAs, we are embedding greater distribution discipline to increase the velocity of assets through our balance sheet. This will have the dual benefit of allowing us to better serve our clients' needs, whilst also improving risk management
3) We will ensure that our relationship managers are able to bring the very best the bank has to offer to our clients. To achieve this we are reducing inefficiencies and duplications and organising ourselves so that the client is at the centre of everything we do

Overhauling Commercial Banking

We are also making progress on the transformation of our Commercial Banking client segment. On 1 January this year we completed the transfer of our Local Corporate clients from Corporate & Institutional Banking to Commercial Banking, roughly doubling the size of the segment. This additional scale enables us to serve our clients more effectively and cost efficiently.

Although Commercial Banking results remain weak, we are stabilising the business and actively developing a platform from which we can move forward. Income has been adversely affected by client exits related to client due diligence, which is now largely complete. We also continue to experience elevated loan impairment, albeit at a substantially reduced level compared to 2015. We have strengthened our operational and credit risk management, reduced our cost base and been active in addressing our process inefficiencies, improving turnaround times for transactions and client on-boarding.

From this base we can begin to grow by targeting clients where we have a competitive advantage. These new clients will benefit from our unique network and our product suite, particularly in Transaction Banking and Financial Markets. We are further differentiating the offering to the Commercial Banking segment by working closely with Corporate & Institutional Banking to bank global supply chains and by becoming our clients' main international bank.

Our Commercial Banking franchise is currently a relatively small but important part of the Group, servicing a vital part of the economies in which we operate. These clients typically represent 40 to 60 per cent of a country's GDP, they are highly diversified, and are growing and internationalising at the fastest rate. We see this as an area of considerable potential and one in which we enjoy a distinct competitive advantage that should enable us to generate good returns in future years.

Investing in Private Banking and Wealth Management

We bring global capabilities to our clients locally in a way that our local and global competitors find it difficult to match. We will increasingly grow in this area through cross-referrals from our Retail Banking, Commercial Banking and Corporate & Institutional Banking client bases.

We have a multi-year plan to invest $250 million to upgrade our underlying technology and core banking platform to improve the quality and breadth of our service. We are building our relationship management team strength and are also growing our client base, adding almost 500 relationships in the first half.

Market conditions and sentiment have clearly had an impact on revenue and net new money performance in the first half of this year, but we are confident that we will grow these businesses and that we will achieve strong returns on our ongoing investments.

Transforming Retail Banking

We have made some significant strides in transforming Retail Banking, focusing on more affluent clients in our core cities and delivering on our technology programmes.

In the first half we have added over 40,000 priority clients and have seen income from this segment increase as a percentage of total Retail Banking income to 38 per cent. We have refreshed our retail products in 8 of our main markets and we have begun to successfully leverage a number of key strategic alliances. Each of these alliances is impactful. For example, in the four months following its launch we had over 100,000 applications for our new Asia Miles card in Hong Kong, many of which were from target priority clients, and which in total brought in over $1 billion of incremental deposits.

We have improved our client service through the roll out of Retail Workbench, our award winning iPad-based on-boarding platform, now in 9 markets and with plans for more in due course. We have also launched a suite of payment partnerships including Apple Pay, Samsung Pay and Android Pay in some of our larger markets. Additionally, we are actively rolling out our most advanced mobile and on-line banking platforms across Africa. We now have over 3 million active digital banking clients globally and expect to reach close to 4 million by early next year, improving our digital adoption rate from 35 per cent to 40 per cent.

Overall, our Retail Banking financial performance generally showed steady progress on both the first and the second half of last year. While performance is still not where we want it to be, we are encouraged by the tangible results from the actions we have taken and are excited by the potential for this segment to deliver strong returns for the Group.

Conduct and financial crime risks

Conduct in the banking industry continues to be under scrutiny. That's quite right, given the importance of the industry to the economies and societies where we operate. At Standard Chartered, we continue to enhance a sustainable framework that places regulatory and compliance standards, as well as a culture of appropriate conduct and good judgement, at the forefront of the Group's agenda. The Group is committed to achieve high standards of conduct from all employees under our firm wide conduct programmes.

Our approach to conduct has the power to be a competitive differentiator as we exhibit these high standards in our dealings with clients, regulators, and colleagues. We recognise that compliance with rules and regulations is only part of our responsibility in this area. As a bank on the front line of the fight against financial crime, our ambition is to be an industry leader in identifying and, more importantly, playing our part to address the root causes.

We are doing this in several ways, including helping our correspondent banking clients to raise their financial crime standards, as well as participating in industry bodies that are setting the standard for financial crime compliance (FCC). We are making progress. In June, we were formally recognised by the US Financial Crimes Enforcement Network (FinCEN) for two investigations conducted by our FCC team that led to successful law enforcement action. As FinCEN noted in its citation, this demonstrates that the Group is playing a critical role in protecting the financial system from serious crimes that can threaten national and economic security. This is the value we can offer when we work hand-in-hand with the authorities and live up to our brand promise of Here for good.

We also continue to cooperate fully with the US and UK authorities in the ongoing investigations that we have previously disclosed. As we stated in our 2015 Annual Report and Accounts, we are unable to determine when these investigations will conclude, or the size of any potential penalties that might result. Now, having worked hard to remediate past mistakes, we are keen to move forward, continually improving our standards and focusing on the positive role we play in fighting financial crime.

Summary and outlook

In November last year, when we presented our refreshed strategy, we outlined a scenario that, based on what we felt were conservative macroeconomic assumptions, would deliver return on equity of 8 per cent in 2018 and 10 per cent in 2020. In the first half of the year we have returned the Group to underlying profitability and delivered a 2.1 per cent return on equity. This is an important first step.

However, economies have slowed during 2016 and the outlook is more cautious than in November. GDP growth rates in key markets like Hong Kong, Singapore and the US are lower, global trade growth has stalled, and expectations for US dollar interest are that they will remain lower and for longer. The impact on global growth of the UK's decision to leave the European Union adds uncertainty.

As a result it is likely to take longer than we had hoped to reach these levels of return on equity. We believe many of these external challenges are cyclical rather than structural and remain confident that the actions we set out in November last year will eventually allow us to generate returns in excess of our cost of capital.

In addition, the eventual outcome of regulatory reforms to finalise banks' capital requirements is unclear. Some regulators have repeatedly asserted the intention not to significantly increase the level of required capital across the banking industry, but this is not always supported by the tone and content of consultation papers.

After a year at the Group, I remain convinced that the opportunities available to us are compelling and that we have the people and the network to deliver exceptional service to the client segments where we can have the most impact. We are the custodians of a franchise that delivered great value in the past and will do so again. I believe the actions we are taking and the investments we are making will get us back to a position where we can grow and thrive whilst maintaining superior financial strength. We will generate real value for our clients and for our shareholders, and will make our staff proud to be part of a successful organisation that is Here for good.

Bill Winters
Group Chief Executive

3 August 2016

Group Chief Financial Officer's review

Unless otherwise stated, all figures contained within the Group Chief Financial Officer's review are on an underlying basis.

The Group returned to underlying profitability in the first half of this year with underlying profit before tax of $994 million. Although down 46 per cent year-on-year, this represents a significant improvement on the underlying loss of $550 million, excluding the UK bank levy, reported in the second half of 2015. Income has been broadly stable in the period, with modest increases of around 3 per cent in each of the last two quarters compared to the sequential decline throughout 2015. While this is an encouraging start, income is lower than in the second half of last year and the investments we are making and the sharpened focus of our client segments will take time to translate into financial results.

The Group has initiated a series of concerted actions to strengthen the capital position, reduce costs, tighten risk tolerances, and improve efficiency. We believe that these actions, coupled with our plans to invest, should drive sustainably higher returns in the future. The Group's return on equity is not where it needs to be and improving income trends remains a top priority. Our continued focus on disciplined execution remains key to improving returns.

The balance sheet is strong, with a Common Equity Tier 1 (CET1) ratio of 13.1 per cent, and is increasingly diverse. We will focus on doing good business with our clients, optimising our risk-weighted assets (RWAs), delivering cost efficiency and process improvements, and enhancing controls to drive sustainably better returns in the future.

Performance summary

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**6,810**	6,944	8,495	(2)	(20)
Operating expenses	**(4,534)**	(5,436)	(5,042)	17	10
Operating profit before impairment losses and taxation	**2,276**	1,508	3,453	51	(34)
Impairment losses on loans and advances and other credit risk provisions	**(1,096)**	(2,356)	(1,652)	53	34
Other impairment	**(213)**	(225)	(86)	5	nm
Profit from associates and joint ventures	**27**	83	109	(67)	(75)
Underlying profit/(loss) before taxation	**994**	(990)	1,824	200	(46)
Restructuring	**(115)**	(1,845)	–		
Valuation methodology changes	**–**	(863)	–		
Net (losses)/gains on businesses disposed/held for sale	**–**	(1)	219		
Own credit adjustment	**(70)**	440	55		
Goodwill impairment	**–**	(362)	–		
Gains arising on repurchase of subordinated liabilities	**84**	–	–		
Statutory profit/(loss) before taxation	**893**	(3,621)	2,098	nm	(57)
Normalised return on equity (%)	**2.1**	(6.2)	5.4	nm	(61)
Normalised earnings/(loss) per share (cents)	**14.2**	(52.4)	46.3	nm	(69)
Dividend per share (cents)	**–**	–	13.7	nm	nm
Common Equity Tier 1 (%)	**13.1**	12.6	11.5	4	14

Group income of $6,810 million was down 20 per cent year-on-year and down by 2 per cent, or $134 million, when compared to the second half of 2015. Group income in each of the first two quarters this year has remained broadly stable when compared to the fourth quarter of 2015. This relative stability is a significant improvement on the sequential declines through 2015 and reflects the early results of our management actions.

Group operating expenses of $4,534 million were down 10 per cent year-on-year and, excluding the UK bank levy, were down 9 per cent compared to the second half of last year. We currently estimate the UK bank levy will be approximately $380 million in 2016.

The Group has identified gross cost efficiencies in excess of the $1 billion we committed to for 2016 and the Management Team has begun the process to identify and agree further cost savings in 2017. The focus on these savings has also brought about process improvements and better client experience as we are removing complexity and duplication in many areas.

Loan impairment excluding restructuring charges of $1,096 million reduced by $556 million, or 34 per cent year-on-year, and by $1,260 million or 53 per cent half-on-half. This represents an annualised 85 basis points of loss on loans and advances to customers compared to 143 basis points for the whole of last year, reflecting the benefits of past risk management actions and the Group's tightened risk tolerances.

Profit from associates and joint ventures of $27 million was down by 76 per cent year-on-year, primarily due to challenging market conditions.

As a result of the above, the Group delivered underlying operating profit before tax of $994 million, compared with a $550 million loss in the second half, after excluding the UK bank levy. This improved operating profit performance was built on stronger foundations with strong liquidity measures and a CET1 ratio of 13.1 per cent, slightly above the Group's 12 to 13 per cent target range.

Underlying client segment income

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 increase/ (decrease) %	H1 2016 vs H1 2015 increase/ (decrease) %
Corporate & Institutional Banking	**3,147**	3,238	3,943	(3)	(20)
Commercial Banking	**667**	686	919	(3)	(27)
Private Banking	**261**	244	290	7	(10)
Retail Banking	**2,316**	2,365	2,742	(2)	(16)
Central & other items	**419**	411	601	2	(30)
Operating income	**6,810**	6,944	8,495	(2)	(20)

Corporate & Institutional Banking income was down 20 per cent year-on-year and down 3 per cent compared to the second half of 2015. Within this first half performance, Financial Markets benefitted from currency and equity market disruption at the start of the year, as well as a brief period of strong foreign currency flows coinciding with the UK's referendum on EU membership. This was offset by $167 million negative income in Principal Finance.

Income from Commercial Banking of $667 million was down 27 per cent year-on-year and 3 per cent lower than the second half of last year, impacted by renminbi volatility and weaker trade activity. After a period of deliberate actions to de-risk our portfolio and create a solid foundation for future growth, we are beginning to attract new clients to this segment.

Income from Private Banking of $261 million was down 10 per cent year-on-year but was 7 per cent higher than in the previous half. Demand for Wealth Management products, mainly in Hong Kong and Singapore, remained subdued as investor sentiment was impacted by volatility in particular in the renminbi and in China equity markets. We continue to invest in building improved systems and strengthening our relationship manager teams to support our expansion in this segment as the opportunities remain compelling.

Income from Retail Banking of $2,316 million was down 16 per cent year-on-year but was only $49 million lower compared to the second half of last year. Priority Clients now represent 38 per cent of income compared to 35 per cent last year, reflecting our focus on affluent clients in our core cities.

Income from Central & other items was broadly flat half-on-half. Within this, treasury income reduced reflecting lower interest rates in many of our markets including in Korea, India and Pakistan.

Underlying product income

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 increase/ (decrease) %	H1 2016 vs H1 2015 increase/ (decrease) %
Transaction Banking	**1,418**	1,533	1,717	(8)	(17)
Financial Markets	**1,339**	1,204	1,717	11	(22)
Corporate Finance	**944**	976	861	(3)	10
Wealth Management	**719**	739	894	(3)	(20)
Retail Products	**1,833**	1,867	2,103	(2)	(13)
Asset and Liability Management	**217**	123	248	76	(13)
Lending and Portfolio Management	**280**	314	406	(11)	(31)
Principal Finance	**(167)**	(105)	159	(59)	nm
Other	**227**	293	390	(23)	(42)
Operating income	**6,810**	6,944	8,495	(2)	(20)

Transaction Banking income of $1,418 million was down 17 per cent year-on-year and down 8 per cent half-on-half. Within this, Trade Finance income declined 11 per cent half on half, impacted mainly by weaker demand. Cash Management and Custody income fell 5 per cent half-on-half as we managed down lower quality deposits.

Margins in both Cash Management and Trade Finance have remained broadly stable throughout the first half. Volumes in Cash Management have been broadly stable, while Trade Finance balances recovered by the end of the period to year-end levels, despite lower industry-wide trade activity and lower commodity values earlier in the year.

Financial Markets income of $1,339 million was down 22 per cent year-on-year and up 11 per cent half-on-half. This half-on-half performance was underpinned by increased client activity in Rates, although Foreign Exchange income was broadly flat reflecting continued reduction in market-wide volumes offset by the short term income benefit of volatility immediately after the UK's referendum on EU membership.

Corporate Finance income rose 10 per cent year-on-year, although it was down 3 per cent compared with the second half of 2015. Our transaction pipeline has built in recent months despite the challenging external conditions, although timing of execution is dependent on prevailing market conditions.

Lending and Portfolio Management income was lower in the period as we continue to seek more efficient ways of deploying the Group's capital whilst supporting our clients.

Wealth Management income was down 20 per cent year-on-year and 3 per cent half-on-half reflecting lower demand for wealth products resulting from significant equity and currency market volatility. Wealth creation and the underlying demographics of the markets in which we operate remain compelling, and we are investing to capture this long-term opportunity.

Retail Products income was down 13 per cent year-on-year and was down 2 per cent half-on-half. A reduction in income from unsecured lending was partially offset by stronger income from deposit products reflecting, in part, our focus on more affluent client segments.

Asset and Liability Management income, although down 13 per cent year-on-year, rose 76 per cent half-on-half, or $94 million, due to larger gains from liquidation of available-for-sale holdings.

Principal Finance income was negative $167 million in the first half, following $105 million negative income in the second half of 2015, and was down $326 million on the same period last year. Weaker equity markets in our footprint resulted in fair value losses on our investments and lower realisation gains in addition to other impairments in the period.

Underlying geographic region income

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 increase/ (decrease) %	H1 2016 vs H1 2015 increase/ (decrease) %
Greater China & North Asia	**2,551**	2,689	3,388	(5)	(25)
ASEAN & South Asia	**2,054**	2,053	2,200	–	(7)
Africa & Middle East	**1,420**	1,305	1,553	9	(9)
Europe & Americas	**817**	891	986	(8)	(17)
Central & other items	**(32)**	6	368	nm	nm
Operating income	**6,810**	6,944	8,495	(2)	(20)

Greater China & North Asia income was down 25 per cent year-on-year and 5 per cent half-on-half, impacted by a slowing China economy, volatility in equity and currency markets, as well as business exits. Excluding business exits, income was down 21 per cent year-on-year.

ASEAN & South Asia income was down 7 per cent year-on-year impacted by currency depreciation, a slowing macro-economic environment and lower commodity prices. These headwinds have started to stabilise and income was flat on the second half of 2015.

Income from Africa & Middle East was down 9 per cent year-on-year. Local currency weakness, more selective asset origination and lower commodity prices were factors. Income was up 9 per cent half-on-half following closure of a number of Corporate Finance transactions in Africa and stabilisation in Transaction Banking and Retail Banking flow businesses across the region.

Europe & Americas income, down 17 per cent year-on-year and 8 per cent half-on-half, was impacted by a loss of income on loans transferred to the liquidation portfolio. The Europe and Americas region remains a key driver of network income and generates approximately one quarter of Corporate & Institutional Banking income globally.

Income from Central & other items has been impacted by fair value losses and lower revaluation gains in Principal Finance.

Underlying operating expenses

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 increase/ (decrease) %	H1 2016 vs H1 2015 increase/ (decrease) %
Staff costs (includes variable compensation)	**2,658**	2,887	3,107	(8)	(14)
Premises costs	**363**	393	386	(8)	(6)
General administrative expenses	**626**	856	764	(27)	(18)
Depreciation and amortisation	**341**	307	332	11	3
Other operating expenses	**3,988**	4,443	4,589	(10)	(13)
UK bank levy	**–**	440	–	nm	nm
Regulatory costs	**546**	553	453	(1)	21
Total operating expenses	**4,534**	5,436	5,042	(17)	(10)
Staff numbers (Period end)	**84,477**	84,076	86,543		
Normalised cost to income ratio (%)	**66.5**	78.3	59.2		

Total Group expenses were down 10 per cent year-on-year to $4,534 million and down 9 per cent or $462 million when compared to the second half of last year after excluding the UK bank levy. Within this, regulatory costs of $546 million were up 21 per cent year-on-year but broadly flat half-on-half.

Costs have benefitted from the completion of senior staff redundancies and the Korea Special Retirement Plan towards the end of 2015. Cost efficiency actions already completed are expected to deliver total gross savings in excess of the $1 billion commitment for 2016. The Group has also started to identify the cost savings required to deliver the 2017 targets as we continually look for more efficient ways to serve our clients.

We will be stepping up investment in the second half and this, coupled with underlying inflation in our footprint, means that expenses are likely to increase.

Impairment on ongoing business

To assist with the analysis of underlying impairment trends, the following table compares loan impairment from our ongoing business after excluding impairment and restructuring charges on the liquidation portfolio.

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 increase/ (decrease) %	H1 2016 vs H1 2015 increase/ (decrease) %
Corporate & Institutional Banking	**606**	525	198	15	nm
Commercial Banking	**247**	677	303	(64)	(18)
Private Banking	**1**	–	1	nm	nm
Retail Banking	**242**	313	364	(23)	(34)
Central & other items	**–**	4	(4)	nm	nm
Impairment on loans and advances and other credit risk provisions	**1,096**	1,519	862	(28)	27
Other impairment	**213**	225	86	(6)	nm
Annualised loan impairment/loan book (bps)	**85**	114	60		

Market conditions remained challenging in the first half of 2016. The work to secure the Group's foundations, tighten the Group's risk tolerances, reduce concentrations and increase diversification has ensured that we are better placed to cope with this tough environment.

Loan impairment on ongoing business of $1,096 million was up 27 per cent year-on-year although was 28 per cent lower than in the second half. The lower levels of loan impairment than in the second half reflect the benefits of past risk management actions and the Group's tightened risk tolerances.

Corporate & Institutional Banking loan impairment of $606 million increased 15 per cent when compared to the second half of last year primarily due to an increase in commodity-related portfolio impairment.

Commercial Banking loan impairment of $247 million remains elevated but was down 18 per cent year-on-year and down 64 per cent half-on-half. We have seen lower losses across all regions, however we remain vigilant for emerging risks.

Retail Banking loan impairment continued to benefit from the de-risking actions taken in prior periods. Loan impairment reduced 34 per cent year-on-year to $242 million, with improvement in particular in Korea, Thailand and Singapore.

While other impairment of $213 million was up significantly year-on-year, it was down 6 per cent compared with the second half of 2015. Other impairment in the first half arose mainly from valuation impairment of Principal Finance investments and transport leasing assets.

Liquidation portfolio and ongoing business

To assist the analysis of credit quality in both the liquidation portfolio and the Group's ongoing business, the following table splits key risk disclosures between the portfolios.

	6 months ended 30.06.16			6 months ended 31.12.15			6 months ended 30.06.15		
	Liquidation portfolio $million	Ongoing business $million	Total $million	Liquidation portfolio $million	Ongoing business $million	Total $million	Liquidation portfolio $million	Ongoing business $million	Total $million
Impairment									
Impairment losses on loans and advances	–	1,096	1,096	837	1,519	2,356	790	862	1,652
Restructuring impairment charge	200	–	200	968	–	968	–	–	–
Total loan impairment	200	1,096	1,296	1,805	1,519	3,324	790	862	1,652
Loans and advances									
Gross loans and advances	7,266	265,293	272,559	7,940	260,143	268,083	8,150	278,898	287,048
Net loans and advances	4,204	261,670	265,874	4,396	257,007	261,403	5,877	276,462	282,339
Credit quality									
Gross non-performing loans	6,806	6,005	12,811	7,512	5,247	12,759	4,297	4,450	8,747
Individual impairment provisions	(3,062)	(3,045)	(6,107)	(3,544)	(2,584)	(6,128)	(2,273)	(1,855)	(4,128)
Net non-performing loans	3,744	2,960	6,704	3,968	2,663	6,631	2,024	2,595	4,619
Credit Grade 12 accounts[1]	82	1,247	1,329	318	849	1,167	3,743	1,326	5,069
Cover ratio %[2]	45	62	53	47	62	53	53	56	54
Cover ratio (after collateral) %[3]	61	73	67	64	71	67	69	70	70
Risk-weighted assets	19,566	273,660	293,226	19,627	283,298	302,925	19,402	306,769	326,171

1 Includes Corporate & Institutional Banking, Commercial Banking and Central & other items
2 Including portfolio impairment provision
3 Excluding portfolio impairment provision

For the Group overall, there has been no significant deterioration in the credit quality of the book, although stresses remain.

Gross non-performing loans (NPLs) were broadly stable at $12.8 billion as at 30 June 2016. Within this, gross NPLs from the liquidation portfolio reduced by $706 million since the year-end as we continued to work towards exiting these exposures at a reasonable economic price. Negotiations will take time to complete and may still require further impairments. Offsetting this, gross NPLs in our ongoing business have increased by $758 million since the year-end. New inflows are from relatively small exposures and have slowed compared to the second half of last year.

Credit Grade 12 (CG12) accounts, including those accounts that are past due but not impaired, have increased slightly from $1.2 billion to $1.3 billion since the end of the year. This reflects a decrease in CG12 accounts in the liquidation portfolio of $236 million offset by an increase of $398 million in the ongoing business due to continued stresses in commodity-related sectors.

The Group's cover ratio remained stable at 53 per cent, or 67 per cent including collateral. Within this the cover ratio on our ongoing business was 62 per cent and 73 per cent after including collateral. Applying the Group's historical recovery rates of 53 per cent, NPLs are covered by over 100 per cent.

Overall the Group's exposures remain short tenor, with 72 per cent of Corporate & Institutional Banking, Commercial Banking and central and other loans and advances maturing in less than one year, and are increasingly diversified as we manage within the Group's tighter risk tolerances.

Restructuring charges

The total restructuring charge taken in the period of $115 million is made up of the following amounts, split by client segment:

	6 months ended 30.06.16					
	Corporate & Institutional Banking $million	**Commercial Banking $million**	**Private Banking $million**	**Retail Banking $million**	**Central & other items $million**	**Total $million**
Income	**(109)**	**(2)**	**–**	**–**	**–**	**(111)**
Redundancy and other restructuring expenses	**10**	**–**	**–**	**–**	**–**	**10**
Loan impairment	**198**	**2**	**–**	**–**	**–**	**200**
Other impairment	**16**	**–**	**–**	**–**	**–**	**16**
Total restructuring	**115**	**–**	**–**	**–**	**–**	**115**

Income of $111 million in the restructuring charge in the first half of 2016 primarily relates to the unwind of provisions on the liquidation portfolio to recognise income on NPLs as required by accounting standards.

Total restructuring charges to date of almost $2.0 billion are around two thirds of our original estimate of $3 billion over the course of our planned restructuring.

	Full year ended 31.12.15					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Redundancy and other restructuring expenses	215	61	7	395	17	695
Loan impairment	968	–	–	–	–	968
Other impairment	10	–	–	–	46	56
Goodwill impairment	–	–	–	–	126	126
Total restructuring	1,193	61	7	395	189	1,845

Group balance sheet inclusive of the liquidation portfolio

	30.06.16 $million	31.12.15 $million	Increase/ (decrease) $million	Increase/ (decrease) %
Total assets	**660,989**	640,483	20,506	3
Total equity	**48,821**	48,512	309	1
Loans and advances to customers	**265,874**	261,403	4,471	2
Customer deposits	**371,698**	359,127	12,571	4
Advances-to-deposits ratio	**71.5%**	72.8%		
Liquid asset ratio	**28.0%**	30.9%		

Customer loans and advances have increased slightly in the first half to $266 billion, up 2 per cent. Within this, Transaction Banking-related balances increased in each month in the second quarter and are now back at the level they were at the year-end, despite weak industry trade volumes. We are also actively managing the Group's customer deposits, which were up $12.6 billion, or 4 per cent since 31 December 2015, including extension of the tenor profile through actions such as increasing term deposit accounts. We are focusing investment on businesses that generate higher quality liquidity, such as Cash Management and Custody, and through a greater emphasis on Retail Banking deposits.

Overall, the Group is increasingly diversified and remains highly liquid with an advances-to-deposits ratio of 71.5 per cent and a liquidity coverage ratio above 100 per cent.

Risk-weighted assets – inclusive of liquidation portfolio

	30.06.16 $million	31.12.15 $million	Increase/ (decrease) $million	Increase/ (decrease) %
By client segment				
Corporate & Institutional Banking	**160,673**	167,735	(7,062)	(4)
Commercial Banking	**34,542**	34,628	(86)	(0)
Private Banking	**6,408**	7,173	(765)	(11)
Retail Banking	**44,247**	47,659	(3,412)	(7)
Central & other items	**47,356**	45,730	1,626	4
Total	**293,226**	302,925	(9,699)	(3)
By risk type				
Credit risk	**238,340**	245,402	(7,062)	(3)
Operational risk	**33,693**	35,610	(1,917)	(5)
Market risk	**21,193**	21,913	(720)	(3)
Total risk	**293,226**	302,925	(9,699)	(3)

RWAs of $293.2 billion were down 3 per cent since 31 December 2015 due to the following:

- Net negative credit migration of $2.3 billion, being gross negative credit migration of $9.1 billion partly offset by a $6.8 billion benefit from increased provisioning
- $4.1 billion reduction from changes in assets
- RWA efficiencies of $1.3 billion primarily from collateral management and process efficiencies in Financial Markets
- $1.2 billion increase from model, methodology and policy changes, primarily related to XVA hedging and optimisation partially offset by changes in Taiwan mortgages and EU member state exposures
- $0.6 billion increase from foreign currency translation
- $1.9 billion lower operational RWA due to the change in income measured over a rolling three-year time horizon
- $6.4 billion decrease due to a reduction in other market risk positions

Capital base and ratios – inclusive of liquidation portfolio

	30.06.16 $million	31.12.15 $million
Common Equity Tier 1 capital	**38,348**	38,182
Additional Tier 1 capital (AT1) instruments	**3,720**	4,591
Tier 1 capital	**42,068**	42,773
Tier 2 capital	**15,098**	16,248
Total capital	**57,166**	59,021
Common Equity Tier 1 capital ratio	**13.1%**	12.6%
Total capital ratio	**19.5%**	19.5%
Leverage Ratio	**5.5%**	5.5%
Average leverage Ratio	**5.5%**	N/A

The Group has a strong CET1 ratio of 13.1 per cent, up from 12.6 per cent at the year-end. Overall, the balance sheet remains highly liquid, well-capitalised and increasingly diverse.

Summary

While it is encouraging that we have had two successive quarters of more stable income, current returns are weak and the overall performance for 2016 is likely to remain subdued. We have seen relief in some of the external headwinds that impacted the Group's performance during 2015, including an improvement in commodity prices, but economies have slowed during 2016 and the outlook is more cautious than in November 2015.

We are making progress in our efforts to reposition the Group to be more resilient to these external factors. We exited a proportion of the exposures in the liquidation portfolio, we are operating within our tightened risk tolerances, and we are driving improvement in business efficiency. While the challenging environment is likely to mean it takes longer to deliver the return on equity we set out in November, the actions we are taking remain the right ones for the Group.

Andy Halford
Group Chief Financial Officer

3 August 2016

Client segment analysis

Unless otherwise stated, all figures contained within the Client segment analysis are on an underlying basis.

Performance by client segment

Underlying profit/(loss) before taxation by client segment is set out below:

	6 months ended 30.06.16					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,147	667	261	2,316	419	6,810
Operating expenses	(2,090)	(436)	(209)	(1,643)	(156)	(4,534)
Operating profit before impairment losses and taxation	1,057	231	52	673	263	2,276
Impairment losses on loans and advances and other credit risk provisions	(606)	(247)	(1)	(242)	–	(1,096)
Other impairment	(212)	4	–	–	(5)	(213)
Profit from associates and joint ventures	–	–	–	–	27	27
Underlying profit/(loss) before taxation	239	(12)	51	431	285	994
Customer loans and advances	126,626	26,062	14,226	95,246	3,714	265,874
Customer deposits	199,308	29,807	24,023	115,272	3,289	371,698
Risk weighted assets	160,673	34,542	6,408	44,247	47,356	293,226
Return on risk-weighted assets	0.3%	(0.1)%	1.5%	1.9%	1.2%	0.7%

	6 months ended 31.12.15					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,238	686	244	2,365	411	6,944
Operating expenses	(2,184)	(552)	(146)	(1,748)	(806)	(5,436)
Operating profit/(loss) before impairment losses and taxation	1,054	134	98	617	(395)	1,508
Impairment losses on loans and advances and other credit risk provisions	(1,252)	(787)	–	(313)	(4)	(2,356)
Other impairment	(181)	(10)	–	–	(34)	(225)
Profit from associates and joint ventures	–	–	–	–	83	83
Underlying (loss)/profit before taxation	(379)	(663)	98	304	(350)	(990)
Customer loans and advances	121,523	24,340	15,295	94,697	5,547	261,403
Customer deposits	187,462	30,685	24,540	114,584	1,856	359,127
Risk weighted assets	167,735	34,628	7,173	47,659	45,730	302,925
Return on risk-weighted assets	(0.4)%	(3.7)%	2.7%	1.2%	(1.5)%	(0.6)%

	6 months ended 30.06.15					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,943	919	290	2,742	601	8,495
Operating expenses	(2,272)	(519)	(195)	(1,762)	(294)	(5,042)
Operating profit before impairment losses and taxation	1,671	400	95	980	307	3,453
Impairment losses on loans and advances and other credit risk provisions	(824)	(373)	(94)	(365)	4	(1,652)
Other impairment	(63)	(7)	–	–	(16)	(86)
Profit from associates and joint ventures	–	–	–	–	109	109
Underlying profit before taxation	784	20	1	615	404	1,824
Customer loans and advances	133,175	29,925	17,318	97,128	4,793	282,339
Customer deposits	208,953	32,921	26,570	117,466	2,885	388,795
Risk weighted assets	184,083	37,260	7,519	50,343	46,966	326,171
Return on risk-weighted assets	0.8%	0.1%	–	2.4%	1.7%	1.1%

Corporate & Institutional Banking

Corporate & Institutional Banking comprises International Corporates and Financial Institutions clients.

Underlying profit fell 70 per cent year-on-year, driven by a sharp decline in income in key products, partially offset by lower loan impairment:

- Income fell 20 per cent year-on-year as a result of continued challenging market conditions, Principal Finance losses and a combination of RWA optimisation and our tightened risk tolerance which impacted balance sheet momentum
- Market conditions remained challenging throughout the first half. However, momentum improved slightly in the second quarter with Trade Finance balances recovering to levels as at the end of 2015 and improved Corporate Finance origination
- Loan impairments decreased both year-on-year and half-on-half although rose on an ongoing basis

We have made good progress against the strategic initiatives established to improve performance and deliver the Group's commitments on return on equity:

- Steady progress on optimising returns with $13 billion of low returning RWA to date. Despite this progress, market conditions have placed incremental pressure on returns from some clients outside of this group, resulting in a net increase in low returning client relationships in the first half of 2016
- Expenses have been managed tightly and the business is on track to deliver the planned cost efficiencies for this year. This has created capacity to invest in our network and in other key strategic initiatives
- Control processes have been improved to execute and manage critical tasks such as client on-boarding, leading to improved client experience
- Continued investment in our multi-year plan to build infrastructure and frontline capacity for Investor clients. Income from these clients declined year-on-year, although we saw strong volume growth in key product areas such as Cash FX

Financial performance

The following tables provide an analysis of financial performance for Corporate & Institutional Banking:

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Transaction Banking	**1,061**	1,155	1,293	(8)	(18)
Financial Markets	**1,212**	1,090	1,443	11	(16)
Corporate Finance	**896**	926	807	(3)	11
Lending and Portfolio Management	**145**	172	242	(16)	(40)
Principal Finance	**(167)**	(105)	158	(59)	nm
Operating income	**3,147**	3,238	3,943	(3)	(20)
Operating expenses	**(2,090)**	(2,184)	(2,272)	4	8
Loan impairment	**(606)**	(1,252)	(824)	52	26
Other impairment	**(212)**	(181)	(63)	(17)	nm
Underlying profit/(loss) before taxation	**239**	(379)	784	nm	(70)
Customer loans and advances	**126,626**	121,523	133,175	4	(5)
Customer deposits	**199,308**	187,462	208,953	6	(5)
Risk-weighted assets	**160,673**	167,735	184,083	(4)	(13)
Return on risk-weighted assets	**0.3%**	(0.4)%	0.8%		

Operating income

Income fell 20 per cent year-on-year and 3 per cent half-on-half, impacted by continued challenging trading conditions, Principal Finance losses and a combination of RWA optimisation and our tightened risk tolerance which impacted balance sheet momentum. Income declined year-on-year for both of our client sub-segments with International Corporates down 22 per cent and Financial Institutions down 23 per cent. Excluding the impact of mark-to-market losses on syndicated loans booked in 2015, income declined 26 per cent year-on-year and 6 per cent half-on-half. Despite this decline, we saw improved momentum in Trade Finance and Corporate Finance in the second quarter.

Transaction Banking income fell 18 per cent year-on-year and 8 per cent half-on-half to $1,061 million primarily due to Trade Finance, which declined 27 per cent year-on-year and 12 per cent half-on-half to $392 million impacted by weaker demand and lower commodity prices. Trade Finance performance improved in the second quarter with balances recovering to levels seen as at the end of 2015 supported by growth in non-commodity client businesses as well as stabilising commodity prices. Margins were broadly stable over the period. Income from Cash Management and Custody fell 12 per cent year-on-year and 6 per cent half-on-half to $669 million with lower Cash Management balances offsetting improved margins which benefitted from actions taken to improve the quality of our liabilities mix.

Financial Markets income fell 16 per cent year-on-year driven by difficult market conditions but rose 11 per cent half-on-half. Foreign Exchange income declined 4 per cent year-on-year due to the slowdown of the FX Options activity in Greater China. Cash FX income declined, with increased volumes offset by the structural trend of tightening spreads. Rates income decreased 26 per cent, impacted by lower volumes and from reduced Structured Callable Note issuance. The increase in Financial Markets income compared with the second half of 2015 was due to a 21 per cent half-on-half rise in Rates income driven by increased client activity, while Foreign Exchange income was flat despite challenging market conditions. Income also benefitted from Funding Valuation Adjustment gains.

Corporate Finance income rose 11 per cent year-on-year but declined 3 per cent half-on-half. Excluding the impact of mark-to-market losses on syndicated loans, income fell 19 per cent year-on-year and 16 per cent half-on-half driven by lower financing income reflecting a continued focus on selective asset origination and relatively weak origination levels. The performance compared with the second half of 2015 was also impacted by lower advisory income. Momentum in our financing business has shown signs of improvement in the second quarter of 2016.

Principal Finance income was negative due to fair value losses on investments which were impacted by weaker equity market valuations in our footprint.

Operating expenses

Expenses decreased 8 per cent year-on-year to $2,090 million driven by the execution of our cost efficiency programme, partly offset by increased regulatory and compliance costs and investment in strategic initiatives.

Impairment

Loan impairment fell by $218 million year-on-year and $645 million half-on-half to $606 million. Loan impairment from our ongoing business rose, with the year-on-year increase driven by provisions relating to commodities and Indian clients. The increase against the second half was predominantly due to higher portfolio provisions.

Other impairment increased driven by a decline in value of operating lease assets.

Underlying profit/(loss) before taxation

Underlying profit fell by $545 million year-on-year, but rose $618 million half-on-half to $239 million.

Balance sheet

Customer loans and advances rose 4 per cent compared to second half of 2015 driven by higher reverse repo balances. We saw improved balance sheet momentum in the second quarter in Trade Finance and Corporate Finance. RWA decreased by 4 per cent driven by actions to optimise returns.

Customer deposits rose 6 per cent half-on-half driven by growth of corporate term deposits, particularly in Hong Kong.

Commercial Banking

Commercial Banking serves small and medium-sized corporate clients across 27 countries. This client segment's strategy is to leverage long-standing local presence while focusing on serving its clients' international banking needs.

Underlying loss of $12 million in the first half of 2016 compared with a profit of $20 million in the first half of 2015, but recovered from a $663 million loss in the second half of 2015:

- The year-on-year fall in underlying profit was driven by a decline in income primarily from lower Foreign Exchange income in Greater China and North Asia. This more than offset lower expenses and loan impairment which, while lower, remains elevated
- The improved performance compared with the second half of 2015 was driven by a decline in loan impairment and a reduction in expenses
- Business momentum has improved with loans and advances up 7 per cent during the first six month of the year driven by growth in Hong Kong, China and the UAE

Although Commercial Banking results remain weak, we are stabilising the business and actively developing a platform from which we can move forward:

- The transfer of certain Local Corporate clients to Commercial Banking has nearly doubled the scale of this business and enabled us to more effectively serve our clients and achieve cost efficiencies
- We are driving efficiencies through integrating our infrastructure with Corporate & Institutional Banking, sharing systems and processes
- We have reduced operational risk through our client due diligence remediation programme and by exiting our small and medium-sized enterprise business in the UAE
- We continue to build our network proposition, partnering with Corporate & Institutional Banking to bank the buyers and suppliers of our International Corporate clients and leveraging the Standard Chartered network of countries. For example in India, the majority of our new-to-bank clients are from ecosystem referrals
- We have positive momentum in cross-business referrals and new-to-bank clients. Commercial Banking added almost 2,000 new-to-bank clients in the first half of 2016

Financial performance

The following tables provide an analysis of financial performance for Commercial Banking:

	6 months ended 30.06.16				H1 2016 vs H2 2015	H1 2016 vs H1 2015
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million	Better/ (worse) %	Better/ (worse) %
Operating income	**261**	**241**	**165**	**667**	(3)	(27)
Operating expenses	**(191)**	**(136)**	**(109)**	**(436)**	21	16
Loan impairment	**(100)**	**(75)**	**(72)**	**(247)**	69	34
Other impairment	**–**	**4**	**–**	**4**	nm	nm
Underlying (loss)/profit before taxation	**(30)**	**34**	**(16)**	**(12)**	98	nm
Customer loans and advances	**12,627**	**8,859**	**4,576**	**26,062**	7	(13)
Customer deposits	**18,808**	**7,823**	**3,176**	**29,807**	(3)	(9)
Risk-weighted assets	**12,733**	**13,761**	**8,048**	**34,542**	nm	(7)
Return on risk-weighted assets	**(0.4)%**	**0.5%**	**(0.4)%**	**(0.1)%**		

	6 months ended 31.12.15			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	275	256	155	686
Operating expenses	(267)	(156)	(129)	(552)
Loan impairment	(328)	(239)	(220)	(787)
Other impairment	(2)	(8)	–	(10)
Underlying loss before taxation	(322)	(147)	(194)	(663)
Customer loans and advances	12,097	8,307	3,936	24,340
Customer deposits	17,717	9,523	3,445	30,685
Risk-weighted assets	14,431	12,521	7,676	34,628
Return on risk-weighted assets	(4.5)%	(2.2)%	(4.7)%	(3.7)%

	6 months ended 30.06.15			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	434	277	208	919
Operating expenses	(243)	(157)	(119)	(519)
Loan impairment	(95)	(190)	(88)	(373)
Other impairment	(7)	–	–	(7)
Underlying profit/(loss) before taxation	89	(70)	1	20
Customer loans and advances	15,596	9,615	4,714	29,925
Customer deposits	18,117	11,031	3,773	32,921
Risk-weighted assets	13,928	14,557	8,775	37,260
Return on risk-weighted assets	1.0%	(0.7)%	–	0.1%

Operating income

Income fell 27 per cent year-on-year due to declines in Greater China & North Asia and to a lesser extent ASEAN & South Asia and Africa & Middle East. Income declined 3 per cent half-on-half with an improved performance in Greater China & North Asia and growth in Africa & Middle East.

Greater China & North Asia income fell 40 per cent year-on-year mainly due to lower Financial Markets income in Hong Kong. Income from Foreign Exchange Options declined as we saw reduced hedging demand from clients due to RMB depreciation and volatile market conditions. Income from Korea declined year-on-year due to lower balances in Transaction Banking and Lending, as well as margin reduction in Cash Management and Lending as a result of Central Bank rate cuts. The decline in Greater China & North Asia slowed compared with the second half of 2015, with income down 5 per cent on lower trade activity.

Income from ASEAN & South Asia fell 13 per cent year-on-year and 6 per cent half-on-half, with declines across most products. Improved performance in Cash Management from rising Singapore Interbank Offered Rate (SIBOR) was offset by slow trade asset momentum and subdued corporate activity in Financial Markets and Corporate Finance. Financial Markets income in India declined as a result of low volumes and flows, while assertive management actions impacted Lending income.

Income from Africa & Middle East fell 20 per cent but rose 7 per cent half-on-half. The year-on-year decline was due to our tightened risk tolerance and client exits mainly in the UAE which impacted income from Trade Finance and Financial Markets. African markets, in particular Kenya, Uganda and Zambia, were impacted by adverse currency movements. Income performance improved compared with the second half of 2015, driven by an increase in Corporate Finance activity in UAE.

Operating expenses

Expenses declined 16 per cent year-on-year benefitting from cost efficiency actions and the impact of the Special Retirement Plan in Korea.

Impairment

Loan impairment levels remain elevated but are substantially lower than in 2015, down 34 per cent year-on-year and 69 per cent half-on-half.

Underlying profit/(loss) before taxation

Underlying profit fell by $32 million year-on-year to a loss of $12 million, as improvements in cost and loan impairment were offset by lower income. This result was an improvement of $651 million compared with the second half of 2015 due to loan impairment that, while lower, remains elevated.

Balance sheet

Customer loans and advances increased by 7 per cent compared with the second half of 2015, driven by growth in Hong Kong, China and the UAE. RWA was flat half-on-half.

Customer deposits fell 3 per cent reflecting client exits and increased levels of competition and deposit optimisation.

Private Banking

Private Banking is dedicated to providing high net worth clients with a comprehensive suite of products and services tailored to meet their financial needs.

Underlying profit at $51 million was $50 million higher year-on-year due to the non-repeat of a loan impairment which more than offset lower income and continued investment in our business:

- Loan impairment was lower due to the non-repeat of an impairment relating to a single client booked in the first half of 2015
- Income declined 10 per cent year-on-year impacted by market volatility, de-risking actions and more selective client acquisition
- Expenses increased 7 per cent year-on-year driven by continued investment in relationship managers

We are focusing on reshaping our business; with continued efforts to strengthen the control environment, improve our platform and build our frontline staff:

- We have launched our multi-year investment plan to invest $250 million to upgrade our underlying technology and core platforms to improve the quality and breadth of our service. Relationship manager hiring is proceeding amidst continued high levels of competition for staff in our footprint
- Following the $94 million impairment in the first half of 2015, we took assertive action to strengthen the control environment. We have made good progress on our technology and operations programme to improve operational risks as well as to uplift sales productivity. We also introduced new risk tolerances and client selection criteria and we are in the process of rolling out enhanced client due diligence procedures
- We added almost 500 new clients in the first half of 2016 including referrals from the Group's other client segments

Financial performance

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Transaction Banking	**–**	1	–	nm	nm
Corporate Finance	**–**	–	2	nm	nm
Wealth Management	**145**	158	207	(8)	(30)
Retail Products	**91**	84	81	8	12
Principal Finance	**–**	–	1	nm	nm
Other	**25**	1	(1)	nm	nm
Operating income	**261**	244	290	7	(10)
Operating expenses	**(209)**	(146)	(195)	(43)	(7)
Loan impairment	**(1)**	–	(94)	nm	nm
Underlying profit before taxation	**51**	98	1	(48)	nm
Customer loans and advances	**14,226**	15,296	17,318	(7)	(18)
Customer deposits	**24,023**	24,540	26,570	(2)	(10)
Risk-weighted assets	**6,408**	7,173	7,519	(11)	(15)
Return on risk-weighted assets	**1.5%**	2.7%	–		

Operating income

Income declined 10 per cent year-on-year impacted by market volatility, de-risking actions and more selective client acquisition. This was partially offset by a one-off insurance recovery. Excluding this item, income fell 18 per cent year-on-year and 3 per cent half-on-half, due to slower declines in Wealth Management.

Wealth Management income was down 30 per cent year-on-year impacted by volatile market conditions which led to a drop in client investment activity. AUMs declined 6 per cent year-on-year to $57 billion impacted by a decline in equity markets, more selective client acquisition and de-risking efforts. The decline slowed compared with the second half of 2015, with income down 8 per cent as lower income from Wealth Management related lending was partially offset by growth in Treasury products and Bancassurance. AUMs increased 1 per cent compared with the end of 2015.

Operating expenses

Expenses rose 7 per cent year-on-year with increased investment in relationship managers. Increased expenses compared with the second half of 2015 were due to the non-repeat of a one-off insurance credit in the prior year period. Excluding this, expenses rose 5 per cent half-on-half.

Impairment

Loan impairment normalised due to the non-repeat of an impairment relating to a single client booked in the first half of 2015.

Underlying profit before taxation

Underlying profit increased $50 million year-on-year to $51 million.

Balance sheet

Customer loans and advances and Customer deposits declined 7 and 2 per cent respectively compared to the second half of 2015 impacted by client exits and deleveraging by clients.

RWA fell 11 per cent half-on-half due to the same factors.

Retail Banking

Retail Banking serves Priority, Personal and Business Clients.

The external environment continued to be challenging in the first half of 2016. Underlying profit declined 30 per cent year-on-year, with lower income more than offsetting significant improvements in expenses and loan impairment:

- Income fell 16 per cent year-on-year. Excluding the impact of adverse foreign currency translation, the exit of our Consumer Finance business and a property disposal gain recorded in the first half of 2015, income declined 7 per cent due to market driven declines in Wealth Management and lower unsecured asset balances
- Income trends improved during the first half of the year, with second quarter income broadly stable on the first quarter
- Expenses were lower by 7 per cent year-on-year and 6 per cent half-on-half. Excluding the impact of foreign currency translation and the exit of our Consumer Finance businesses, expenses were flat and 4 per cent lower respectively, driven by efficiency actions
- Loan impairment decreased 34 per cent year-on-year and 23 per cent half-on-half, benefiting from previous de-risking actions in the unsecured lending portfolio and the sale of the Consumer Finance business

Our Retail Banking transformation is well under way and has continued to make good progress in the first half of 2016:

- Acquired over 40,000 Priority clients and saw Priority income increase as a percentage of total Retail Clients income to 38 per cent of Retail Banking income
- Formed new alliances with Asia Miles in Hong Kong and with Samsung Card and Shinsegae / E-mart in Korea, supporting stronger customer acquisition momentum. Launched enhanced Priority value proposition across key markets, credit card refreshes in eight markets and early adoption of new payment capabilities, including Apple Pay, Samsung Pay and Android Pay in Singapore
- Commenced rolling out the end-to-end digitisation program by launching mobile banking in eight African markets and market leading video banking in Singapore and Malaysia. Retail Workbench was launched in a further eight markets, taking the total to nine
- On track to deliver the planned cost efficiencies for this year. This has created capacity to invest in our key strategic initiatives
- Completed strategic de-risking and made significant progress in key turnaround markets of Korea and China

Financial performance

The following tables provide an analysis of financial performance for Retail Banking:

	6 months ended 30.06.16					H1 2016 vs H2 2015	H1 2016 vs H1 2015
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million	Better/ (worse) %	Better/ (worse) %
Operating income	**1,186**	**704**	**409**	**17**	**2,316**	(2)	(16)
Operating expenses	**(816)**	**(508)**	**(307)**	**(12)**	**(1,643)**	6	7
Loan impairment	**(88)**	**(114)**	**(40)**	**–**	**(242)**	23	34
Underlying profit before taxation	**282**	**82**	**62**	**5**	**431**	42	(30)
Customer loans and advances	**61,107**	**27,801**	**6,039**	**299**	**95,246**	1	(2)
Customer deposits	**76,281**	**29,192**	**8,550**	**1,249**	**115,272**	1	(2)
Risk-weighted assets	**21,927**	**15,495**	**6,625**	**200**	**44,247**	(7)	(12)
Return on risk-weighted assets	**2.4%**	**1.0%**	**1.8%**	**5.2%**	**1.9%**		

	6 months ended 31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,208	736	407	14	2,365
Operating expenses	(934)	(501)	(306)	(7)	(1,748)
Loan impairment	(119)	(155)	(39)	–	(313)
Underlying profit before taxation	155	80	62	7	304
Customer loans and advances	60,388	27,667	6,360	282	94,697
Customer deposits	75,523	28,974	8,744	1,343	114,584
Risk-weighted assets	24,262	16,284	6,927	186	47,659
Return on risk-weighted assets	1.2%	1.0%	1.7%	8.1%	1.2%

	6 months ended 30.06.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,475	795	457	15	2,742
Operating expenses	(932)	(511)	(309)	(10)	(1,762)
Loan impairment	(177)	(157)	(31)	–	(365)
Underlying profit before taxation	366	127	117	5	615
Customer loans and advances	60,566	29,694	6,619	249	97,128
Customer deposits	75,819	31,364	8,833	1,450	117,466
Risk-weighted assets	25,742	16,954	7,487	160	50,343
Return on risk-weighted assets	2.9%	1.5%	2.7%	3.4%	2.4%

Operating income

Income fell 16 per cent year-on-year, or 7 per cent excluding the impact of adverse foreign currency translation, the exit of our local Consumer Finance businesses and a property disposal gain recorded in the first half of 2015. The decline was primarily driven by Greater China & North Asia where income fell 20 per cent year-on-year or 7 per cent excluding the factors mentioned above. The decline slowed compared with the second half of 2015, with income down 2 per cent half-on-half driven by growth in Hong Kong.

Greater China & North Asia income fell 20 per cent year-on-year, driven primarily by Korea and to a lesser extent Hong Kong. Korea income fell 38 per cent to $244 million or 28 per cent excluding the exit of our local Consumer Finance businesses and a property disposal gain recorded in the first half of 2015. This decline was driven by the de-risking of the personal lending portfolio and a reduction in central bank rates. Income from Hong Kong decreased 12 per cent year-on-year to $660 million, driven by the exit of our Consumer Finance businesses and lower Wealth Management income due to volatile market conditions which led to lower client activity. This was partially offset by growth in Mortgages and Deposits income. The improved momentum in Hong Kong, up 5 per cent half-on-half, was driven by higher margins from higher central bank rates and growth in mortgage and deposit balances, while the decline in unsecured loans slowed.

ASEAN & South Asia income fell 11 per cent year-on-year and 4 per cent half-on-half. The decline was driven by adverse foreign exchange movements, Central bank rate cuts in India, slower asset momentum in Singapore and declines in smaller markets within the region.

Africa & Middle East income fell 11 per cent year-on-year although was flat half-on-half. Growth in Africa from Deposits and Wealth Management was offset by the impact of adverse foreign exchange movements, rate cuts in Pakistan and lower income in the UAE due to market conditions and de-risking actions.

Operating expenses

Expenses decreased 7 per cent year-on-year due to cost-efficiency initiatives, adverse foreign currency translation, strategic de-risking actions and the benefit of the Special Retirement Plan in Korea. Korea expenses declined 22 per cent, while expenses rose 1 per cent in Hong Kong. These declines were partially offset by investment in strategic initiatives.

Impairment

Loan impairment fell 34 per cent year-on-year as a result of the 2015 de-risking actions and the sale of the Consumer Finance business in Hong Kong, Korea and China. Hong Kong loan impairment was down 44 per cent to $34 million, while Korea was down 69 per cent.

Underlying profit before taxation

Underlying profit declined 30 per cent year-on-year, with lower income more than offsetting significant improvements in expenses and loan impairment. However, an improved income performance coupled with efficiency saves and lower loan impairment resulted in a 42 per cent half-on-half rise in underlying profit. This improvement was particularly evident in Hong Kong where underlying profit decreased 18 per cent year-on-year but rose 13 per cent half-on-half.

Operating performance has also improved in the key turnaround markets, with lower losses in Korea and China. Korea reported an underlying loss of $27 million, compared with a loss of $48 million in the first half of 2015 excluding a property disposal gain recorded in the first half of 2015.

Balance sheet

Loans and advances to customers rose 1 per cent compared with the end of 2015 with growth in mortgages offset by lower unsecured loans. RWA fell 7 per cent due to optimisation actions and lower unsecured loans balances.

Customer deposits grew 1 per cent compared with the end of 2015 driven by Korea and Hong Kong.

Central & other items

Central & other items includes Corporate Centre Costs, treasury activities, certain strategic investments and the UK bank levy. Corporate Centre Costs represent stewardship and central management services roles and activities that are not directly tied to the ongoing business and country operations, such as Group Directorate and Group support functions.

Asset and Liability Management (ALM), joint ventures and associate investments are not managed directly by a client segment and therefore are included in Central & other items in the client segmental analysis.

Financial performance

The following tables provide an analysis of financial performance for Central & other items:

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**419**	411	601	2	(30)
Operating expenses	**(156)**	(806)	(294)	81	47
Loan impairment	**–**	(4)	4	nm	nm
Other impairment	**(5)**	(34)	(16)	85	69
Profit from associates and joint ventures	**27**	83	109	(67)	(75)
Underlying profit/(loss) before taxation	**285**	(350)	404	nm	(29)
Customer loans and advances	**3,714**	5,547	4,793	(33)	(23)
Customer deposits	**3,288**	1,856	2,885	77	14
Risk-weighted assets	**47,356**	45,730	46,966	4	1
Return on risk-weighted assets	**1.2%**	(1.5%)	1.7%		

Operating income

Income fell 30 per cent year-on-year due to lower yields on liquid asset securities as interest rates fell in Korea, India and Pakistan, and also from higher gains in the prior year period from the realisation of available-for-sale securities holdings. Income rose 2 per cent compared with the second half of 2015, driven by higher gains from the liquidation of available-for-sale holdings.

Operating expenses

Expenses declined 47 per cent year-on-year mainly due to the run-off of structural cost hedges and lower staff costs. The significant half-on-half decline in expenses is due to the inclusion of the UK bank levy charge of $440 million in the second half of 2015.

Other

Profit from associates and joint ventures declined 75 per cent year-on-year and 67 per cent half-on-half, primarily due to challenging market conditions.

Underlying profit/(loss) before taxation

Underlying profit fell 29 per cent year-on-year with the decline in income only partly offset by lower expenses.

Balance sheet

Customer loans and advances and customer deposits in this segment mainly relate to ALM activity. Balances are generally small, but can fluctuate between periods.

RWAs rose 4 per cent against the second half of 2015 predominantly on the back of higher securities holdings by ALM.

Product analysis

Unless otherwise stated, all figures contained within the Product analysis are on an underlying basis.

Operating income by product and segment

Income by product and client segment is set out below:

	6 months ended 30.06.16					
	Total $million	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million
Transaction Banking	1,418	1,061	351	–	6	–
Trade	604	392	206	–	6	–
Cash Management and Custody	814	669	145	–	–	–
Financial Markets	1,339	1,212	127	–	–	–
Foreign Exchange	629	528	101	–	–	–
Rates	343	335	8	–	–	–
Commodities	78	67	11	–	–	–
Credit and Capital Markets	155	154	1	–	–	–
Other Financial Markets	134	128	6	–	–	–
Corporate Finance	944	896	48	–	–	–
Wealth Management	719	–	1	145	573	–
Retail Products	1,833	–	5	91	1,737	–
CCPL and other unsecured lending	793	–	–	–	793	–
Deposits	628	–	5	71	552	–
Mortgage and Auto	376	–	–	20	356	–
Other Retail Products	36	–	–	–	36	–
Asset and Liability Management	217	–	–	–	–	217
Lending and Portfolio Management	280	145	135	–	–	–
Principal Finance	(167)	(167)	–	–	–	–
Other	227	–	–	25	–	202
Operating income	6,810	3,147	667	261	2,316	419

	6 months ended 31.12.15					
	Total $million	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million
Transaction Banking	1,533	1,155	372	1	5	–
Trade	677	447	224	1	5	–
Cash Management and Custody	856	708	148	–	–	–
Financial Markets	1,204	1,090	114	–	–	–
Foreign Exchange	642	529	113	–	–	–
Rates	286	278	8	–	–	–
Commodities	111	98	13	–	–	–
Credit and Capital Markets	153	151	2	–	–	–
Other Financial Markets	12	34	(22)	–	–	–
Corporate Finance	976	926	50	–	–	–
Wealth Management	739	–	2	158	579	–
Retail Products	1,867	–	7	84	1,776	–
CCPL and other unsecured lending	860	–	–	(1)	861	–
Deposits	574	–	7	64	503	–
Mortgage and Auto	396	–	–	21	375	–
Other Retail Products	37	–	–	–	37	–
Asset and Liability Management	123	–	–	–	–	123
Lending and Portfolio Management	314	172	142	–	–	–
Principal Finance	(105)	(105)	–	–	–	–
Other	293	–	(1)	1	5	288
Operating income	6,944	3,238	686	244	2,365	411

	6 months ended 30.06.15					
	Total $million	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million
Transaction Banking	1,717	1,293	418	–	6	–
Trade	804	536	262	–	6	–
Cash Management and Custody	913	757	156	–	–	–
Financial Markets	1,717	1,443	274	–	–	–
Foreign Exchange	759	548	211	–	–	–
Rates	472	451	21	–	–	–
Commodities	148	128	20	–	–	–
Credit and Capital Markets	212	211	1	–	–	–
Other Financial Markets	126	105	21	–	–	–
Corporate Finance	861	807	52	2	–	–
Wealth Management	894	–	3	207	684	–
Retail Products	2,103	–	8	81	2,014	–
CCPL and other unsecured lending	1,049	–	1	1	1,047	–
Deposits	611	–	7	57	547	–
Mortgage and Auto	402	–	–	23	379	–
Other Retail Products	41	–	–	–	41	–
Asset and Liability Management	248	–	–	–	–	248
Lending and Portfolio Management	406	242	164	–	–	–
Principal Finance	159	158	–	1	–	–
Other	390	–	–	(1)	38	353
Operating income	8,495	3,943	919	290	2,742	601

Geographic analysis

Unless otherwise stated, all figures contained within the Geographic analysis are on an underlying basis.

Performance by geographic region

Underlying profit/(loss) before taxation by geographic region is set out below:

	6 months ended 30.06.16					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,551	2,054	1,420	817	(32)	6,810
Operating expenses	(1,654)	(1,189)	(845)	(669)	(177)	(4,534)
Operating profit/(loss) before impairment losses and taxation	897	865	575	148	(209)	2,276
Impairment losses on loans and advances and other credit risk provisions	(242)	(412)	(214)	(124)	(104)	(1,096)
Other impairment	(35)	4	(19)	–	(163)	(213)
Profit from associates and joint ventures	102	(80)	–	–	5	27
Underlying profit/(loss) before taxation	722	377	342	24	(471)	994
Net Interest margin	1.3%	2.0%	3.0%	0.5%		1.6%
Customer loans and advances	111,020	81,335	30,015	43,504	–	265,874
Customer deposits	165,568	89,711	30,459	85,960	–	371,698
Risk-weighted assets	77,069	105,441	54,995	54,611	1,110	293,226

	6 months ended 31.12.15					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,689	2,053	1,305	891	6	6,944
Operating expenses	(1,857)	(1,334)	(883)	(699)	(663)	(5,436)
Operating profit/(loss) before impairment losses and taxation	832	719	422	192	(657)	1,508
Impairment losses on loans and advances and other credit risk provisions	(509)	(1,127)	(560)	(61)	(99)	(2,356)
Other impairment	(21)	(48)	(33)	16	(139)	(225)
Profit from associates and joint ventures	95	(14)	–	–	2	83
Underlying profit/(loss) before taxation	397	(470)	(171)	147	(893)	(990)
Net Interest margin	1.3%	1.9%	2.9%	0.6%		1.6%
Customer loans and advances	106,161	86,343	31,070	37,829	–	261,403
Customer deposits	163,519	90,731	33,013	71,864	–	359,127
Risk-weighted assets	82,070	109,730	57,566	56,815	(3,256)	302,925

	6 months ended 30.06.15					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,388	2,200	1,553	986	368	8,495
Operating expenses	(1,906)	(1,287)	(907)	(688)	(254)	(5,042)
Operating profit before impairment losses and taxation	1,482	913	646	298	114	3,453
Impairment losses on loans and advances and other credit risk provisions	(426)	(815)	(284)	(131)	4	(1,652)
Other impairment	(7)	(15)	(3)	2	(63)	(86)
Profit from associates and joint ventures	77	29	–	–	3	109
Underlying profit before taxation	1,126	112	359	169	58	1,824
Net Interest margin	1.5%	2.0%	3.3%	0.5%		1.7%
Customer loans and advances	116,401	97,617	34,428	33,893	–	282,339
Customer deposits	173,001	107,094	33,873	74,827	–	388,795
Risk-weighted assets	88,660	119,620	60,163	58,753	(1,025)	326,171

Greater China & North Asia

Greater China & North Asia includes our businesses in Hong Kong, Korea, China, Taiwan and Japan.

Operating conditions in the region remained challenging in the first half of 2016, set against the backdrop of a slowing economy in China, coupled with volatility in the equity and currency markets.

Underlying profit declined 36 per cent year-on-year to $722 million as a result of lower income, partly offset by lower expenses and impairment charges. Income declined against the second half of last year, and was broadly stable across the first and second quarters:

- Income fell 25 per cent year-on-year, or 21 per cent excluding the impact of business exits
- Expenses were 13 per cent lower than in the first half of 2015, resulting from cost efficiency actions undertaken throughout 2015. Further operational efficiency initiatives are currently being executed
- Loan impairment fell 43 per cent year-on-year, primarily driven by a reduction in Retail Banking and non-repeat of a write-down in Private Banking in the first half of last year. Loan impairment in the Corporate & Institutional Banking and Commercial Banking client segments was broadly flat year-on-year

We continue to make good progress in executing our strategic plans. Key highlights include:

- Improving returns in the region remains a key priority and we continue to make steady progress to optimise low returning client relationships in Corporate & Institutional Banking
- Customer loans and advances grew 5 per cent in the first half. Asset growth has resumed in the second quarter, driven by trade assets in Hong Kong and improving mortgage sales momentum in Hong Kong and Korea
- Good momentum in new client acquisition in the Retail Banking Priority sub-segment from new alliances such as Asia Miles in Hong Kong and with Samsung Card and Shinsegae/E-mart in Korea.
- We continue to optimise our properties and branches across the region
- Korea achieved breakeven in the first half on an underlying basis following the restructuring actions we took in the second half of last year
- We continued to invest in our RMB leadership capabilities, and we were one of the first offshore banks accepted into the China onshore FX market

Financial performance

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**2,551**	2,689	3,388	(5)	(25)
Operating expenses	**(1,654)**	(1,857)	(1,906)	11	13
Loan impairment	**(242)**	(509)	(426)	52	43
Other impairment	**(35)**	(21)	(7)	(67)	nm
Profit from associates and joint ventures	**102**	95	77	7	32
Underlying profit before taxation	**722**	397	1,126	82	(36)
Net Interest margin	**1.3%**	1.3%	1.5%		
Customer loans and advances	**111,020**	106,161	116,401	5	(5)
Customer deposits	**165,568**	163,519	173,001	1	(4)
Risk-weighted assets	**77,069**	82,070	88,660	(6)	(13)

Operating income

Income in Greater China & North Asia fell 25 per cent year-on-year. Excluding the impact of business exits, income fell 21 per cent. Compared to the second half of 2015 income fell 5 per cent primarily driven by lower income from China.

Income in Hong Kong continued to stabilise during the first half, and in Korea the focus was to stabilise income following the Special Retirement Programme. Income momentum in China was weak as market conditions remained difficult.

Income in Hong Kong declined 20 per cent year-on-year, though increased 2 per cent half-on-half. Corporate & Institutional Banking and Commercial Banking income was more impacted by the slowdown in China with weaker industry-wide trade volumes and continued margin compression impacting Trade Finance and Cash Management income. Financial Markets income was lower, driven by subdued client activity and the depreciation of the RMB. Momentum in Retail Banking and Private Banking was more resilient with income up 5 per cent and up 17 per cent half-on-half respectively.

Income in Korea fell 38 per cent year-on-year reflecting both the absence of a property disposal gain in the first half of 2015 and the impact of de-risking the personal unsecured lending portfolio in Retail Banking. Income from Corporate & Institutional Banking fell 34 per cent due to weaker income momentum in Financial Markets and margin compression in Cash Management. Overall income in Korea declined a more modest 3 per cent half-on-half due to lower Retail Banking income, while Corporate & Institutional Banking income increased 11 per cent.

Income in China declined 27 per cent year-on-year and 20 per cent half-on-half, driven by slower economic activity and margin compression, as a result of policy rate cuts and monetary easing.

Operating expenses

Expenses were well controlled, down 13 per cent year-on-year. Staff costs declined with headcount lower by around 2,000. Ongoing initiatives to improve operational efficiencies resulted in lower year-on-year expenses across all markets.

Impairment

Loan impairment decreased 43 per cent year-on-year driven by Retail Banking and Private Banking, and fell 52 per cent half-on half mainly driven by Commercial Banking across Hong Kong, China and Korea. Retail Banking impairment fell year-on-year in Korea and Hong Kong in the unsecured portfolios. Corporate & Institutional Banking and Commercial Banking loan impairment fell in China both year-on-year and half-on-half.

Underlying profit before taxation

Underlying profit for the region was $722 million in the first half, down 36 per cent year-on-year, though improved significantly on the second half of 2015.

Balance sheet

Customer loans and advances increased 5 per cent compared to the second half of 2015. In Hong Kong, customer loans momentum improved in the second quarter of 2016 driven by mortgage lending, Trade Finance loans and from short term reverse repo transactions.

Customer deposits grew 1 per cent since year end.

RWAs fell 6 per cent since the end of 2015, reflecting RWA efficiencies from optimising low returning client relationships in Corporate & Institutional Banking.

ASEAN & South Asia

ASEAN & South Asia includes our businesses in India, Singapore, Malaysia, Bangladesh and Indonesia as well as in other smaller markets.

Underlying profit rose year-on-year due to lower loan impairment and improved expense efficiency, partly offset by a loss from associates and joint ventures:

- Income performance was challenging compared to the same period a year ago due to currency depreciation, slowing macro-economic environment, weakness in the commodity sector and continued management actions to improve returns and reshape book
- Income has started to stabilise in the first six months of 2016. Retail Banking, Private Banking and Commercial Banking income for the second quarter was higher than the first quarter, while our Transaction Banking balance sheet has shown good momentum in the first half
- Expenses declined 8 per cent year-on-year driven by efficiency actions to simplify the organisation structure and reduction of related costs. This reduction has created further capacity to invest in our franchise
- Loan impairment fell 49 per cent year-on-year driven by deliberate portfolio repositioning, active management of vulnerable credits and improved discipline in credit processes
- Corporate & Institutional Banking impairments are down significantly and remain concentrated in a couple of large markets. Retail Banking impairments are lower across the footprint

We have made good progress in reshaping the business and have been taking decisive actions on which markets to further invest in:

- RWA has reduced by $14 billion or 12 per cent year-on-year and $4 billion or 4 per cent since the year end, through a combination of targeted initiatives and selective origination
- Actions to turn around low returning markets are well underway, for example with the announced transfer of our Retail Banking business in the Philippines
- Our investment plan to build infrastructure and frontline capacity for Retail Banking clients across India, Singapore and Bangladesh is on track with 800 front-line full time employees hired in first half. As a result, new-to-bank clients across the Personal and Priority client sub-segments have increased and client attrition rates have declined
- We have revamped the end-to-end digital sales process resulting in a significant increase of online cards acquisition in countries such as Singapore
- Focus on banking the ecosystem and supply chain finance has lead to strong momentum in new-to-bank client acquisitions in Commercial Banking across India, Singapore, Malaysia and Indonesia

Financial performance

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**2,054**	2,053	2,200	nm	(7)
Operating expenses	**(1,189)**	(1,334)	(1,287)	11	8
Loan impairment	**(412)**	(1,127)	(815)	63	49
Other impairment	**4**	(48)	(15)	nm	nm
Profit from associates and joint ventures	**(80)**	(14)	29	nm	nm
Underlying profit/(loss) before taxation	**377**	(470)	112	nm	nm
Net interest margin	**2.0%**	1.9%	2.0%		
Customer loans and advances	**81,335**	86,343	97,617	(6)	(17)
Customer deposits	**89,711**	90,731	107,094	(1)	(16)
Risk-weighted assets	**105,441**	109,730	119,620	(4)	(12)

Operating Income

Income in ASEAN & South Asia fell 7 per cent year-on-year and was flat half-on-half. The year-on-year fall reflected weaker market conditions, actions taken to restructure our business and from the depreciation of local currencies across our footprint against the US dollar.

Income in Singapore declined 8 per cent year-on-year due to margin compression and muted Financial Markets flows for Corporate & Institutional Banking clients, and weaker demand for Wealth Management products given adverse market conditions. These were partially offset by higher margins on Deposits driven by higher SIBOR in Singapore. Trade activity remained weak during the period due to volatility in RMB liquidity and continued headwinds around commodities pricing. Income in Singapore rose 3 per cent half-on-half, benefitting from Funding Valuation Adjustment gains. Excluding this, income fell 4 per cent driven by the slowing economic environment. We are seeing some positive momentum in the second quarter from growth in Priority Banking clients and New-to-bank Commercial Banking clients. Trade Finance assets and contingent assets have regained momentum since the end of 2015 and Retail Deposit margins have benefitted from higher SIBOR in Singapore.

Income in India fell 5 per cent year-on-year driven by local currency depreciation, weaker corporate activity and the non-recurrence of the prior year mark-to-market losses on syndicated loans. Corporate & Institutional Banking was impacted by low volumes and flows in Financial Markets and de-risking in Lending. Margin pressure impacted Cash Management and Lending. Volume growth in Retail Banking was more than offset by margin compression as interest rates fell over the period. Compared to the second half of 2015, income in India fell 7 per cent driven by slow corporate activity, actions taken to reshape portfolios and lower yields on liquid asset securities as interest rates fell, partially offset by increased ALM income. Rates income was impacted as interest rates fell, while growth in Retail Banking volumes has been offset by margin compression due to pricing pressure and higher regulatory costs.

Income in Indonesia rose 44 per cent year-on-year and 55 per cent half-on-half, as the prior year mark-to-market losses on syndicated loans were not repeated. Excluding this, income was lower due to the slow pace of economic recovery and actions taken to optimise the unsecured portfolio.

Operating expenses

Expenses for the region were 8 per cent lower year-on-year driven by efficiency actions taken at the end of 2015 and the impact of foreign currency translation. We are investing in our Retail Banking business in the region and in key countries such as India, Singapore and Bangladesh are starting to have a positive impact on client and sales indicators.

Impairment

Loan impairment has almost halved year-on-year and has fallen 63 per cent half-on-half, mainly from lower Corporate & Institutional Banking and Commercial Banking impairments in India and Indonesia. Retail Banking impairments were also lower across the footprint, benefitting from the legacy portfolio run-off.

Other

Profit from associates and joint ventures declined from $29 million in the first half of 2015 to a loss of $80 million this half, due to challenging market conditions.

Underlying profit/(loss) before taxation

Underlying profit more than doubled year-on-year, largely driven by lower expenses and impairments, partially offset by the income decline and a loss from associates and joint ventures.

Balance Sheet

Customer loans and advances fell by 6 per cent compared to the second half of 2015 due to challenging market conditions and selective asset origination, in addition to the exit of the Equity Derivatives business at the end of last year.

Customer deposits fell by 1 per cent due to balance sheet optimisation and continued pricing pressure.

RWA fell by 4 per cent in the half, in line with the reduction in customer loans and advances.

Africa & Middle East

Africa & Middle East includes our businesses in the UAE, Nigeria and Kenya as well as in other smaller markets.

Underlying profit declined 5 per cent year-on-year to $342 million due to lower income, partly offset by tight expense management and lower impairment.

- Income fell 9 per cent year-on-year to $1,420 million due to strategic management actions, which included de-risking and return optimisation, coupled with weakness in commodity prices and devaluation in the major currencies. Excluding the impact of adverse foreign currency translation, income for the region fell 4 per cent with Africa reporting a growth of 3 per cent compared with the first 6 months of 2015.
- Expenses fell 7 per cent year-on-year to $845 million as a result of business efficiency actions to reduce headcount and drive organisational efficiency
- Loan impairment fell 25 per cent compared to the first half of 2015 to $214 million primarily due to lower provisions in Africa, but remain elevated largely on legacy accounts
- Improved momentum during the first half driven by Financial Markets, Corporate Finance and Retail Products

Good progress during the first half of 2016 to deliver the Group's commitments on capital accretion and return on equity.

- We have strengthened the foundations of our Commercial Banking client segment with the exit of low returning business progressing well and roll-out of enhanced portfolio standards
- We are making good progress on new-to-bank clients across the region with specific focus on supply chain financing and referrals to private banking
- We have accelerated the transformation of our Retail Banking business in Africa, with the introduction of digital solutions in a number of key markets during the first half of the year

Financial performance

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**1,420**	1,305	1,553	9	(9)
Operating expenses	**(845)**	(883)	(907)	4	7
Loan impairment	**(214)**	(560)	(284)	62	25
Other impairment	**(19)**	(33)	(3)	43	nm
Underlying profit/(loss) before taxation	**342**	(171)	359	nm	(5)
Net interest margin	**3.0%**	2.9%	3.3%		
Customer loans and advances	**30,015**	31,070	34,428	(3)	(13)
Customer deposits	**30,459**	33,013	33,873	(8)	(10)
Risk-weighted assets	**54,995**	57,566	60,163	(4)	(9)

Operating income

Income fell 9 per cent year-on-year in the region. Excluding the adverse impact of foreign currency translation, income fell 4 per cent. Income increased by 9 per cent half-on-half with income in Africa up 5 per cent and income in Middle East up 13 per cent. Growth was driven by Corporate & Institutional Banking, which benefited from improved levels of client activity, particularly in Financial Markets.

Income in the UAE declined by 12 per cent year-on-year reflecting the impact of business exits, de-risking actions and the more challenging external environment. However UAE income rose 16 per cent compared with the second half of 2015 driven by Financial Markets and Corporate Finance.

Income in Africa was down 7 per cent year-on-year, though was up 3 per cent on a constant currency basis. Compared with the second half of 2015, income was up 5 per cent. Better performances in Kenya, Uganda and Zambia were offset by weaker performance in Nigeria, which was significantly impacted by the difficult macroeconomic conditions and the devaluation of the local Naira currency.

Operating expenses

Expenses fell 7 per cent year-on-year, reflecting business efficiency actions to reduce headcount and drive improved organisational efficiency. This has created capacity for investment in the region, including the transformation of our Retail Banking business and further improvements in controls.

Impairment

Loan impairment fell 25 per cent year-on-year and fell 62 per cent half-on-half, reflecting lower levels of loan impairment in Corporate & Institutional Banking and Commercial Banking. Significant actions have been taken to tighten our risk tolerances and reduce concentrations. Market conditions however remain challenging and we continue to proactively manage our portfolios.

Underlying profit/(loss) before taxation

Underlying profit declined 5 per cent year-on-year to $342 million, due to lower income, partly offset by tight cost management and lower impairment, though improved significantly from the weak performance in the second half of 2015.

Balance sheet

Customer loans and advances decreased 3 per cent as the balance sheet stabilised after a weaker second half of 2015. RWA decreased 4 per cent.

Customer deposits fell 8 per cent compared to the second half of 2015.

Europe & Americas

Europe & Americas includes our businesses in the United Kingdom, the United States as well as other countries in the region.

Underlying profit decreased 84 per cent versus second half of 2015:

- Income fell largely as a result of management actions including the transfer of loans to the liquidation portfolio, but also lower client activity in a challenging external environment
- Expenses declined due to cost efficiency initiatives, partly offset by increased regulatory costs
- Loan impairment increased compared to the second half of 2015 following additional individual and portfolio impairments

We are making good progress on actions that support the Group's strategic priorities and to reshape the business:

- Cost efficiency on-track with management actions undertaken to deliver cost saves
- Good progress in optimising returns with a sequential reduction in RWAs as a result of actions taken on low-returning clients and other targeted initiatives
- We continue to reshape the business through RWA optimisation initiatives, risk management and selective origination

Financial performance

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**817**	891	986	(8)	(17)
Operating expenses	**(669)**	(699)	(688)	4	3
Loan impairment	**(124)**	(61)	(131)	nm	5
Other impairment	**–**	16	2	nm	nm
Underlying profit before taxation	**24**	147	169	(84)	(86)
Net interest margin	**0.5%**	0.6%	0.5%		
Customer loans and advances	**43,504**	37,829	33,893	15	28
Customer deposits	**85,960**	71,864	74,827	20	15
Risk-weighted assets	**54,611**	56,815	58,753	(4)	(7)

Operating income

Income in Europe & Americas was down 17 per cent year-on-year to $817 million, and down 8 per cent half-on-half.

Income in the United Kingdom fell 27 per cent year-on-year and 8 per cent half-on-half primarily reflecting the loss of income on loans transferred to the liquidation portfolio. Better momentum in Financial Markets across Rates & Credit was offset by lower income from Commodities driven by lower commodity prices and de-risking. Higher levels of liquid asset holdings also adversely impacted income.

Income in the United States fell 13 per cent year-on-year and fell 13 per cent half-on-half. Better performances in Foreign Exchange, Cash Management and Corporate Finance were offset by weaker performances across Rates due to lower hedging activity, and Lending due to de-risking and RWA optimisation initiatives.

Operating expenses

Expenses were down 3 per cent year-on-year as cost efficiency savings and favourable foreign currency translations were offset by increased regulatory and compliance costs.

Impairment

Loan impairment declined 5 per cent year-on-year, however doubled half-on-half, primarily in the Oil & Gas and Metals & Mining sectors. We are continuing to proactively manage our commodity exposure.

Underlying profit before taxation

Underlying profit declined from $169 million to $24 million due to lower income compared to the first half of 2015, largely as a result of management actions.

Balance sheet

Customer loans and advances increased 15 per cent compared to the second half of 2015 as growth in Financial Markets reverse repos and Corporate Finance was offset by de-risking and RWA optimisation impact in Lending.

Customer deposits rose 20 per cent half-on-half with growth in Corporate Term Deposits and Financial Markets repos.

RWA decreased 4 per cent since the year end as a result of actions taken on low-returning clients and other targeted initiatives.

Central & other items

Central & other items include Corporate Centre Costs, treasury activities, certain strategic investments and the UK bank levy. Corporate Centre Costs represent stewardship and central management services roles and activities that are not directly tied to the ongoing business and country operations, such as Group Directorate and Group support functions.

Central & other items for geographies also includes globally run businesses or activities that are managed by the client segments but not by geographic management. These include Principal Finance and Portfolio Management.

Financial performance

The following table provides an analysis of performance in the Central & other items:

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million	H1 2016 vs H2 2015 Better/(worse) %	H1 2016 vs H1 2015 Better/(worse) %
Operating income	**(32)**	6	368	nm	nm
Operating expenses	**(177)**	(663)	(254)	73	30
Loan impairment	**(104)**	(99)	4	(5)	nm
Other impairment	**(163)**	(139)	(63)	(17)	nm
Profit from associates and joint ventures	**5**	2	3	nm	67
Underlying (loss)/profit before taxation	**(471)**	(893)	58	47	nm
Risk-weighted assets	**1,110**	(3,256)	(1,025)	nm	nm

Operating income

Income fell from $368 million in the first half of 2015 to a negative $32 million this year, and also fell half-on-half but to a lesser extent. The income decline was mainly due to higher fair value losses in Principal Finance, and also lower yields on securities following interest rate reductions in Korea, India and Pakistan. Principal Finance income was negative due to higher fair value losses on investments which were impacted by weaker equity market valuations in our footprint, and lower realised gains on exits.

Operating expenses

Expenses improved 30 per cent year-on-year mainly due to the run off of structural cost hedges and lower Corporate Centre Costs due to cost reduction actions taken at the end of 2015.

Impairment

Loan impairment increased both year-on-year and half-on-half mainly due to Principal Finance. Other impairment rose both year-on-year and half-on-half mainly due to a decline in value of operating lease assets.

Underlying (loss)/profit before taxation

The underlying loss of $471 million in the first half of this year compared to a profit of $58 million in the first half of 2015, mainly due to lower income and higher impairments only somewhat offset by an improvement in expenses.

Balance sheet

The movement in RWA in the period was due to lower Portfolio Management RWA savings and from an increase in market RWA arising from the management of foreign exchange.

Group balance sheet

Group summary consolidated balance sheet

	30.06.16 $million	31.12.15 $million	Increase/ (decrease) $million	Increase/ (decrease) %
Assets				
Cash and balances at Central Banks	**66,163**	65,312	851	1
Loans and advances to banks[1]	**74,533**	66,769	7,764	12
Loans and advances to customers[1]	**265,874**	261,403	4,471	2
Investment securities[1]	**128,703**	131,846	(3,143)	(2)
Derivative financial instruments	**67,584**	63,143	4,441	7
Other assets	**58,132**	52,010	6,122	12
Total assets	**660,989**	640,483	20,506	3
Liabilities				
Deposits by banks[1]	**41,415**	38,248	3,167	8
Customer accounts[1]	**371,698**	359,127	12,571	4
Debt securities in issue[1]	**62,047**	68,797	(6,750)	(10)
Derivative financial instruments	**66,345**	61,939	4,406	7
Subordinated liabilities and other borrowed funds	**20,646**	21,852	(1,206)	(6)
Other liabilities[1]	**50,017**	42,008	8,009	19
Total liabilities	**612,168**	591,971	20,197	3
Equity	**48,821**	48,512	309	1
Total liabilities and shareholders' funds	**660,989**	640,483	20,506	3

1 Includes balances held at fair value through profit or loss

Balance sheet

The Group's balance sheet remains resilient and well diversified. We continue to be highly liquid and primarily deposit-funded, with an advances-to-deposits ratio of 71.5 per cent, down from the previous year-end position of 72.8 per cent. We continue to be a net lender into the interbank market, particularly in Hong Kong, Singapore and within the Europe & America region.

The Group's funding structure remains conservative, with limited levels of refinancing over the next few years.

The Group remains well capitalised, with a Common Equity Tier 1 ratio of 13.1 per cent, up from the year-end level of 12.6 per cent mainly due to a decrease in RWAs.

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

Cash and balances at Central Banks

Cash balances remained stable at $66 billion and were held primarily in Europe and the Americas.

Loans and advances to customers and banks

Loans to customers and banks increased by $12.2 billion.

Loans to Corporate & Institutional and Commercial Banking clients remain well diversified by geography and client segment. Lending increased by 5 per cent in the Greater China & North Asia and Europe & Americas regions driven by the continued ability of these geographies to support clients across our footprint and from short term reverse repurchase transactions backed by high quality bonds. Growth was seen across a broad range of industry sectors mainly driven by the Financing, Insurance, Non-Banking and Energy industries.

Private Banking loans and advances declined 7 per cent impacted by deleveraging and client exits in ASEAN & South Asia and Europe and Americas. Loans to Retail Banking clients were broadly flat, with growth in Mortgages in Greater China & North Asia offset by lower unsecured lending across all regions.

Loans to banks increased by 12 per cent as a result of growth in Greater China & North Asia and ASEAN & South Asia.

Investment securities

Investment securities fell by $3.1 billion as we re-positioned our liquid assets, reducing holdings of UK Government bonds and increasing US treasury bills taking advantage of the reduction in the swap spread in line with the eligibility criteria for liquid asset buffers. The maturity profile of these assets is largely consistent with prior years, with just under 45 per cent of the book having a residual maturity of less than 12 months. Equity shares also reduced as we run down the Equities business.

Derivatives

Customer appetite for derivative transactions has increased reflecting high levels of volatility in the currency markets. The Group benefited from the low interest rate environment exacerbated by Central Banks actions across our footprint markets. This has led to higher notional values and higher unrealised positive mark-to-market positions by $4 billion at $68 billion. Our risk positions continue to be largely balanced, resulting in a corresponding increase in negative mark-to-market positions. Of the $68 billion mark-to-market positions, $39 billion was available for offset due to master netting agreements.

Deposits

Customer accounts rose 4 per cent while deposits by banks rose 8 per cent, largely due to growth of repurchase transactions as a source of efficient funding. CASA continues to be core to the customer deposit base, constituting over 50 per cent of customer deposits.

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue fell by $6.8 billion, largely due to lower levels of short-dated securities as the Group expanded its repurchase transactions as a source of cheaper funding. Subordinated liabilities also decreased by $1.2 billion primarily due to the redemption of notes in the period.

Equity

Total shareholders' equity was $0.3 billion higher at $48.8 billion, reflecting profit accretion for the period.

Risk review

Having joined the Group at the start of the year as the Group Chief Risk Officer and as a member of the Management Team, I have spent the first six months building on, and expanding, the work started by my predecessor. My team is responsible for credit, traded and operational risks. Since 1 July, I have taken responsibility for the Compliance function so that, going forward, my enlarged team is now accountable for all areas of risk and compliance, including the fight against financial crime. This combination of the two functions should allow us to take a more holistic, proactive and wide view of the risks the Group faces and to be able to act accordingly.

The Group has taken risk mitigating actions to manage the excess risk positions. This has resulted in a more diverse portfolio. A key priority of the Risk function is to continue with these significant efforts. Standard Chartered should be, and will continue to be, exposed to the credit cycles of the economies that it serves. We remain open for business with our clients and have the capital and liquidity to support them. However, we will manage our portfolio more actively and remain within our tighter and more granular risk tolerances such that the Group can generate appropriate returns from the business we do. Risk is a shared responsibility of everyone in the Group and is an intrinsic part of any good commercial decision-making process.

Summary and outlook

Market conditions remained challenging in the first half of 2016 and are likely to persist, given a greater expectation of low interest rates for longer, lower growth in a number of our markets and lacklustre growth in the West. The work to secure the Group's foundations, tighten the Group's risk tolerances, reduce concentrations and increase diversification has ensured that we are better placed to cope with this tougher environment. The UK vote to leave the European Union on 23 June 2016 ('Brexit') has clearly added to uncertainty in the market but has had limited negative impact on the Group, given our business footprint.

Overall, there has been no significant deterioration in the credit quality of the book since the year end although stress remains in certain parts of Corporate & Institutional Banking. Retail Banking continues to show an improved risk performance, benefiting from a greater focus on affluent clients and concerted action to reduce higher risk unsecured portfolios. Our mortgage portfolio is well positioned in case of a slowdown in property markets – average loan-to-values are around 50 per cent and prospective borrowers are assessed against interest rates well above prevailing rates. This resilience is corroborated by the various stress tests conducted by the Group.

As part of the refreshed strategy, the Group identified and ring-fenced exposure of around $20 billion of risk-weighted assets (RWA) in a liquidation portfolio comprising of predominantly commodity and Indian exposures falling outside of our new risk tolerance. Loan impairment and restructuring charges associated with the liquidation portfolio have fallen significantly compared to the second half of 2015.

Loan impairment for the Commercial Banking ongoing business remains elevated although reduced significantly on the second half of 2015 due to lower losses across all regions; however we remain vigilant for emerging risks. The loan impairment for the Corporate & Institutional Banking ongoing business increased predominantly due to an increase in portfolio provisions. Loan impairment from commodity clients fell in the first half of the year over the second half of 2015. India loan impairment for the ongoing business increased marginally from the second half of 2015, reflecting the same drivers as the global portfolio. Page 52 in the Risk profile section provides more details.

Total India exposure has increased by 8 per cent since December 2015 to $32.5 billion mostly in selected investment grade clients. The China impairments are negligible in the first half of 2016. The exposures in China have increased by 13 per cent since December 2015 to $56.2 billion, in investment grade financial institutions.

A significant part of the increase in gross non-performing loans (NPLs) in the Corporate & Institutional Banking ongoing business is in the commodities sector. Increases in credit grade (CG) 12 and in early alert accounts are due to commodities and commodities-related exposures, specifically the oil and gas offshore support services sector. The early alert process enables closer management focus of this portfolio. Commodities prices have increased more recently but the previous extended period of low commodities prices built stresses within commodities-related sectors such as oil and gas servicing companies as well as certain, more oil dependent, African countries. While the size of our exposure to these sectors is not material in the context of the Group, it is likely that these challenging conditions will persist throughout the second half of 2016 and therefore we remain watchful and are proactively managing these portfolios. The problem credit management and provisioning sub-section (page 52) in the Risk profile section provides more details on drivers for loan impairments and NPLs.

We have reviewed our portfolios extensively and our cover ratios remain strong. The cover ratio for the Corporate & Institutional Banking ongoing business is now 52 per cent, rising to 61 per cent after including collateral. The Commercial Banking ongoing business cover ratio of 71 per cent increases to 83 per cent after including collateral.

We continue to take action to reposition the Group's corporate portfolio, with the aggregate of our Top 20 corporate net exposures remaining stable since the year end. This portfolio of clients represents 62 per cent of Tier 1 capital as at 30 June. We have reduced our commodities exposures by 40 per cent to $37.1 billion since 2013 and as commodities prices rise, we expect to see a small increase in this exposure.

Overall, the Group's client exposures remain short tenor, with 72 per cent of Corporate & Institutional, Commercial Banking, central and other loans and advances maturing in under one year. Furthermore, our portfolio is increasingly diversified as we manage within the Group's tighter risk tolerances and this is making the Group less sensitive to idiosyncratic impairment volatility.

Market risk and traded counterparty risk continue to be low and stable. We are now including and managing credit valuation adjustment and funding valuation adjustment, collectively XVA, as part of daily value at risk.

We continue to roll out the operational risk framework which has improved ownership of first and second line of defence responsibilities. We also have a tighter focus on top and emerging risks, such as third party vendors and cyber security. These actions, together with more complete management information with timely escalation of issues, have resulted in a lower level of operational risk events than in prior years.

Risk management approach

The Group is taking significant action to build a stronger, more efficient, and better returning business over time. The Risk function is part of the strategic decision-making process within the Group. The Group's strategy is fully aligned with our tightened risk tolerance and both have appropriate Board-level oversight.

Our risk tolerance framework is now broadening in terms of risk coverage and more granular in setting tighter limits on concentrations by single name, industry and geography. Good portfolio and risk management is not just about reducing exposures and, as part of our effort to diversify, we will build exposures in sectors where we have not focused on in the past, but which are increasingly important components of the economies we serve.

Key risk priorities

We have taken significant actions to improve the Group's risk profile and I am encouraged by the repositioning already undertaken. However, there will always be opportunities to improve. The following are the key priorities we are focused on:

- **Building on the Group's risk culture** – we will continue to reinforce and embed accountability and end-to-end ownership of risk within our business people, not just in the Risk function
- **Improve the management of financial crime risks** – we will ensure both inherent and residual risks are appropriately mitigated, improving controls via a comprehensive multi-year financial crime change programme. This is interrelated with the Group's commitment to achieve high standards of conduct from all employees under our firm wide Conduct programme. More detail on what has been achieved to date is included in the Group Chief Executive's review on page 5
- **Proactive portfolio management** – as well as embedding risk culture more deeply, we are building out our Enterprise-wide Risk Management capability. This will enable the Risk function, in partnership with the business, to holistically set and better manage the boundaries within which the Group operates. For example, the Risk function will partner with Corporate & Institutional Banking via a newly established Credit Portfolio Management function to shape the segment's risk appetite, ensure pricing discipline and improve distribution
- **'Right size' our risk appetite** – we have revised our risk tolerances and are putting in place more granular limits to avoid the build-up of concentrations. We will continue to adapt this framework, making it broader and increasingly granular over time. We have actively reduced exposures in key areas such as commodity producers, commodity traders and in higher risk sectors in China, and will continue to identify and manage risks as they emerge. We have also identified key industries and clients where we are under-represented and where we can grow safely, diversifying risk further

- **Exit the liquidation portfolio and learn the lessons** – we continue to progress on exiting the majority of these relationships before the end of next year and are taking onboard the hard lessons from this exercise, so that we have no need for such a portfolio in the future
- **Enhancing our compliance risk management framework** – we continue to enhance and augment a sustainable framework that places regulatory and compliance standards, as well as a culture of appropriate conduct, at the forefront of the Group's agenda. We do this in a manner that is commensurate to the nature, scale, complexity and growth of our business and geographic footprint
- **Manage emerging risks** – The Group undertakes an active programme of stress testing, including portfolio reviews at an account level, in anticipation of potential market events. Currently, the key emerging risk areas of focus are:
  - The oil and gas offshore support sector and certain, more oil dependent, African countries. We are seeing signs of stress following recent commodity price volatility. Whilst not material in the context of the Group, we continue to take action to manage these portfolios. We are actively reducing exposures and placing a significant portion of these portfolios on early alert for closer management. The commodities and commodities-related sub-section (page 56) in the Risk profile section provides more details on the portfolio
  - Brexit. We managed the immediate risk with a neutral impact to the Group in terms of liquidity, market and credit risk following Brexit. Market sentiment post the vote continues to be cautious and uncertain. The UK will continue to be a member of the EU for the foreseeable future as the process of exit is expected to take a number of years. The Group is looking at the practical implications of Brexit on our portfolios and clients – both in UK and non-UK exposures. An assessment of potentially vulnerable accounts was performed ahead of the vote and we also continue to closely monitor the portfolio for any second order impact. The Principal uncertainties section (page 43) provide additional details

Conclusion

The Group has considerable opportunities and we are putting in place the right building blocks to better serve the client segments where we can deliver value. Market conditions remain challenging so we will continue to take assertive actions to reposition the Group and actively manage our portfolios to be more resilient in the face of the volatile external environment.

The sections that follow this overview will give greater detail on the key risk focus areas and will help describe how we manage these risks.

Mark Smith
Group Chief Risk Officer

3 August 2016

The remainder of the Risk review is divided into the following two sections:

- **Principal uncertainties** sets out the key external factors that could impact the Group in the coming year
- **Risk profile** provides an analysis of our risk exposures across all major risk types

The figures stated in these sections are based on the geographic location from which a client relationship is principally managed. This is consistent with how the business is managed and performance attributed internally.

The following parts of the Risk review form part of the interim financial statements:

From the start of 'Principal uncertainties' on page 41 to the end of the 'Liquidity risk' section on page 61, excluding:

- Impairment, page 52
- Selected portfolios, page 56
- Country cross-border risk, page 58
- Market risk – backtesting, page 60
- Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), page 61
- Encumbered assets, page 62
- Readily available for encumbrance, page 63

Principal uncertainties

The Group is exposed to a range of risks such as credit, country cross-border, market, capital, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographic coverage. We manage risk on an enterprise-wide basis, through our Risk Management Framework with the objective of maximising risk-adjusted returns while remaining within the Group's risk tolerance.

Apart from the above mentioned risks, other key uncertainties and material risks we face are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience, nor is it an assurance that the mitigants described below can be successful in containing all the risks described.

Uncertainty	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	• Deteriorating macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity for our business	• We balance risk and return, taking account of changing conditions through the economic cycle • We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls
Financial markets dislocation	• A sudden financial markets dislocation could affect our performance, directly through its impact on the valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity • Financial markets instability also may increase the likelihood of default by our counterparties; and may increase the likelihood of client disputes	• We stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress loss triggers. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure are enforced • We carefully assess the performance of all of our counterparties in stress scenarios and adjust our limits accordingly • We maintain robust processes to assess the suitability and appropriateness of the products and services we provide to our clients

Uncertainty	Description	Mitigants
Geo-political events	• We face a risk that geo-political tensions or conflict in our footprint could impact trade flows, our customers' ability to pay and our ability to manage capital across borders	• We actively monitor the political situation in all of our principal markets and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
Risk of fraud and other criminal acts	• The banking industry has long been a target for third parties seeking to defraud and disrupt legitimate economic activity, or to facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology and the internet. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations	• We seek to be vigilant to the risk of internal and external crime in our management of people, processes and systems and in our dealings with customers and other stakeholders • We have implemented a range of cyber crime defences to protect from hacking, misuse, malware, errors, social engineering and physical threats • Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security • We perform regular reviews of our control environment, perform external benchmarking against government and international cyber standards and frameworks, and conduct tests of our defences against cyber and other attacks • We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk
Exchange rate movements	• Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries • Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance	• Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to mitigate the effects of changes in exchange rates on our capital ratios
Regulatory changes	• The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity	• We review key regulatory developments in order to anticipate changes and their potential impact on our performance • Both unilaterally and through our participation in industry groups, we respond to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy

Uncertainty	Description	Mitigants
Regulatory compliance	• Although we seek to comply with all applicable laws and regulations, we are and may be subject to regulatory reviews and investigations by governmental and regulatory bodies, including in relation to US sanctions compliance and anti-money laundering controls. We cannot currently predict the nature or timing of the outcome of these matters. For sanctions compliance violations, there is a range of potential penalties which could ultimately include substantial monetary penalties, additional compliance and remediation requirements and/or additional business restrictions • Regulators and other agencies in certain markets are conducting investigations into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange	• We established a Board-level Financial Crime Risk Committee in January 2015 and, since 2013, we have had a Financial Crime Risk Mitigation Programme. This is a comprehensive, multi-year programme designed to review and enhance many aspects of our existing approach to money laundering prevention, combating terrorism finance, sanctions compliance and the prevention of bribery and corruption • We are contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continue to review our practices and processes in the light of the investigations, reviews and industry proposals • We are cooperating with all relevant ongoing regulatory reviews, requests for information and investigations • In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise to mitigate higher-risk business activities which could include divesting or closing businesses
The UK referendum to leave the European Union (Brexit)	• On 23 June 2016, the UK held a referendum and voted to leave the European Union. The precise timing and terms of the exit are unclear as is the nature of the relationship between the UK, the European Union and other nations post exit. This has resulted in significant financial market and macroeconomic uncertainty	• In addition to relevant mitigants mentioned elsewhere in this section, we ensure that there is regular senior level oversight, through the Group Risk Committee, of work undertaken to assess and manage Brexit risk • We have established a Brexit Executive Committee and Working Group to assess the practical implications of Brexit • The first order impact of Brexit is not material given the Group's exposure is predominantly to economies in Asia, Africa and the Middle East. • The full impact of Brexit will only be known over the next couple of years as the negotiations progress with the European Union and other major trading partners. We continue to proactively assess and where appropriate, manage the impact to the bank and our exposures to clients, taking account of Brexit-related risks.

Apart from the above mentioned risks, other key uncertainties and material risks we face are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience, nor is it an assurance that the mitigants described below can be successful in containing all the risks described.

Risk profile

Credit Risk

The following pages provide details of credit exposure, split as follows:

- Loan portfolio overview, which provides analysis of the loan portfolio by client segment, by geographic region and by industry and retail product (page 44)
- Credit risk mitigation, which provides analysis of collateral held by client segment and collateral type, and details of loan-to-value (LTV) ratios and other forms of credit risk mitigation
- Credit quality, which provides an analysis of the loan portfolio by credit grade (page 49)
- Problem credit management and provisioning, which provides an analysis of NPLs and impaired loans (page 52)
- Selected portfolios, which provide further details on commodities (page 56)

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

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

Loan portfolio

This section provides qualitative and quantitative information on the Group's exposure to credit risk for loans and advances to customers and banks, including the impact of credit risk mitigation and problem credit management.

The loan portfolio is summarised by segment and by credit quality (neither past due nor impaired; past due; and impaired) on page 50. The Group manages its loan portfolio between those assets that are performing in line with their contractual terms (whether original or renegotiated) and those that are non-performing. Corporate & Institutional Banking and Commercial Banking exposures are typically managed on an individual basis and consequently credit grade migration is a key component of credit risk management. In Retail Banking, loans are monitored at a portfolio level and delinquency trends are monitored consistently as part of risk management. In all three client segments, credit risk is mitigated to some degree through collateral, further details of which are set out on page 47.

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

Geographic and client segmental analysis

Loans and advances to customers (net of individual impairment provisions (IIPs) and portfolio impairment provisions (PIPs)) increased by $4.5 billion since December 2015 primarily due to the Corporate & Institutional Banking segment ($5.1 billion), partially offset by decreases in Central & other items ($1.8 billion). The growth in this period was largely in financing, insurance and non-banking clients.

The increase in loans to banks of $7.8 billion since December 2015 was primarily across ASEAN & South Asia ($3.7 billion), and Greater China & North Asia ($2.6 billion). This is mostly due to the liquidity management activity of the Group. Given the nature of the book, it is predominantly short term and the maturity profile remains consistent period-on-period.

Loans and advances in the Retail Banking portfolio increased marginally by 0.5 per cent, mainly from higher mortgage balances in Hong Kong and Korea and partly offset by a decrease in the Retail Banking unsecured portfolio.

The regional split of our loans and advances to customers remains broadly similar to 2015. The portfolio remains well diversified across our footprint countries, with our largest single country representing 22 per cent of loans and advances to customers and banks.

Client segment by geographic region

	30.06.16				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Corporate & Institutional Banking	**32,712**	**35,032**	**18,994**	**40,087**	**126,825**
Commercial Banking	**12,738**	**8,917**	**4,605**	**–**	**26,260**
Private Banking	**3,533**	**7,329**	**342**	**3,024**	**14,228**
Retail Banking	**61,222**	**27,921**	**6,089**	**299**	**95,531**
Central & other items	**1,062**	**2,386**	**116**	**150**	**3,714**
	111,267	**81,585**	**30,146**	**43,560**	**266,558**
Portfolio impairment provision	**(247)**	**(250)**	**(131)**	**(56)**	**(684)**
Total loans and advances to customers[1]	**111,020**	**81,335**	**30,015**	**43,504**	**265,874**
Total loans and advances to banks[1]	**31,711**	**13,155**	**7,641**	**22,026**	**74,533**

	31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Corporate & Institutional Banking	27,598	39,695	20,439	33,946	121,678
Commercial Banking	12,201	8,360	3,962	2	24,525
Private Banking	3,605	7,738	324	3,630	15,297
Retail Banking	60,515	27,805	6,411	282	95,013
Central & other items	2,495	2,990	62	–	5,547
	106,414	86,588	31,198	37,860	262,060
Portfolio impairment provision	(253)	(245)	(128)	(31)	(657)
Total loans and advances to customers[1]	106,161	86,343	31,070	37,829	261,403
Total loans and advances to banks[1]	29,152	9,458	6,926	21,233	66,769

1. Amounts are net of individual impairment provision and include financial instruments held at fair value through profit or loss (see note 13 on page 97)

Industry and Retail Products analysis by geographic region

In Corporate & Institutional Banking, Commercial Banking and Central & other items, loans and advances, our largest industry exposure continues to be financing, insurance and non-banking clients, which constitutes 25 per cent of loans and advances to customers (2015: 21 per cent). Lending to financing, insurance and non-banking clients is mostly to investment grade institutions and the increase reflects the deployment of surplus liquidity of the Group.

Loans and advances to the energy sector remains stable at 13 per cent (2015: 13 per cent) of total loans and advances to Corporate & Institutional Banking, Commercial Banking and Central & other items. The energy sector lending is spread across five sub-sectors and more than 300 clients. More information on commodities and commodities-related exposures is discussed under selected portfolios – commodities and commodities-related exposures on page 56.

The manufacturing sector makes up 13 per cent of the Corporate & Institutional Banking, Commercial Banking and Central & other items, loans and advances (2015: 14 per cent). The manufacturing industry group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 4,400 clients.

The Group provides loans to commercial real estate (CRE) counterparties of $12.5 billion (2015: $13 billion), which represents less than 5 per cent of total customer loans and advances and less than 2 per cent of assets.

In total, $5.8 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of this portfolio has increased to 42.6 per cent from 37.4 per cent in 2015. The proportion of loans with an LTV greater than 80 per cent has remained below 1 per cent during the same period.

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

Industry and Retail Products analysis by geographic region

	30.06.16				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Industry:					
Energy	**2,303**	**6,437**	**4,005**	**8,193**	**20,938**
Manufacturing	**9,202**	**5,774**	**3,605**	**1,962**	**20,543**
Financing, insurance and non-banking	**8,919**	**4,912**	**2,043**	**22,620**	**38,494**
Transport, telecom and utilities	**5,840**	**5,223**	**3,540**	**2,017**	**16,620**
Food and household products	**1,794**	**6,602**	**2,582**	**1,115**	**12,093**
Commercial real estate	**5,857**	**5,460**	**1,105**	**41**	**12,463**
Mining and quarrying	**1,983**	**3,265**	**1,474**	**1,664**	**8,386**
Consumer durables	**4,810**	**2,420**	**1,527**	**1,711**	**10,468**
Construction	**988**	**1,371**	**1,593**	**144**	**4,096**
Trading companies & distributors	**945**	**610**	**805**	**54**	**2,414**
Government	**2,284**	**2,539**	**355**	**179**	**5,357**
Other industry	**1,587**	**1,722**	**1,081**	**537**	**4,927**
Retail Products:					
Mortgages	**50,272**	**20,956**	**2,295**	**1,149**	**74,672**
CCPL and other unsecured lending	**9,161**	**4,593**	**2,997**	**86**	**16,837**
Auto	**–**	**383**	**331**	**–**	**714**
Secured wealth products	**3,639**	**7,400**	**133**	**2,068**	**13,240**
Other retail	**1,683**	**1,918**	**675**	**20**	**4,296**
	111,267	**81,585**	**30,146**	**43,560**	**266,558**
Portfolio impairment provision	**(247)**	**(250)**	**(131)**	**(56)**	**(684)**
Total loans and advances to customers	**111,020**	**81,335**	**30,015**	**43,504**	**265,874**
Total loans and advances to banks	**31,711**	**13,155**	**7,641**	**22,026**	**74,533**

	31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	1,466	7,198	4,370	6,647	19,681
Manufacturing	9,586	5,538	3,623	2,142	20,889
Financing, insurance and non-banking	5,287	6,996	1,548	17,627	31,458
Transport, telecom and utilities	4,512	6,129	4,048	1,790	16,479
Food and household products	1,825	5,763	2,762	1,278	11,628
Commercial real estate	6,821	5,008	1,162	37	13,028
Mining and quarrying	2,126	4,116	1,458	855	8,555
Consumer durables	4,491	2,350	1,394	2,624	10,859
Construction	1,307	2,080	1,741	174	5,302
Trading companies & distributors	892	701	801	35	2,429
Government	2,418	3,191	465	138	6,212
Other industry	1,563	1,975	1,091	601	5,230
Retail Products:					
Mortgages	49,266	21,194	2,245	1,313	74,018
CCPL and other unsecured lending	9,484	4,793	3,185	90	17,552
Auto	–	445	351	–	796
Secured wealth products	3,727	7,756	98	2,505	14,086
Other retail	1,643	1,355	856	4	3,858
	106,414	86,588	31,198	37,860	262,060
Portfolio impairment provision	(253)	(245)	(128)	(31)	(657)
Total loans and advances to customers	106,161	86,343	31,070	37,829	261,403
Total loans and advances to banks	29,152	9,458	6,926	21,233	66,769

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting arrangements, credit insurance, credit derivatives taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral

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

As a result of reinforcing our collateralisation requirements, the fair value of collateral held as percentage of amount outstanding has increased by 2 per cent since the end of 2015.

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. Exposures for 46 per cent of the clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 55 per cent.

The unadjusted market value of collateral, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was $229 billion (2015: $201 billion).

We have remained conservative in the way we assess the value of collateral, which is calibrated to a severe downturn and backtested against our prior experience. On average across all types of collateral, the value ascribed is around two-thirds 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 levels for Retail Banking have remained stable compared to 2015.

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

	Collateral			Amount Outstanding[1]		
		Of which			Of which	
	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
At 30 June 2016						
Corporate & Institutional Banking[2]	**50,028**	**185**	**1,264**	**178,190**	**2,421**	**9,229**
Commercial Banking	**8,373**	**190**	**481**	**26,260**	**534**	**2,568**
Private Banking	**9,815**	**262**	**308**	**14,228**	**387**	**310**
Retail Banking	**72,776**	**1,594**	**361**	**95,531**	**2,314**	**783**
Central & other items[2]	**23,415**	**–**	**–**	**26,883**	**–**	**–**
Total	**164,407**	**2,231**	**2,414**	**341,092**	**5,656**	**12,890**
At 31 December 2015						
Corporate & Institutional Banking[2]	40,691	41	1,396	168,741	2,040	9,128
Commercial Banking	8,991	207	449	24,525	575	2,546
Private Banking	10,561	52	322	15,297	52	325
Retail Banking	72,156	1,563	258	95,013	2,402	831
Central & other items[2]	19,158	–	–	25,254	–	–
Total	151,557	1,863	2,425	328,830	5,069	12,830

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

Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $58 billion (2015: $50 billion).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral. 26 per cent of collateral held comprises physical assets (plant, machinery and other stock) or is property-based, with the remainder held largely in cash and investment securities.

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

Collateral taken for longer-term and non-investment grade loans continues to be high at 58 per cent (2015: 59 per cent). Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

The proportion of highly rated securities of 35 per cent of collateral increased from 21 per cent compared to December 2015, due to higher levels of reverse repo transactions.

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

	30.06.16 $million	31.12.15 $million
Property	**11,851**	12,780
Plant, machinery and other stock	**3,399**	3,822
Cash	**9,898**	10,791
Reverse repo and securities	**25,665**	14,347
AAA	**107**	2
AA- to AA+	**20,168**	10,564
BBB- to BBB+	**1,289**	772
Lower than BBB-	**482**	702
Unrated	**3,619**	2,307
Commodities	**996**	923
Ships and aircraft	**6,592**	7,019
Total value of collateral	**58,401**	49,682

Retail Banking and Private Banking

In Retail Banking and Private Banking, 82 per cent of the portfolio is fully secured. The unsecured portfolio is 15 per cent, which is the same level as 2015.

In Retail Banking mortgage loans, the value of property held as security significantly exceeds the value of mortgage loans. LTV ratios measure the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured.

The overall LTV ratio on our mortgage portfolio is 50 per cent, up slightly since the end of 2015 in particular being driven by an increase in Greater China & North Asia. Our major mortgage markets of Hong Kong, Korea and Taiwan have an average LTV of less than 50 per cent.

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

	30.06.16				31.12.15			
	Fully secured $million	**Partially secured $million**	**Unsecured $million**	**Total[1] $million**	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million
Loans to individuals								
Mortgages	**73,855**	**817**	**–**	**74,672**	73,004	1,014	–	74,018
CCPL	**350**	**653**	**15,834**	**16,837**	386	632	16,534	17,552
Auto	**710**	**–**	**4**	**714**	792	–	4	796
Secured wealth products	**12,812**	**428**	**–**	**13,240**	13,689	383	14	14,086
Other	**2,839**	**1,052**	**405**	**4,296**	2,330	1,208	320	3,858
	90,566	**2,950**	**16,243**	**109,759**	90,201	3,237	16,872	110,310
Percentage of total loans	**82%**	**3%**	**15%**		82%	3%	15%	

1. Amounts net of individual impairment provisions

Mortgage loan-to-value ratios by geography

The following table provides an analysis of LTV ratios by geography for the mortgages portfolio for Retail Banking and Private Banking:

	30.06.16					
	Greater China & North Asia %	**ASEAN & South Asia %**	**Africa & Middle East %**	**Europe & Americas %**	**Central & other items %**	**Total %**
Average portfolio loan to value	**47.9**	**55.1**	**65.0**	**45.4**	**–**	**50.2**
Loans to individuals – mortgages ($million)	**50,272**	**20,956**	**2,295**	**1,149**	**–**	**74,672**

	31.12.15					
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Central & other items %	Total %
Average portfolio loan to value	45.9	55.3	63.2	44.4	–	48.9
Loans to individuals – mortgages ($million)	49,266	21,194	2,245	1,313	–	74,018

Credit quality analysis

An overall breakdown of the loan portfolio by client segment is set out on page 50, differentiating between the performing and non-performing book.

Within the performing book, there is an analysis:

- By credit grade (CG) for Corporate & Institutional Banking, Commercial Banking and Central & other items, which plays a central role in the quality assessment and monitoring of risk
- Of loans and advances past due but not impaired – a loan is considered past due if payment of principal or interest has not been made on its contractual due date
- Of loans and advances where an impairment provision has been raised – these represent certain forborne accounts which have complied with their revised contractual terms for more than 180 days and on which no loss of principal is expected

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

Credit grade migration

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

Performing loans that are neither past due nor impaired constitute 96 per cent of customer loans and this is consistent with past periods (2015: 96 per cent). Overall credit quality has also remained stable, with the average CG of the corporate loan portfolio remaining at 8B, unchanged since 2013.

CG migration trends have also been stable across most countries, although there has been some deterioration in India and commodities, related to the slower economic growth. We have also seen some stress related to certain oil dependent African countries, though not material in the context of the Group and are being closely managed. CG composition across all client segments is consistent with the prior year. In respect of loans to banks, the credit quality composition is also consistent with prior periods. Increases in credit grade (CG) 12 from $1.2 billion to $1.3 billion reflect a fall in CG 12 associated with the liquidation portfolio which has been more than offset by an increase in the ongoing business. This increase is due to commodities and commodities related exposures, specifically the oil and gas offshore support services sector.

In addition, accounts on early alert have increased from $12.3 billion to $15.1 billion mainly in the commodity and commodity-related sector which allows for closer management of these exposures.

Performing loans and advances 'past due but not impaired' are $0.6 billion higher than in 2015, primarily due to Corporate & Institutional Banking ($0.3 billion) and Private Banking ($0.3 billion). Past due balances for Corporate & Institutional Banking are predominantly in the 'up to 30 days past due' category. Across all past due categories, approximately 70 per cent of the amounts past due were regularised by 21 July 2016 for Corporate & Institutional Banking and approximately 44 per cent were regularised for Commercial Banking. Amounts 61-90 days past due for Private Banking form part of the liquidation portfolio and are predominantly cash backed.

Credit quality analysis by client segment

	30.06.16						
		Loans to customers					
	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Performing loans							
– Grades 1-11	74,470	120,887	24,953	3,714			
– Grade 12	15	980	349	–			
	74,485	121,867	25,302	3,714	13,922	94,902	259,707
Impaired forborne loans, net of provisions	–	–	–	–	–	196	196
Non-performing loans	49	4,958	958	–	306	433	6,655
Total loans and advances	74,534	126,825	26,260	3,714	14,228	95,531	266,558
Portfolio impairment provisions	(1)	(199)	(198)	–	(2)	(285)	(684)
Total net loans and advances	74,533	126,626	26,062	3,714	14,226	95,246	265,874

The following tables further analyse total loans and advances included within the table above.

	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Included in performing loans and advances							
Neither past due nor impaired							
– Grades 1-11	74,096	119,032	24,511	3,714	13,535	92,752	253,544
– Grade 12	15	788	270	–	–	–	1,058
	74,111	119,820	24,781	3,714	13,535	92,752	254,602
Past due but not impaired							
– Up to 30 days past due	282	1,627	363	–	26	1,681	3,697
– 31-60 days past due	36	166	35	–	7	317	525
– 61-90 days past due	56	254	123	–	354	152	883
	374	2,047	521	–	387	2,150	5,105
Total performing loans and advances	74,485	121,867	25,302	3,714	13,922	94,902	259,707
of which, renegotiated loans amounting to	*1*	*896*	*73*	–	–	*164*	*1,133*
Included in non-performing loans and advances							
Past due but not impaired							
– 91-120 days past due	–	–	5	–	–	92	97
– 121-150 days past due	–	–	8	–	–	72	80
	–	–	13	–	–	164	177
Individually impaired loans, net of provisions	49	4,958	945	–	306	269	6,478
of the above, forborne loans	–	*2,876*	*147*	–	–	*195*	*3,218*
Total non-performing loans	49	4,958	958	–	306	433	6,655

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

	30.06.16						
		Loans to customers					
	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Neither past due nor impaired							
– Grades 1-11	2,295	2,120	4	1,036			
– Grades 12	–	–	–	–			
	2,295	2,120	4	1,036	–	–	3,160
Past due but not impaired							
– Up to 30 days past due	–	–	–	–	–	–	–
– 31-60 days past due	–	–	–	–	–	–	–
– 61-90 days past due	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
Individually impaired loans	–	110	–	–	–	–	110

	31.12.15						
		Loans to customers					
	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Performing loans							
– Grades 1-11	66,685	115,991	23,245	5,547			
– Grade 12	44	830	337	–			
	66,729	116,821	23,582	5,547	14,975	94,305	255,230
Impaired forborne loans, net of provisions	–	–	–	–	–	240	240
Non-performing loans	41	4,857	943	–	322	468	6,590
Total loans and advances	66,770	121,678	24,525	5,547	15,297	95,013	262,060
Portfolio impairment provisions	(1)	(155)	(185)	–	(1)	(316)	(657)
Total net loans and advances	66,769	121,523	24,340	5,547	15,296	94,697	261,403

The following tables further analyse total loans and advances included within the table above.

	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Included in performing loans and advances							
Neither past due nor impaired							
– Grades 1-11	66,380	114,491	22,797	5,547	14,923	92,117	249,875
– Grade 12	44	595	223	–	–	–	818
	66,424	115,086	23,020	5,547	14,923	92,117	250,693
Past due but not impaired							
– Up to 30 days past due	177	1,237	453	–	52	1,701	3,443
– 31-60 days past due	2	89	60	–	–	335	484
– 61-90 days past due	126	409	49	–	–	152	610
	305	1,735	562	–	52	2,188	4,537
Total performing loans and advances	66,729	116,821	23,582	5,547	14,975	94,305	255,230
of which, renegotiated loans amounting to	*1*	*1,038*	*110*	–	–	*194*	*1,342*
Included in non-performing loans and advances							
Past due but not impaired							
– 91-120 days past due	–	–	9	–	–	149	158
– 121-150 days past due	–	–	4	–	–	65	69
	–	–	13	–	–	214	227
Individually impaired loans, net of provisions	41	4,857	930	–	322	254	6,363
of the above, forborne loans	*1*	*2,868*	*211*	–	–	*214*	*3,293*
Total non-performing loans	41	4,857	943	–	322	468	6,590

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

	31.12.15						
		Loans to customers					
	Loans to banks $million	Corporate & Institutional Banking $million	Commercial Banking $million	Central & other items $million	Private Banking $million	Retail Banking $million	Total $million
Neither past due nor impaired							
– Grades 1-11	2,275	3,193	5	617			
– Grades 12	–	–	–	–			
	2,275	3,193	5	617	–	–	3,815
Past due but not impaired							
– Up to 30 days past due	–	–	–	–	–	–	–
– 31-60 days past due	–	–	–	–	–	–	–
– 61-90 days past due	–	98	–	–	–	–	98
	–	98	–	–	–	–	98
Individually impaired loans	–	134	–	–	–	–	134

Problem credit management and provisioning

Impairment (unaudited)

At the Group level, total loan impairment including the liquidation portfolio was $1,296 million representing 99 basis points (bps) of average customer loans and advances, down from $3,324 million in the second half of 2015 (H1: $1,652 million).

Loan impairment on the ongoing business fell to $1,096 million from $1,519 million in the second half of 2015 (H1 2015: $862 million).

Looking by segment, Retail Banking loan impairment has continued to improve and fell 23 per cent to $242 million against the second half of 2015 H2 2015: $313 million, H1 2015: $364 million representing 51 bps of loss, notably in Korea, Thailand, China and Singapore. The improvement in impairment is due to conscious risk mitigation actions such as tightening of origination standards for sourcing of high risk segments and closing down of direct sales channels.

The ongoing business loan impairment charge in Corporate & Institutional Banking increased by 15 per cent to $606 million when compared to the second half of 2015 predominantly as a result of an increase in portfolio provisions. The year-on-year increase from $198 million to $606 million reflects an increase on loan impairment in relation to commodities clients and Indian clients. Geographically, ASEAN and South Asia contributed to 37 per cent of the first half loan impairment. We continue to actively manage the portfolio.

Commercial Banking loan impairment remained elevated albeit fell by 64 per cent on the second half of 2015 and was driven by lower losses across all regions, but we remain vigilant for emerging risks

The ongoing business cover ratio for Corporate & Institutional Banking has increased to 52 per cent (H2 2015: 47 per cent, H1 2015: 46 per cent) and for Commercial Banking remains flat at 71 per cent (H2 2015: 70 per cent, H1 2015: 53 per cent).

Looking by sector, the loan impairment related to the commodities sector in the ongoing Corporate & Institutional Banking business was $236 million, down from the previous half (H2 2015: $269 million). This constitutes 39 per cent of the ongoing Corporate & Institutional Banking impairment charge and mainly relates to exposures in India.

The commodity sector loan impairment in the ongoing Commercial Banking portfolio was $27 million, down sharply from the previous half (H2 2015: $142 million) and constituted 11 per cent of the Commercial Banking impairment charge. The commodity sector loan impairment mainly related to exposures in ASEAN and Greater China.

In India, loan impairment for the Corporate & Institutional Banking ongoing business increased to $164 million in H1 2016 (H2 2015: $67 million, H1 2015: $121 million). The increase was primarily driven by a small number of exposures in the commodity sector.

Loan impairment in the ongoing Commercial Banking India business reduced to $51 million (H2 2015: $141 million, H1 2015: $98 million) largely due to lower levels of problem accounts compared to the second half of 2015.

In terms of assets identified for liquidation, the Group booked an additional restructuring charge of $200 million due to improved estimates on realisable value of the assets as the disposal work out process progresses.

Other impairment, including restructuring charges of $16 million was $229 million (H2 2015: $281 million) and was related to impairments against aircraft and strategic investments.

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

	Six months to 30.06.16 $million	Six months to 31.12.15 $million	Six months to 30.06.15 $million
Impairment on ongoing business			
Impairment on loans and advances and other credit risk provisions	**1,096**	1,519	862
Corporate & Institutional Banking	**606**	525	198
Commercial Banking	**247**	677	303
Private Banking	**1**	–	1
Retail Banking	**242**	313	364
Central & other items	**–**	4	(4)
Liquidation portfolio loan impairment			
Impairment on loans and advances and other credit risk provisions	**200**	1,805	790
Corporate & Institutional Banking	**–**	727	626
Commercial Banking	**–**	110	71
Private Banking	**–**	–	93
Restructuring impairment charge	**200**	968	–
Total loan impairment	**1,296**	3,324	1,652
Other Impairment[1]	**229**	281	86
Total Impairment	**1,525**	3,605	1,738

1. Includes charges relating to restructuring actions for other impairment

Non-performing loans

An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected. These loans may have a provision reflecting the time value of money, and, if so, are reported as part of forborne loans.

Gross NPLs increased by $52 million compared to the second half of 2015 to $12,811 million. Within this total, NPLs in the liquidation portfolio fell $706 million as a result of continuing progress in exiting this portfolio. This decrease was more than offset by an increase of $758 million in the ongoing business which was primarily as a result of impairment on a small number of exposures to Corporate & Institutional Banking commodity clients. NPL inflows in the first half of 2016 were lower than in the second half of 2015 reflecting risk mitigating actions taken in prior periods. Details and further analysis of gross and net NPLs by client segment and by geography are provided on pages 53 to 56.

Total IIPs on the balance sheet for NPLs remain stable compared to the second half of 2015 for both Corporate & Institutional Banking and Commercial Banking. Loan impairment for Corporate & Institutional Banking represents 131 bps of average customer loans and advances. The Commercial loan impairment represents 201 bps.

Retail Banking total IIPs has decreased by $21 million compared to the second half of 2015 primarily driven through improvement in Korea for Personal Debt Rehabilitation Scheme (PDRS) related losses. PIPs decreased mainly due to asset reduction and Foreign Exchange translation. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

Portfolio impairment provision

PIPs are held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. PIP balances have increased 4 per cent from 2015. The increase was in the Corporate & Institutional Banking segment, due to market adjustment for increased stress in the credit environment in commodities-related sectors.

Cover ratio

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

The cover ratio before collateral for Retail Banking remains broadly flat at 79 per cent (2015: 80 per cent). The cover ratio before collateral for Corporate & Institutional Banking remains stable at 48 per cent compared to the second half of 2015. The Commercial Banking segment cover ratio before collateral increased marginally to 71 per cent from 70 per cent in the second half of 2015. The Private Banking segment remains fully covered taking into account the collateral value held.

The balance of NPLs not covered by IIPs represents the adjusted value of collateral held and the Group's estimate of the net outcome of any workout or recovery strategy. The cover ratio after taking into account collateral, but excluding PIPs, for Corporate & Institutional Banking is 59 per cent (H2 2015: 62 per cent) and for Commercial Banking is 82 per cent (H2 2015: 81 per cent).

Non-performing loans by client segment and geographic region

The table below details the gross NPLs to banks and customers, together with the provisions held, for all segments and the respective cover ratios.

	30.06.16				
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Total $million
Gross non-performing loans at 30 June	9,229	2,581	310	691	12,811
Individual impairment provisions[1]	(4,222)	(1,623)	(4)	(258)	(6,107)
Net non-performing loans	5,007	958	306	433	6,704
Portfolio impairment provision	(200)	(198)	(2)	(285)	(685)
Total	4,807	760	304	148	6,019
Cover ratio	48%	71%	2%	79%	53%
Collateral ($million)	1,264	481	308	361	2,414
Cover ratio (after collateral, excluding PIP)	59%	82%	100%	90%	67%
Of the above, included in liquidation portfolio					
Gross non-performing loans at 30 June	6,303	215	288	–	6,806
Individual impairment provisions	(2,912)	(150)	–	–	(3,062)
Net non-performing loans	3,391	65	288	–	3,744
Portfolio impairment provision	–	–	–	–	–
Total	3,391	65	288	–	3,744
Cover ratio	46%	70%	–	–	45%
Collateral ($million)	780	–	288	–	1,068
Cover ratio (after collateral, excluding PIP)	59%	70%	100%	–	61%

	31.12.15				
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Total $million
Gross non-performing loans at 31 December	9,128	2,559	325	747	12,759
Individual impairment provisions[1]	(4,230)	(1,616)	(3)	(279)	(6,128)
Net non-performing loans	4,898	943	322	468	6,631
Portfolio impairment provision	(155)	(185)	(2)	(316)	(658)
Total	4,743	758	320	152	5,973
Cover ratio	48%	70%	2%	80%	53%
Collateral ($million)	1,396	449	322	258	2,425
Cover ratio (after collateral, excluding PIP)	62%	81%	100%	72%	67%
Of the above, included in liquidation portfolio					
Gross non-performing loans at 31 December	6,960	250	302	–	7,512
Individual impairment provisions	(3,361)	(183)	–	–	(3,544)
Net non-performing loans	3,599	67	302	–	3,968
Portfolio impairment provision	–	–	–	–	–
Total	3,599	67	302	–	3,968
Cover ratio	48%	73%	–	–	47%
Collateral ($million)	992	–	302	–	1,294
Cover ratio (after collateral, excluding PIP)	63%	73%	100%	–	64%

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

	30.06.16				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Loans and advances					
Gross non-performing	**1,377**	**5,893**	**2,936**	**2,605**	**12,811**
Individual impairment provision[1]	**(711)**	**(2,815)**	**(1,727)**	**(854)**	**(6,107)**
Non-performing loans net of individual impairment provision	**666**	**3,078**	**1,209**	**1,751**	**6,704**
Portfolio impairment provision	**(247)**	**(251)**	**(131)**	**(56)**	**(685)**
Net non-performing loans and advances	**419**	**2,827**	**1,078**	**1,695**	**6,019**
Cover ratio	**70%**	**52%**	**63%**	**35%**	**53%**

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

The gross NPLs include the liquidation portfolio as given below.

	30.06.16				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Loans and Advances					
Gross non-performing	**243**	**3,522**	**844**	**2,197**	**6,806**

	31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans and advances					
Gross non-performing	1,392	5,686	3,058	2,623	12,759
Individual impairment provision[1]	(748)	(2,650)	(1,771)	(959)	(6,128)
Non-performing loans net of individual impairment provision	644	3,036	1,287	1,664	6,631
Portfolio impairment provision	(253)	(246)	(128)	(31)	(658)
Net non-performing loans and advances	391	2,790	1,159	1,633	5,973
Cover ratio	72%	51%	62%	38%	53%

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

The gross NPLs include the liquidation portfolio as given below.

	31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans and Advances					
Gross non-performing	295	3,863	1,087	2,267	7,512

Individual and portfolio impairment provisions

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

The movement in IIPs is discussed below. PIPs charge increased by $32 million, largely in relation to Corporate & Institutional Banking.

	30.06.16			31.12.15		
	Individual impairment provisions $million	**Portfolio impairment provisions $million**	**Total $million**	Individual impairment provisions $million	Portfolio impairment provisions $million	Total $million
Provisions held at 1 January	**6,186**	**658**	**6,844**	3,375	698	4,073
Exchange translation differences	**(32)**	**3**	**(29)**	(214)	(36)	(250)
Amounts written off	**(1,064)**	**–**	**(1,064)**	(1,889)	–	(1,889)
Releases of acquisition fair values	**–**	**–**	**–**	(1)	–	(1)
Recoveries of amounts previously written off	**85**	**–**	**85**	181	–	181
Discount unwind	**(175)**	**–**	**(175)**	(107)	–	(107)
Transferred to assets held for sale	**–**	**(4)**	**(4)**	–	–	–
Disposal of business units	**–**	**–**	**–**	(14)	–	(14)
New provisions – restructuring	**200**	**–**	**200**	968	–	968
New provisions – excluding restructuring	**1,137**	**97**	**1,234**	4,174	229	4,403
New provisions	**1,337**	**97**	**1,434**	5,142	229	5,371
Recoveries/provisions no longer required	**(170)**	**(69)**	**(239)**	(322)	(233)	(555)
Net impairment charge/(releases) against profit	**1,167**	**28**	**1,195**	4,820	(4)	4,816
Other movements[1]	**–**	**–**	**–**	35	–	35
Provisions held at 30 June/31 December	**6,167**	**685**	**6,852**	6,186	658	6,844

1. Provision previously reported under Other impairment

Individually impaired loans by client segment

Gross impaired loans in Retail Banking remained stable at $0.8 billion compared to 2015. Corporate & Institutional Banking gross individually impaired loans remains stable at $9.2 billion compared to the second half of 2015.

The amounts written off primarily relate to a small number of exposures in Corporate & Institutional Banking.

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

	30.06.16				
	Corporate & Institutional Banking $million	**Commercial Banking $million**	**Private Banking $million**	**Retail Banking $million**	**Total $million**
Gross impaired loans at 30 June	**9,229**	**2,568**	**310**	**783**	**12,890**
Provisions held at 1 January	**4,230**	**1,616**	**3**	**337**	**6,186**
Exchange translation differences	**(19)**	**(14)**	**(1)**	**2**	**(32)**
Amounts written off	**(500)**	**(200)**	**–**	**(364)**	**(1,064)**
Releases of acquisition fair values	**–**	**–**	**–**	**–**	**–**
Recoveries of amounts previously written off	**1**	**–**	**–**	**84**	**85**
Discount unwind	**(146)**	**(15)**	**–**	**(14)**	**(175)**
Disposal of business units	**–**	**–**	**–**	**–**	**–**
New provisions	**682**	**257**	**3**	**395**	**1,337**
Recoveries/provisions no longer required	**(26)**	**(21)**	**(1)**	**(122)**	**(170)**
Net individual impairment charge against profit	**656**	**236**	**2**	**273**	**1,167**
Individual impairment provisions held at 30 June	**4,222**	**1,623**	**4**	**318**	**6,167**
Net individually impaired loans	**5,007**	**945**	**306**	**465**	**6,723**

	31.12.15				
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Total $million
Gross individually impaired loans at 31 December	9,128	2,546	325	831	12,830
Provisions held at 1 January	1,852	1,006	59	458	3,375
Exchange translation differences	(123)	(41)	(3)	(47)	(214)
Amounts written off	(528)	(340)	(146)	(875)	(1,889)
Releases of acquisition fair values	(1)	–	–	–	(1)
Recoveries of amounts previously written off	2	4	–	175	181
Discount unwind	(48)	(34)	–	(25)	(107)
Disposal of business units	–	–	–	(14)	(14)
New provisions	3,061	1,074	93	914	5,142
Recoveries/provisions no longer required	(25)	(48)	–	(249)	(322)
Net individual impairment charge/(releases) against profit	3,036	1,026	93	665	4,820
Other movements[1]	40	(5)	–	–	35
Individual impairment provisions held at 31 December	4,230	1,616	3	337	6,186
Net individually impaired loans	4,898	930	322	494	6,644

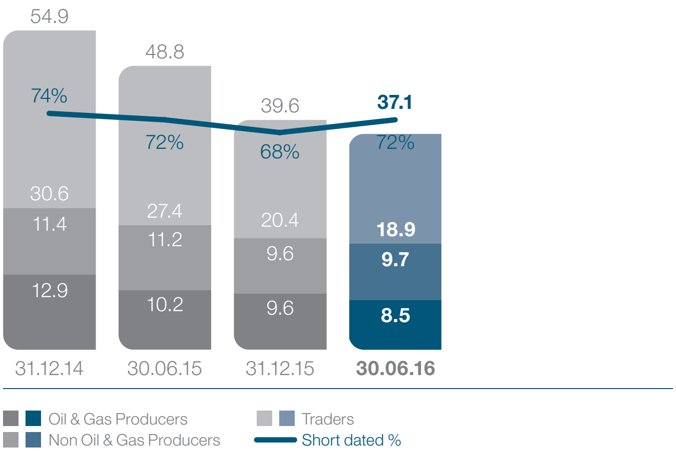
1. Provision previously reported under Other impairment

Selected portfolios (unaudited)

Commodities and commodities-related exposures

Commodities producers and traders

Commodities producers and traders credit portfolio $billion



The Group continues to actively manage the risk in this portfolio, reducing the net exposure to the sector by $2.4 billion (6 per cent) over the past six months, both in the commodities producers and the commodities traders portfolio. The commodities portfolio represented 7 per cent of the total Corporate & Institutional Banking and Commercial Banking net exposure (H2 2015: 8 per cent, H1 2015: 9 per cent).

Commodities credit exposure arises from the pursuit of the Group's strategy in its core markets, where commodities form a significant proportion of the trade flows within and into the Group's footprint countries. Commodities will continue to be a key component of the Group's strategy and the portfolio. The Group is risk-mitigating parts of the portfolio to reduce targeted exposures, increase diversification and reduce volatility of loan impairment. The cover ratio has dropped slightly to 59 per cent without collateral from 61 per cent in 2015.

The tenor profile of the portfolio continued to remain short, with 72 per cent (31 December 2015: 68 per cent) having a residual maturity of less than one year. The collateral for long-term (greater than one year) sub-investment grade and non-large state-owned enterprises (SOEs) has dropped to 34 per cent from 41 per cent in the first half of 2016. As previously collateralised clients have become short dated, they have been replaced by higher quality origination, which are close to investment grade and require less collateral.

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

Producers are more directly exposed to price changes and make up 49 per cent of the commodities producers and traders portfolio. Producers primarily consist of oil and gas producers of $8.5 billion (H2 2015: $9.6 billion, H1 2015: $10.1 billion) and metals and mining exposure of $7.7 billion (H2 2015: $7.6 billion, H1 2015: $8.9 billion).

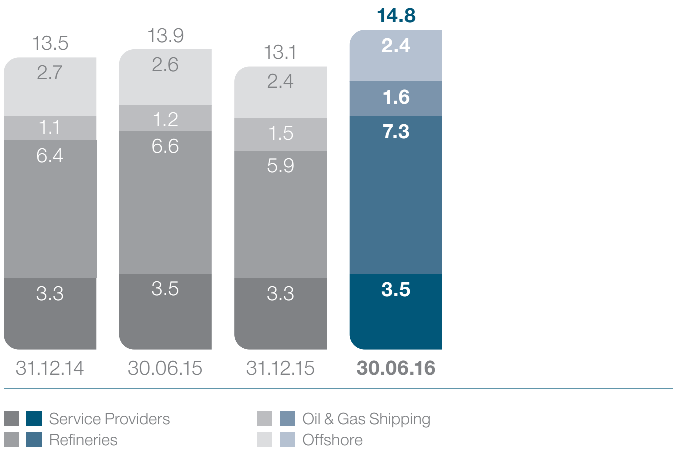
89 per cent or $7.2 billion of the net exposure to clients can sustain an oil price of $30 per barrel for 12 months or to global majors or large SOEs. The breakeven prices have been calculated on a debt service coverage ratio of one. Debt service coverage ratio has been computed based on the amount of cash flow available to meet the annual interest and principal payments on debt, if oil prices remain at the breakeven level for a period of up to 12 months. This analysis is conservative as it does not take into consideration refinancing options available to clients, or their ability to defer capital expenditure.

The majority of metals and mining exposure is related to short-dated facilities. The exposure to metals that have seen significant price falls from their all time highs is very small – copper producers make up 0.2 per cent and iron ore 0.1 per cent respectively of Corporate & Institutional Banking and Commercial Banking net exposure.

The key risk for traders, which are less directly affected by price changes, is lack of liquidity and their risk management practices. The traders portfolio makes up 51 per cent of the commodities portfolio.

Commodity-related sectors

Commodity-related sectors credit portfolio $billion



At 30 June 2016, the Group's net exposure to commodity-related sectors consisting of refineries, oil and gas offshore support, oil and gas service providers and oil and gas shipping was $14.8 billion.

Petroleum refineries ($7.3 billion): the profitability of refiners is driven by gross refining margins and the margins held broadly steady during this period despite the volatility in crude oil prices. We have selectively increased our exposure since year end to this subsector in particular to good credit quality clients.

Oil and gas offshore support ($2.4 billion): the portfolio consists of companies which provide support services allied to the offshore oil & gas industry including provision of drill ships, jack-up rigs, platform support vessels, anchor handlers, pipe laying support vessels and floating production support and operations vessels or specialised vessels and equipment. The prolonged period of low prices has resulted in stress in this sector as the bulk of vessels in this sector are chartered on short to medium term basis. Although oil prices have increased, the increase has not translated to margin improvements in these segments as the price increase has still not resulted in increased capital expenditure spend by oil producers. The Group performed an account by account review and is taking targeted risk mitigating actions on the sector. We are actively reducing exposures and have placed a significant portion of these portfolios on early alert for closer management.

Oil and gas service providers ($3.5 billion): the service providers sub sector is related to oilfield equipment manufacturers and other service providers. 53 per cent of the exposure is investment grade.

Oil and gas shipping ($1.6 billion): the portfolio comprises shipping companies which are engaged in the transportation of oil and gas products.

Country cross-border risk (unaudited)

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

The Group Risk Committee is responsible for approving country cross-border risk limits and delegates the setting and management of limits to the Group Country Risk function. The client segment and country chief executive officers manage exposures within these limits. Countries designated as higher risk are subject to increased central monitoring.

Cross-border assets comprise loans and advances, deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded, or where assets are funded by intra-group borrowings. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency. Cross-border exposure includes the value of commodity, aircraft and shipping assets owned by the Group that are held in a given country.

The profile of the Group's country cross-border exposures at 30 June 2016 remained consistent with its strategic focus on core franchise countries, and with the scale of the larger markets in which it operates. Changes in the pace of economic activity, weaker commodity prices, and portfolio management activity had an impact on the growth of cross-border exposure for certain territories.

Cross-border exposure to China remains predominantly short-term (72 per cent of such exposure had a tenor of less than 12 months), with exposure declining throughout 2015 in response to actions taken to ensure the most efficient use of the Group's approved risk appetite and the moderation in economic conditions in China. During the first half of 2016, short-term cross-border exposure to China increased in response to liquidity management activity associated with the deployment of excess liquidity within the region.

Country cross-border risk exposure to Hong Kong increased during the first half of 2016. Factors contributing to the increase in exposure to Hong Kong included short-dated money market treasury and liquidity management activity, and growth in interbank placements.

The overall size of cross-border exposure to India reflects the size of the Group's franchise in the country, and the facilitation of overseas investment and trade flows supported by parent companies in India. The origination of new structured trade finance facilities for Indian corporates drove an increase in short-term cross-border exposure to India during the first half of 2016. While portfolio management action, and a slowing in the origination of new business due to underlying economic conditions, contributed to the decline in medium-term (tenor greater than 12 months) cross-border exposure to India throughout 2016.

Slowing economic growth rates, weaker global demand for Korean exports, and a reduction in interbank placements associated with ALM activity resulted in a decrease in country cross-border risk exposure to Korea in 2016.

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

The following table, 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.

	30.06.16			31.12.15		
	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	**27,653**	**10,490**	**38,143**	25,999	10,626	36,625
US	**20,496**	**16,089**	**36,585**	18,091	14,378	32,469
Hong Kong	**19,124**	**6,909**	**26,033**	15,767	7,340	23,107
Singapore	**17,611**	**3,988**	**21,599**	16,805	4,379	21,184
India	**7,194**	**12,686**	**19,880**	6,711	12,747	19,458
Korea	**10,590**	**6,736**	**17,326**	10,933	7,684	18,617
United Arab Emirates	**5,912**	**8,848**	**14,760**	5,756	8,562	14,318
Japan	**5,111**	**4,133**	**9,244**	1,746	5,265	7,011
France	**2,375**	**4,526**	**6,901**	1,784	3,729	5,513

Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Group 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. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high-quality liquid debt securities and from the translation of non-US dollar denominated assets, liabilities and earnings.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options

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

The above market risk factors impact credit valuation adjustment (CVA) due to their impact on future market valuations of derivative products and market implied probability of defaults. Interest rate risk impacts funding valuation adjustment (FVA). The Group makes CVA and FVA adjustments against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transaction. 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.

The Group has limited direct market risk exposure to the UK or to the sterling. The result of the UK referendum to leave the European Union (Brexit) has therefore not had a material first order market risk impact. Stress testing is an integral part of the Group's market risk management and stress scenarios are regularly updated to reflect changes in risk profile or economic events such as Brexit developments and potential contagion. The Group Risk Committee considers stress testing results as part of its supervision of risk tolerance.

Market risk changes

Market risk value at risk changes

The average level of total value at risk (VaR) in the first half of 2016 ($32.0 million) was 11 per cent higher than in the first half of 2015. From August 2015 market volatility was heightened due to uncertainty about the Chinese economy and the timing of anticipated US interest rate rises. This market volatility is reflected in the VaR which has a historical observation period of one year. The increase in total VaR reflects mainly Non-trading VaR, its primary component. Trading VaR fell by 5 per cent due to reduced levels of Trading interest rate risk VaR and Equity risk VaR. The reduction in Trading Equity risk VaR reflects the decision to discontinue most of the Equities trading business from October 2015.

On 30 June 2016 the overall levels of VaR for both Trading and Non-trading books were materially unchanged compared to 30 June 2015.

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

	30.06.16				30.06.15			
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
Interest rate risk[3]	**27.6**	**30.1**	**24.1**	**28.8**	22.8	28.3	18.9	26.2
Foreign exchange risk	**5.5**	**10.8**	**3.7**	**6.9**	4.4	6.8	2.3	4.5
Commodity risk	**2.4**	**3.1**	**1.6**	**1.7**	1.4	2.1	0.7	1.4
Equity risk	**12.1**	**13.1**	**11.1**	**11.5**	15.4	16.8	13.3	15.7
Total[4]	**32.0**	**38.8**	**26.4**	**31.1**	28.7	37.7	24.4	36.4

	30.06.16				30.06.15			
Trading[5]	**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]	**6.4**	**8.1**	**4.7**	**5.1**	7.2	8.7	5.3	7.5
Foreign exchange risk	**5.5**	**10.8**	**3.7**	**6.9**	4.4	6.8	2.3	4.5
Commodity risk	**2.4**	**3.1**	**1.6**	**1.7**	1.4	2.1	0.7	1.4
Equity risk	**0.6**	**1.3**	**0.3**	**0.4**	1.9	2.8	1.4	1.5
Total[4]	**9.5**	**12.9**	**7.5**	**10.3**	10.0	13.1	6.8	10.1

	30.06.16				30.06.15			
Non-trading	**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]	**27.2**	**29.8**	**24.9**	**25.5**	19.1	24.5	15.6	24.1
Equity risk	**11.8**	**12.5**	**11.1**	**11.3**	14.5	16.1	13.0	15.4
Total[3]	**32.5**	**35.1**	**29.2**	**32.3**	26.0	31.2	23.2	30.9

1. Highest and lowest value at risk (VaR) for each risk factor are independent and usually occur on different days
2. Actual one-day VaR at period-end date
3. Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale
4. The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
5. Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRD IV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within *IAS39 Financial Instruments: Recognition and Measurement*

Risks not in value at risk (unaudited)

The main market risk that is not reflected in VaR is the currency risk where the exchange rate is currently pegged or managed (27 per cent of such risks). The VaR historical one-year observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging.

Additional capital is set aside to cover the 'risks not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2015 section on market risk.

Since 31 December 2015 the CVA and FVA methodologies have been enhanced to reflect market-implied default probabilities and market-based rates. From 1 January 2016, a CVA desk has been actively hedging the credit and market exposures arising from CVA and FVA. The CVA desk VaR has not yet been incorporated in the 2016 Trading VaR figures above. However, results from the CVA desk at period end reflecting both CVA/FVA and hedges gave a VaR level of $15 million on a standalone basis, with an incremental impact on Total Trading and Non-trading VaR of approximately $3 million.

Backtesting (unaudited)

Regulatory backtesting is applied at both Group and Solo (only the branches of Standard Chartered Bank) levels. In the second half of 2015 negative exceptions due to exceptional market volatility occurred on two days at Group level (one in the second half of 2014) and one at Solo level (two in the second half of 2014):

- 31 August 2015: the People's Bank of China fixed the renminbi significantly stronger and signalled support for the renmimbi
- 17 September 2015: uncertainty in Asian markets ahead of the US Federal Open Market Committee meeting

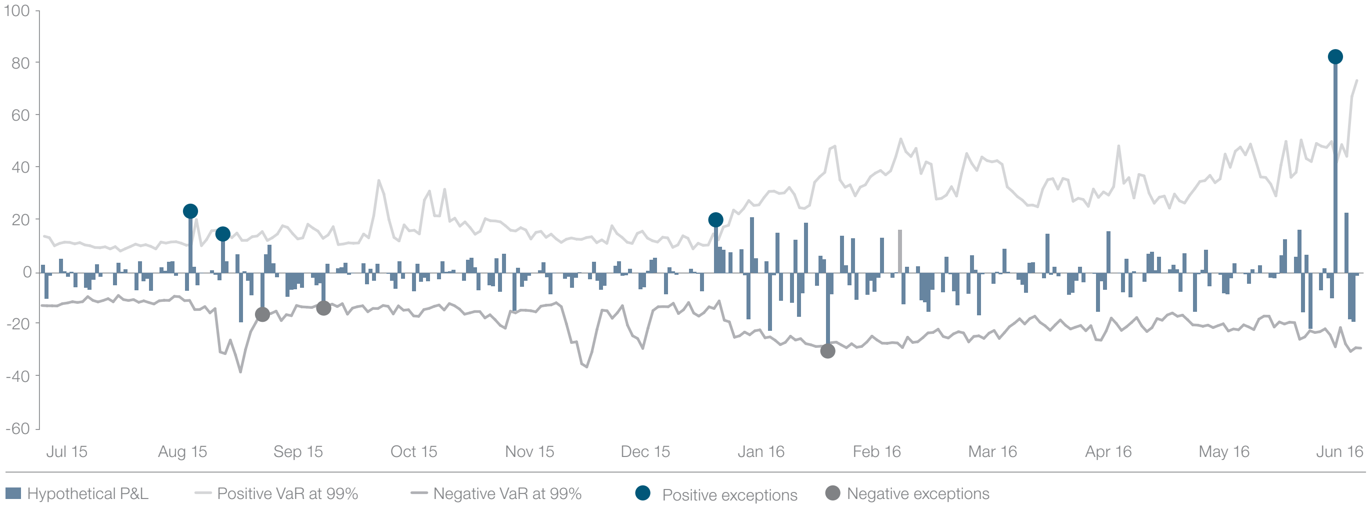
In the first half of 2016 negative exceptions occurred on one day at Group level (none in the first half of 2015) and two days at Solo level (none in the first half of 2015):

- 4 February 2016: weak US economic data lowered expectations of a Fed rate hike and led to a depreciation of US dollar versus other currencies
- 17 June 2016: market movements as views changed on the likely outcome of the UK referendum on EU membership on 23 June

There were thus three exceptions in the last 12 months at Group level and three exceptions at Solo level. Three exceptions in a year due to market events are within the 'green zone' applied internationally to internal models by bank supervisors (*Basel Committee on Banking Supervision (BCBS): 'Supervisory framework for the use of 'backtesting' in conjunction with the internal models approach to market risk capital requirements',* January 1996).

The following graph illustrates the performance of the VaR model used in capital calculations. It compares the ninety-ninth 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 intraday trading activity.

2016 half year backtesting chart
Internal Model Approach regulatory trading book at Group level
Hypothetical profit and loss (P&L, $m) versus VaR (99 per cent, one day)



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

	30.06.16 $million	30.06.15 $million
Trading		
Interest rate risk	**4.3**	2.1
Foreign exchange risk	**5.1**	5.7
Commodity risk	**0.6**	1.2
Equity risk	**(0.1)**	0.7
Total	**9.9**	9.7
Non-Trading		
Interest rate risk	**2.3**	2.6
Equity risk	**(0.9)**	0.6
Total	**1.4**	3.2

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. 2016 figures include income related to credit valuation adjustment and funding fair valuation adjustment for derivatives.

Liquidity risk

Liquidity risk is the risk that the Group does not have enough financial resources to meet its obligations as they fall due without incurring excessive cost. The Group's liquidity framework requires each country to operate on a standalone basis in compliance with their limits without implicit reliance on Group support or recourse to extraordinary central bank support. In order to achieve this, the Group applies a series of metrics with the objective of ensuring it can withstand a combined market-wide and idiosyncratic liquidity stress. The Board's Risk Appetite Statement includes a view on both our external and internal liquidity stress requirements for the Group. These include both maintaining a positive stressed net cash inflow for a minimum of 60 days across the major centres and a greater than 100 per cent Group Liquidity Coverage Ratio (LCR).

Throughout the first half of 2016 the Group maintained a position in excess of both these requirements.

Conditions in the bank wholesale debt markets were challenging in 2016 with selective windows of issuance opportunity. In the first half of 2016, the Group issued $2.25 billion of senior debt securities from Standard Chartered PLC (H1 2015: $4.2 billion of senior debt).

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.

There were no significant changes in treasury policies as disclosed in the *2015 Annual Report and Accounts* since the beginning of the year.

Liquidity Coverage Ratio (unaudited)

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

At 30 June 2016, the Group LCR was above 100 per cent.

Net stable funding ratio (unaudited)

The NSFR is still evolving regulation and is not a prudential requirement until 2018. The Group monitors NSFR in line with the BCBS' final recommendation (BCBS295), pending its adoption by the European Commission.

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers. Customer deposits tend to be more stable than wholesale funding and a core portion of these deposits is likely to remain with the bank for the medium term.

	30.06.16 $million	31.12.15 $million
Loans and advances to customers	**265,874**	261,403
Customer accounts	**371,698**	359,127
Advances to deposits ratio	**71.5%**	72.8%

Liquid asset ratio

The liquid asset ratio (LAR) is a measure that looks at the proportion of the Group's total assets held in liquid assets, on a consolidated currency basis.

Liquid assets are the total cash (less restricted balances), treasury bills, loans and advances to banks (less deposits by banks) and debt securities (less illiquid securities). Illiquid securities are debt securities that cannot be sold or exchanged easily for cash without substantial loss in value amounting to $1,287 million (31 December 2015: $1,210 million).

The Group keeps sufficient liquid assets to survive a number of severe stress scenarios, both internal and regulatory.

The Group LAR (28 per cent) decreased from the previous year (30.9 per cent), due in part to an increase in the repo/reverse repo business mainly in Europe and Americas.

The following table sets an analysis of the Group's liquid assets by geographic region:

	30.06.16				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Cash and balances at central banks	**17,681**	**5,870**	**3,683**	**38,929**	**66,163**
Restricted balances	**(4,894)**	**(2,442)**	**(1,912)**	**(373)**	**(9,621)**
Loans and advances to banks – net of non-performing loans	**29,269**	**11,124**	**2,594**	**31,499**	**74,486**
Deposits by banks	**(10,887)**	**(4,533)**	**(2,491)**	**(23,504)**	**(41,415)**
Treasury bills	**13,160**	**6,778**	**3,956**	**14,529**	**38,423**
Debt securities	**35,781**	**17,495**	**7,347**	**26,908**	**87,531**
of which :					
Issued by governments	**20,495**	**9,250**	**4,841**	**3,848**	**38,434**
Issued by banks	**8,627**	**3,433**	**861**	**15,029**	**27,950**
Issued by corporate and other entities	**6,659**	**4,812**	**1,645**	**8,031**	**21,147**
Illiquid securities and Other assets	**(1,139)**	**(646)**	**–**	**(28,877)**	**(30,662)**
Liquid assets	**78,971**	**33,646**	**13,177**	**59,111**	**184,905**
Total assets	**246,849**	**146,605**	**52,083**	**215,452**	**660,989**
Liquid assets to total asset ratio (%)	**32.0%**	**23.0%**	**25.3%**	**27.4%**	**28.0%**

	31.12.15				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Cash and balances at central banks	17,572	4,540	4,071	39,129	65,312
Restricted balances	(4,108)	(2,511)	(2,094)	(399)	(9,112)
Loans and advances to banks – net of non-performing loans	25,972	8,292	3,222	29,242	66,728
Deposits by banks	(8,313)	(5,243)	(2,729)	(21,963)	(38,248)
Treasury bills	12,903	5,887	3,308	11,214	33,312
Debt securities	35,549	17,043	7,654	33,633	93,879
of which :					
Issued by governments	19,553	9,056	5,332	9,395	43,336
Issued by banks	8,942	4,004	730	13,939	27,615
Issued by corporate and other entities	7,054	3,983	1,592	10,299	22,928
Illiquid securities and Other assets	(660)	(314)	–	(13,243)	(14,217)
Liquid assets	78,915	27,694	13,432	77,613	197,654
Total assets	239,983	145,989	52,424	202,087	640,483
Liquid assets to total asset ratio (%)	32.9%	19.0%	25.6%	38.4%	30.9%

Encumbered assets (unaudited)

Encumbered assets represent those on-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation, and cash collateral pledged against derivatives are included within other assets.

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

	30.06.16							
	Assets encumbered as a result of transactions with counterparties other than banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)				
					Assets not positioned at the central bank			
	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (i.e. pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	–	–	–	9,621	56,542	–	–	66,163
Derivative financial instruments	–	–	–	–	–	–	67,584	67,584
Loans and advances to banks[1]	–	–	–	–	34,428	–	40,105	74,533
Loans and advances to customers[1]	42	–	42	–	–	–	265,832	265,832
Investment securities[1]	–	6,369	6,369	70	86,523	23,054	12,687	122,334
Other assets	–	19,730	19,730	–	–	–	20,140	20,140
Current tax assets	–	–	–	–	–	–	374	374
Prepayments and accrued income	–	–	–	–	–	–	2,364	2,364
Interests in associates and joint ventures	–	–	–	–	–	–	2,154	2,154
Goodwill and intangible assets	–	–	–	–	–	–	4,794	4,794
Property, plant and equipment	–	–	–	–	–	–	7,442	7,442
Deferred tax assets	–	–	–	–	–	–	1,134	1,134
Total	42	26,099	26,141	9,691	177,493	23,054	424,610	634,848

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

	31.12.15							
	Assets encumbered as a result of transactions with counterparties other than banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)				
				Assets positioned at the central bank (i.e. pre-positioned plus encumbered)	Assets not positioned at the central bank			
	As a result of securitisations $million	Other $million	Total $million	$million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	–	–	–	9,112	56,200	–	–	65,312
Derivative financial instruments	–	–	–	–	–	–	63,143	63,143
Loans and advances to banks[1]	–	–	–	–	31,121	–	35,648	66,769
Loans and advances to customers[1]	76	–	76	–	–	–	261,327	261,327
Investment securities[1]	–	2,147	2,147	230	95,539[2]	22,425	11,505	129,699
Other assets	–	18,337	18,337	–	–	–	16,264	16,264
Current tax assets	–	–	–	–	–	–	388	388
Prepayments and accrued income	–	–	–	–	–	–	2,174	2,174
Interests in associates and joint ventures	–	–	–	–	–	–	1,937	1,937
Goodwill and intangible assets	–	–	–	–	–	–	4,642	4,642
Property, plant and equipment	–	–	–	–	–	–	7,209	7,209
Deferred tax assets	–	–	–	–	–	–	1,059	1,059
Total	76	20,484	20,560	9,342	182,860	22,425	405,296	619,923

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

In addition to the above, the Group received $57,884 million (2015: $52,841 million) as collateral under reverse repo agreements that was eligible for repledging; of this the Group sold or repledged $31,610 million (2015: $22,185 million) under repo agreements.

Readily available for encumbrance (unaudited)

Readily available for encumbrance includes unencumbered assets that can be sold outright or under repo within a few days, in line with regulatory definitions. The Group's readily available assets comprise cash and balances at central banks, loans and advances to banks, and investment securities.

Assets classified as not readily available for encumbrance include:

- Assets that have no restrictions for funding and collateral purposes, such as loans and advances to customers, which are not acquired or originated with the intent of generating liquidity value
- Assets that cannot be encumbered, such as derivatives, goodwill and intangible and deferred tax assets

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

This table splits assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

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

Contractual maturity

	30.06.16								
	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	56,542	–	–	–	–	–	–	9,621	66,163
Derivative financial instruments	10,875	9,305	7,078	4,944	3,473	8,056	11,491	12,362	67,584
Loans and advances to banks[1]	34,427	19,624	10,160	4,416	2,970	1,798	1,094	44	74,533
Loans and advances to customers[1]	78,269	23,970	18,072	7,753	12,194	17,843	34,119	73,654	265,874
Investment securities	7,237	14,877	11,850	10,204	13,393	24,032	33,475	13,635	128,703
Other assets	26,565	5,609	1,360	72	722	209	247	23,348	58,132
Total assets	213,915	73,385	48,520	27,389	32,752	51,938	80,426	132,664	660,989
Liabilities									
Deposits by banks[1]	33,435	3,763	2,080	682	312	889	42	212	41,415
Customer accounts[1]	276,631	45,854	23,999	11,466	8,826	2,130	1,196	1,596	371,698
Derivative financial instruments	11,038	9,816	7,176	4,684	3,305	8,593	12,125	9,608	66,345
Senior debt	–	1,534	1,455	226	101	3,753	8,126	4,825	20,020
Other debt securities in issue[1]	9,623	13,248	6,356	2,246	2,744	1,696	726	5,388	42,027
Other liabilities	24,779	4,890	3,188	360	675	945	832	14,348	50,017
Subordinated liabilities and other borrowed funds	–	–	–	–	–	2,907	828	16,911	20,646
Total liabilities	355,506	79,105	44,254	19,664	15,963	20,913	23,875	52,888	612,168
Net liquidity gap	(141,591)	(5,720)	4,266	7,725	16,789	31,025	56,551	79,776	48,821

1. Amounts include financial instruments held at fair value through profit or loss (see note 13 on page 93)

	31.12.15								
	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	56,200	–	–	–	–	–	–	9,112	65,312
Derivative financial instruments	6,654	7,957	6,926	5,413	4,152	9,136	14,181	8,724	63,143
Loans and advances to banks[1]	31,208	16,629	9,180	3,648	2,494	1,982	1,590	38	66,769
Loans and advances to customers[1]	70,254	23,863	16,642	10,046	9,044	18,492	38,148	74,914	261,403
Investment securities	7,226	14,706	15,925	10,078	7,095	19,359	40,959	16,498	131,846
Other assets	21,263	5,198	2,456	82	216	105	236	22,454	52,010
Total assets	192,805	68,353	51,129	29,267	23,001	49,074	95,114	131,740	640,483
Liabilities									
Deposits by banks[1]	32,008	2,606	1,623	867	155	414	369	206	38,248
Customer accounts[1]	283,048	33,939	20,768	8,539	7,974	1,960	1,187	1,712	359,127
Derivative financial instruments	6,830	7,510	6,878	5,137	4,324	8,552	14,304	8,404	61,939
Senior debt	1,706	170	3,484	153	1,431	2,699	7,578	4,017	21,238
Other debt securities in issue[1]	9,430	15,641	9,104	1,345	976	3,453	776	6,834	47,559
Other liabilities	17,475	5,947	3,390	553	563	797	854	12,429	42,008
Subordinated liabilities and other borrowed funds	–	–	–	–	–	3,591	4,061	14,200	21,852
Total liabilities	350,497	65,813	45,247	16,594	15,423	21,466	29,129	47,802	591,971
Net liquidity gap	(157,692)	2,540	5,882	12,673	7,578	27,608	65,985	83,938	48,512

1. Amounts include financial instruments held at fair value through profit or loss (note 13 on page 93)

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 79 reflect the cash flows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain asset and liability instruments behave differently from their contractual terms and, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Such behavioural adjustments are identified and managed in each country through analysis of the historical behaviour of balances. The Group's expectation of when assets and liabilities are likely to become due is provided in the table below.

Behavioural maturity

	30.06.16								
	One month or less $million	**Between one month and three months $million**	**Between three months and six months $million**	**Between six months and nine months $million**	**Between nine months and one year $million**	**Between one year and two years $million**	**Between two years and five years $million**	**More than five years and undated $million**	**Total $million**
Assets									
Loans and advances to banks[1]	**38,534**	**17,573**	**9,160**	**3,539**	**2,870**	**1,767**	**1,046**	**44**	**74,533**
Loans and advances to customers[1]	**61,790**	**21,729**	**15,344**	**6,967**	**16,625**	**17,043**	**75,338**	**51,038**	**265,874**
Total loans and advances	**100,324**	**39,302**	**24,504**	**10,506**	**19,495**	**18,810**	**76,384**	**51,082**	**340,407**
Liabilities									
Deposits by banks[1]	**27,339**	**3,986**	**2,318**	**914**	**484**	**5,691**	**471**	**212**	**41,415**
Customer accounts[1]	**112,972**	**34,688**	**18,294**	**11,003**	**18,732**	**60,054**	**114,005**	**1,950**	**371,698**
Total deposits	**140,311**	**38,674**	**20,612**	**11,917**	**19,216**	**65,745**	**114,476**	**2,162**	**413,113**
Net gap	**(39,987)**	**628**	**3,892**	**(1,411)**	**279**	**(46,935)**	**(38,092)**	**48,920**	**(72,706)**

1. Amounts include financial instruments held at fair value through profit or loss (see note 13 on page 93)

	31.12.15								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Loans and advances to banks[1]	31,091	16,647	9,053	3,549	2,779	1,965	1,647	38	66,769
Loans and advances to customers[1]	54,687	22,171	13,262	8,045	13,269	18,084	79,150	52,735	261,403
Total loans and advances	85,778	38,818	22,315	11,594	16,048	20,049	80,797	52,773	328,172
Liabilities									
Deposits by banks[1]	21,861	2,705	1,744	985	278	9,758	711	206	38,248
Customer accounts[1]	115,514	21,641	13,423	8,821	17,582	65,241	114,913	1,992	359,127
Total deposits	137,375	24,346	15,167	9,806	17,860	74,999	115,624	2,198	397,375
Net gap	(51,597)	14,472	7,148	1,788	(1,812)	(54,950)	(34,827)	50,575	(69,203)

1. Amounts include financial instruments held at fair value through profit or loss (see note 13 on page 93)

Operational risk (unaudited)

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organisation is a constant challenge. The Group continues to embed the Operational Risk Framework which focuses on top risks and emerging risks, escalating losses, near misses and unsatisfactory risk events. Operational losses for the Group in the half year ended 30 June were immaterial and comprised a number of unrelated non-systemic events which were not individually significant. The Group remains alert to the increasing threat to the industry from cyber-related attacks.

Capital review

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

The following parts of the Capital review form part of the interim financial statements:

From the start of Capital Requirements Directive (CRD) IV capital base on page 67 to the end of 'Movement in total capital' on page 68, excluding capital ratios and risk-weighted assets (RWA) amounts.

Capital summary

We manage the Group's capital and leverage position within the Board-approved risk appetite. We utilise capital in support of our clients, the business strategy and to meet regulatory requirements including stress testing and future loss absorption requirements. Our deployment of capital is closely aligned to our strategy, which is now orientated towards higher returning, less capital intensive businesses where we have clear advantages and other activities that leverage the Group's unique footprint and network.

At 30 June 2016, the Common Equity Tier 1 (CET1) ratio was slightly above the Group's target range reflecting the disciplined management of RWA. The Group has also been proactive in managing its loss absorbing capacity through a combination of a liability management exercise and the issuance of $2.25 billion of term senior unsecured debt in the first half.

The Group's balance sheet is strongly capitalised with low leverage and high levels of loss absorbing capacity.

Capital, leverage and RWA	30.06.16	31.12.15
CET1 capital %	**13.1**	12.6
Total capital %	**19.5**	19.5
Leverage %	**5.5**	5.5
RWA ($million)	**293,226**	302,925

The Group's CET1 ratio increased from 12.6 per cent as at 31 December 2015 to 13.1 per cent as at 30 June 2016 mainly as a result of lower RWA.

The Group's CET1 ratio is slightly above the Group's CET1 target range of 12-13 per cent, facilitating continued execution of the strategy despite the challenging external environment.

The Group's CET1 position is well ahead of the current expected requirement for 2019 of 9.2 per cent, including the Pillar 1 and 2A minimum requirements and CRD IV capital buffers that are known at this time. The Group will continue to manage its capital position in the context of current and evolving CET1 requirements as they apply to the Group.

The Group continued its established programme of term senior unsecured issuance from its holding company which, on its current understanding of the rules, positions the Group well for the introduction of a minimum requirement for own funds and eligible liabilities (MREL). In the period, the Group issued $2.25 billion of term senior unsecured debt from its holding company.

As part of its proactive approach to capital management, the Group executed a liability management exercise covering 12 securities. Some of the tendered securities were subject to regulatory capital derecognition and some would soon have ceased to qualify under the proposed UK rules for MREL. In total $2 billion of securities were repurchased by the Group resulting in income of $84 million.

As at 30 June 2016, the Group estimates its MREL position to be approximately 25 per cent of RWA.

Capital movements

The main movements in capital between 31 December 2015 and 30 June 2016 were:

- The CET1 ratio increased by 0.5 per cent to 13.1 per cent mainly due to a decrease in credit, market and operational RWA
- CET1 capital increased slightly due to profits for the period and a reduction in the expected loss deduction partially offset by regulatory deductions and net other movements
- Additional Tier 1 (AT1) capital reduced to $3.7 billion mainly due to a redemption in the period
- Tier 2 capital decreased mainly due to the impact of the liability management exercise and foreign currency translation

Reflecting the above movements, the Group's total capital ratio of 19.5 per cent was unchanged from 31 December 2015.

Capital ratios

	30.06.16 %	31.12.15 %
CET1 capital	**13.1**	12.6
Total capital	**19.5**	19.5

CRD IV capital base

	30.06.16 $million	31.12.15 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	**5,598**	5,596
Of which: share premium accounts	**3,957**	3,957
Retained earnings[1]	**26,753**	29,128
Accumulated other comprehensive income (and other reserves)	**12,161**	12,180
Non-controlling interests (amount allowed in consolidated CET1)	**523**	582
Independently reviewed interim and year-end profits/(losses)	**509**	(2,194)
Foreseeable dividends net of scrip	**(241)**	(115)
CET1 capital before regulatory adjustments	**45,303**	45,177
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	**(834)**	(564)
Intangible assets (net of related tax liability)	**(4,985)**	(4,820)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(261)**	(212)
Fair value reserves related to net losses on cash flow hedges	**15**	38
Deduction of amounts resulting from the calculation of excess expected loss	**(156)**	(569)
Net gains on liabilities at fair value resulting from changes in own credit risk	**(561)**	(630)
Defined-benefit pension fund assets	**–**	(4)
Net fair value gains arising from the institution's own credit risk related to derivative liabilities	**(27)**	(34)
Exposure amounts which could qualify for risk weighting of 1,250%	**(146)**	(200)
Of which: securitisation positions	**(139)**	(168)
Of which: free deliveries	**(7)**	(32)
Total regulatory adjustments to CET1	**(6,955)**	(6,995)
CET1 capital	**38,348**	38,182
Additional Tier 1 capital (AT1) instruments	**3,740**	4,611
AT1 regulatory adjustments	**(20)**	(20)
Tier 1 capital	**42,068**	42,773
Tier 2 capital instruments	**15,128**	16,278
Tier 2 regulatory adjustments	**(30)**	(30)
Tier 2 capital	**15,098**	16,248
Total capital	**57,166**	59,021
Total risk-weighted assets (unaudited)	**293,226**	302,925

1. Retained earnings include the effect of regulatory consolidation adjustments

Movement in total capital

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million
CET1 at 31 December/30 June	**38,182**	37,567
Ordinary shares issued in the year and share premium	**2**	5,047
Profit/(loss) for the period	**509**	(3,742)
Foreseeable dividends net of scrip deducted from CET1	**(241)**	(115)
Difference between foreseeable scrip take-up and actual scrip take-up[1]	**–**	(76)
Goodwill and other intangible assets	**(165)**	635
Foreign currency translation	**56**	(1,321)
Non-controlling interests	**(59)**	(58)
Eligible other comprehensive income	**(141)**	(420)
Deferred tax assets that rely on future profitability	**(49)**	(109)
Excess expected loss	**413**	973
Additional value adjustments (prudential valuation adjustments)	**(270)**	243
Own credit adjustments	**69**	(421)
Exposure amounts which could qualify for risk weighting	**54**	(19)
Other	**(12)**	(2)
CET1 at 30 June/31 December	**38,348**	38,182
AT1 at 31 December/30 June	**4,591**	4,750
Redemptions	**(972)**	–
Foreign currency translation	**(29)**	(60)
Other	**130**	(99)
AT1 at 30 June/31 December	**3,720**	4,591
Tier 2 capital at 31 December/30 June	**16,248**	17,176
Regulatory amortisation	**17**	(368)
Redemptions	**(1,144)**	–
Foreign currency translation	**(126)**	(411)
Tier 2 ineligible minority interest	**82**	(162)
Other	**21**	13
Tier 2 capital at 30 June/31 December	**15,098**	16,248
Total capital at 30 June/31 December	**57,166**	59,021

1. This represents the difference between expected cash distribution from dividend and actual cash distribution

Movements in risk-weighted assets

RWA decreased by $9.7 billion, or 3 per cent from 31 December 2015. This was mainly due to a $7.1 billion decrease in credit RWA, $1.9 billion decrease in operational RWA and $0.7 billion decrease in market RWA. The introduction of XVA hedging and optimisation resulted in a net increase of $3.0 billion RWA, with an increase in market RWA of $5.7 billion partly offset by a decrease in Credit RWA of $2.7 billion.

Corporate & Institutional Banking and Commercial Banking

Credit RWA decreased by $2.8 billion as a result of the following:

- $2.4 billion reduction in RWA due to changes in the Financial Markets and Principal Finance assets, partly offset by lower securitisation saves as a result of programme roll off
- $2.2 billion increase in RWA due to credit migration primarily of clients in the Americas and Middle East regions, partly offset by increased provisions
- $1.5 billion of RWA efficiencies in Financial Markets through improved collateral and process enhancements
- $0.9 billion reduction in RWA from model, methodology and policy changes driven by credit valuation adjustment (CVA) hedges offset by other rule changes

Retail Banking

Credit RWA decreased by $2.7 billion, mainly as a result of the following:

- $2.2 billion reduction in RWA from model, methodology and policy changes mainly due to the rollout of Taiwan mortgages from the standardised approach to the advanced internal ratings-based approach
- $1.1 billion reduction in RWA as a result of de-risking and reshaping the portfolio with a reduction in unsecured lending, offset by an increase in secured lending

This is partly offset by $0.2 billion increase in credit migration in Hong Kong and Malaysia, and $0.4 billion increase in foreign currency translation due to appreciation of currencies in Singapore, Malaysia and Korea.

Private Banking

Private Banking RWA decreased by $0.9 billion, primarily due to declining asset balances driven by client exits and de-risking actions, coupled with de-leveraging by clients.

Market risk

Market Risk RWA decreased by $0.7 billion to $21.2 billion from 31 December 2015, led by a drop of $5.1 billion of internal model RWA, due to reduced risk positions within Financial Markets. However, this reduction was more than offset by the introduction of XVA hedging on 31 December 2015, contributing $5.7 billion of internal model RWA. Standard rules RWA fell by $1.3 billion, driven by a reduction in structured products positions, particularly FX Target Redemption Forwards.

Operational risk

Operational RWA decreased by $1.9 billion to $33.7 billion, due to the change in income over a rolling three-year time horizon with lower 2015 income replacing 2012 income.

Risk-weighted assets by client segment

	30.06.16			
	Credit risk $million	**Operational risk $million**	**Market risk $million**	**Total risk $million**
Corporate & Institutional Banking	**125,353**	**16,703**	**18,617**	**160,673**
Commercial Banking	**30,157**	**4,385**	**–**	**34,542**
Private Banking	**5,449**	**959**	**–**	**6,408**
Retail Banking	**35,294**	**8,953**	**–**	**44,247**
Central & other items	**42,087**	**2,693**	**2,576**	**47,356**
Total risk-weighted assets	**238,340**	**33,693**	**21,193**	**293,226**

	31.12.15			
	Credit risk $million	Operational risk $million	Market risk $million	Total risk $million
Corporate & Institutional Banking	127,528	20,547	19,660	167,735
Commercial Banking	30,825	3,803	–	34,628
Private Banking	6,302	871	–	7,173
Retail Banking	38,007	9,652	–	47,659
Central & other items	42,740	737	2,253	45,730
Total risk-weighted assets	245,402	35,610	21,913	302,925

Risk-weighted assets by geographic region

	30.06.16 $million	31.12.15 $million
Greater China & North Asia	**77,069**	82,070
ASEAN & South Asia	**105,441**	109,730
Africa & Middle East	**54,995**	57,566
Europe & Americas	**54,611**	56,815
Central & other items	**1,110**	(3,256)
Total	**293,226**	302,925

Movement in risk-weighted assets

	Credit risk								
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million	Operational risk $million	Market risk $million	Total risk $million
At 1 January 2015	152,583	37,532	5,878	45,337	44,916	286,246	35,107	20,295	341,648
Assets (decline)/growth	(3,469)	(1,644)	419	(1,779)	641	(5,832)	–	–	(5,832)
Credit migration	(2,364)	(1,414)	–	(133)	(306)	(4,217)	–	–	(4,217)
Risk-weighted assets efficiencies	(3,460)	(483)	222	–	–	(3,721)	–	–	(3,721)
Model, methodology and policy changes	2,871	(142)	173	(486)	132	2,548	–	1,300	3,848
Acquisitions and disposals	(1,108)	–	–	(1,615)	–	(2,723)	–	–	(2,723)
Foreign currency translation	(1,371)	(391)	(45)	(633)	(1,306)	(3,746)	–	–	(3,746)
Other non-credit risk movements	–	–	–	–	–	–	503	411	914
At 30 June 2015	143,682	33,458	6,647	40,691	44,077	268,555	35,610	22,006	326,171
Assets (decline)/growth	(2,295)	613	(206)	(698)	(1,138)	(3,724)	–	–	(3,724)
Credit migration	160	(1,428)	–	155	15	(1,098)	–	–	(1,098)
Risk-weighted assets efficiencies	(12,270)	(1,216)	(84)	–	–	(13,570)	–	–	(13,570)
Model, methodology and policy changes	(350)	–	93	(357)	889	275	–	–	275
Acquisitions and disposals	–	–	–	–	–	–	–	–	–
Foreign currency translation	(1,399)	(602)	(148)	(1,784)	(1,103)	(5,036)	–	–	(5,036)
Other non-credit risk movements	–	–	–	–	–	–	–	(93)	(93)
At 31 December 2015	**127,528**	**30,825**	**6,302**	**38,007**	**42,740**	**245,402**	**35,610**	**21,913**	**302,925**
Assets (decline)/growth	**(765)**	**(1,660)**	**(1,131)**	**(1,135)**	**574**	**(4,117)**	**–**	**–**	**(4,117)**
Credit migration	**1,604**	**573**	**–**	**207**	**(123)**	**2,261**	**–**	**–**	**2,261**
Risk-weighted assets efficiencies	**(1,540)**	**–**	**250**	**–**	**–**	**(1,290)**	**–**	**–**	**(1,290)**
Model, methodology and policy changes	**(1,377)**	**432**	**–**	**(2,221)**	**(1,316)**	**(4,482)**	**–**	**5,700**	**1,218**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency translation	**(97)**	**(13)**	**28**	**436**	**212**	**566**	**–**	**–**	**566**
Other non-credit risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**(1,917)**	**(6,420)**	**(8,337)**
At 30 June 2016	**125,353**	**30,157**	**5,449**	**35,294**	**42,087**	**238,340**	**33,693**	**21,193**	**293,226**

Leverage ratio (unaudited)

As at 30 June 2016 the Group's leverage ratio of 5.5 per cent was above the current minimum requirement of 3.1 per cent and the expected future requirement of 3.4 per cent from 2019. There is no change in the leverage ratio since 31 December 2015 as Tier 1 capital, on an end point basis, and total leverage exposure have remained broadly flat.

The current calculation of the leverage ratio as well as the minimum requirement could be impacted by the Basel Committee on Banking Supervision (BCBS) consultation on revisions to the Basel III leverage ratio framework.

Leverage ratio

	30.06.16 $million	31.12.15 $million
Tier 1 capital (transitional)	**42,068**	42,773
Additional Tier 1 capital subject to phase out	**(1,753)**	(2,624)
Tier 1 capital (end point)	**40,315**	40,149
Derivative financial instruments	**67,584**	63,143
Derivative cash collateral	**14,454**	13,430
Securities financing transactions (SFTs)	**49,335**	36,765
Loans and advances and other assets	**529,616**	527,145
Total on balance sheet assets	**660,989**	640,483
Regulatory consolidation adjustments	**13,169**	12,826
Derivatives adjustments		
Derivatives netting	**(39,629)**	(38,766)
Adjustments to cash collateral	**(26,698)**	(23,252)
Net written credit protection	**7,535**	8,922
Potential future exposure on derivatives	**52,492**	58,379
Total derivatives adjustments	**(6,300)**	5,283
Counterparty risk leverage exposure measure for SFTs	**6,936**	11,299
Regulatory deductions and other adjustments	**(6,368)**	(6,331)
Off-balance sheet items	**62,705**	65,660
Total leverage exposure (end point)	**731,131**	729,220
Leverage ratio (end point)	**5.5%**	5.5%
Quarterly average exposure measure	**729,426**	N/A
Quarterly average leverage ratio	**5.5%**	N/A
Countercyclical leverage ratio buffer	**–**	N/A

Advanced internal ratings-based models

Since 1 January 2008, the Group has been using the IRB approach for the calculation of credit risk capital requirements with the approval of our relevant regulators. For a market risk Internal Model Approach (IMA), where IMA permission has been granted by our relevant regulators, we use value at risk (VaR) for the calculation of our market risk capital requirements. Where our market risk exposures are not included in a regulatory IMA permission we apply the standardised approach as specified by the relevant regulator. We apply the standardised approach for determining the capital requirements for operational risk.

The Prudential Regulation Authority (PRA) has proposed changes to the treatment of certain exposures where the country-specific default experience is not deemed sufficient for modelling purposes, including the application of various loss given default floors based on the Foundation IRB (FIRB) approach. Such changes are likely to result in an increase in the RWA for these exposures, with the ultimate impact dependent on PRA approval of the revisions to the relevant models.

In December 2014, the BCBS released two consultative documents (CD306 and CD307) on: (i) the design of a capital floor framework based on standardised approaches for credit, market and operational risk; (ii) revisions to the standardised approach for credit risk. In December 2015 the BCBS released a second consultation on the revisions to the standardised approaches for credit risk, significantly modifying the initial proposal following industry feedback, and in March 2016 a new consultative document (CD362) proposing additional constraints on the use of internal model approaches was published.

The proposed changes could result in an increase in the RWA calculated by such approaches, but the eventual impact will depend on the final outcome of the consultation process and the calibration of the capital floor. Regulators have expressed the expectation that the changes would not add to system-wide capital requirements.

The Group participates actively in the consultation process alongside a variety of industry associations. The BCBS has stated that it intends to publish the final standards, including their calibration and implementation arrangements, at the end of 2016. The extent to which the EU and/or the PRA will adopt the BCBS proposals is unknown.

CET1 requirements

Based on the Group's understanding of the rules, its current expected CET1 requirement for 2019 is 9.2 per cent, comprising:

- A minimum Pillar 1 CET1 requirement of 4.5 per cent
- A Pillar 2A CET1 requirement of around 1.0 per cent (subject to ongoing PRA assessment) being 56% of the total Pillar 2A requirement
- A capital conservation buffer of 2.5 per cent by 1 January 2019
- A Global Systemically Important Institutions (G-SII) buffer of 1.0 per cent by 1 January 2019
- A countercyclical capital buffer of around 0.2 per cent by 1 January 2018

Any countercyclical capital buffer applied to the Group would increase the Group's CET1 requirement. The Group's countercyclical capital buffer will be determined by applying various country-specific countercyclical buffer rates to the Group's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor).

Country-specific countercyclical buffer rates are required to be recognised (or set) by the Financial Policy Committee (FPC) to apply to UK banks. Based on the currently recognised country-specific countercyclical buffer rates, the Group countercyclical capital buffer is around 0.1 per cent in 2016, rising to around 0.2 per cent by 2018, assuming no change in the distribution of qualifying credit exposures in the Group. Almost all of the Group's countercyclical capital buffer relates to Hong Kong exposures. The FPC has reduced the proposed countercyclical buffer rate on UK exposures from 0.5 per cent to 0 per cent which the FPC expects to apply until at least June 2017.

The Combined Buffer comprises the Group's capital conservation buffer, G-SII buffer and the countercyclical capital buffer. The Pillar 1 and Pillar 2A CET1 requirements and Combined Buffer requirement together represent the Group's Maximum Distributable Amount threshold. The Group is expected to be subject to restrictions on discretionary distributions if the CET1 ratio goes below this threshold.

The Group expects to continue to operate with a prudent management buffer above this threshold.

Pillar 2

As at 30 June 2016, the Group's Pillar 2A requirement was equivalent to around 1.7 per cent of RWA of which at least 1 per cent must be held in CET1. The Group's Pillar 2A requirement is expected to vary over time.

Pillar 2B has transitioned from the capital planning buffer to the PRA buffer. The PRA buffer is intended to ensure the Group remains well-capitalised during periods of stress. When setting the Group's PRA buffer, it is understood that the PRA considers results from the Bank of England (BoE) stress test, the biennial exploratory scenario, and bank-specific scenarios undertaken as part of Internal Capital Adequacy Assessment Processes (ICAAPs), as well as other relevant information. The PRA buffer is additional to the existing CRD IV buffer requirements, and is applied if and to the extent that, the PRA considers the existing CRD IV buffers do not adequately address the Group's risk profile. The PRA buffer is not disclosed.

Global Systemically Important Institutions

The Group has been designated a G-SII by the Financial Stability Board (FSB) since November 2012. The Group has been categorised with a 1.0 per cent G-SII CET1 buffer, which began to be phased in from 1 January 2016 and will be fully implemented by 1 January 2019. The buffer phases in at a rate of 0.25 per cent per year.

The Group's latest G-SII disclosure *Standard Chartered's G-SII indicators* can be found at http://investors.sc.com/en/showresults.cfm?CategoryID=360

Loss Absorbing Capacity

The Group will also be set an MREL requirement under the EU Bank Recovery and Resolution Directive. In December 2015, the BoE published a consultation paper on its approach to setting MREL, which confirmed that the BoE intends to use its power to set MREL to implement the FSB's Total Loss Absorbing Capacity standard for G-SIIs. The Group expects MREL will comprise a loss absorption amount and a recapitalisation amount. For UK G-SIIs, the loss absorption amount is expected to be the firm's minimum regulatory capital requirements (Pillar 1 plus Pillar 2A, or the leverage ratio or Basel I floor if higher). The BoE has stated that it intends to exclude capital buffers from its calibration of the loss absorption amount. The recapitalisation amount is expected to be the same as the loss absorption amount, but can be adjusted. The European Banking Authority technical standards on MREL were adopted by the European Commission on 23 May 2016.

The PRA also published a consultation paper on the relationship between MREL and regulatory buffers. Based on this consultation, CET1 used to meet minimum MREL requirements cannot be used to meet the Combined Buffer.

Based on the Group's understanding, on the basis set out above, the Group's MREL requirement would be around 19.4 per cent and 23.1 per cent when including the Combined Buffer.

The Group estimates its MREL position, as at 30 June 2016, to be approximately 25 per cent of RWA and around 10 per cent of leverage exposure. This estimate is the sum of:

- Total regulatory capital (excluding non-equity capital issued by foreign subsidiaries) with at least one year remaining to maturity
- That part of subordinated debt (issued by Standard Chartered PLC or Standard Chartered Bank) with at least one year remaining to maturity, which is outside the scope of regulatory capital recognition due to: (i) amortisation over the last five years of the relevant instrument's duration; or (ii) other regulatory de-recognition
- Senior liabilities issued by Standard Chartered PLC with at least one year remaining to maturity

Bank of England stress test

In 2016 the BoE is conducting its third concurrent stress test of the UK-banking system. In 2016, the BoE adopted a stress test assuming an annual cyclical scenario approach whereby the severity of stress applied would negatively correspond to the current strength of a particular economy. Overall, the 2016 stress test was more severe than the 2015 stress test. The key themes included global GDP contraction of 1.9 per cent in the first year, diminished investor appetite and de-risking of financial markets portfolios, oil prices falling to $20 per barrel, increases in interest rates for household and businesses and global falls in property prices, with falls in China and Hong Kong most pronounced.

The BoE is expected to release the results of the 2016 stress tests during the fourth quarter of 2016.

Based on the requirements set out by the BoE, from 2016 the Group's stress test hurdle rates are (i) a CET1 hurdle rate comprising the Pillar 1 CET1 minimum and the Group's prevailing CET1 Pillar 2A requirement; and (ii) a Tier 1 leverage hurdle rate of 3 per cent. The Group's systemic reference points for both CET1 and leverage also include the phased component of the Group's G-SII buffer. In deciding whether a bank should take action to strengthen its capital position, the PRA may also consider a bank's Tier 1 and total capital ratios under stress.

Statement of directors’ responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has 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 and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of 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 and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and 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 do so

By order of the Board

Andy Halford
Group Chief Financial Officer

3 August 2016

Independent Auditor's report to the members of Standard Chartered PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 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 cash flow statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules (DTR) of the UK's Financial Conduct Authority (UK FCA). Our review has been undertaken so that we might state to the Company 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 Company for our review work, for this report, or for the conclusions we have reached.

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, annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the EU.

Our responsibility

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

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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Michelle Hinchliffe
for and on behalf of KPMG LLP
Chartered Accountants

London

3 August 2016

Condensed consolidated interim income statement

For the six months ended 30 June 2016

	Notes	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Interest income		**6,569**	6,926	7,687
Interest expense		**(2,577)**	(2,511)	(2,695)
Net interest income		**3,992**	4,415	4,992
Fees and commission income	3	**1,789**	1,875	2,213
Fees and commission expense	3	**(211)**	(226)	(255)
Net trading income	4	**732**	(57)	969
Other operating income	5	**633**	513	850
Non-interest income		**2,943**	2,105	3,777
Operating income		**6,935**	6,520	8,769
Staff costs	6	**(2,938)**	(3,799)	(3,320)
Premises costs	6	**(390)**	(429)	(402)
General administrative expenses	6	**(868)**	(1,574)	(985)
Depreciation and amortisation	7	**(348)**	(329)	(335)
Operating expenses		**(4,544)**	(6,131)	(5,042)
Operating profit before impairment losses and taxation		**2,391**	389	3,727
Impairment losses on loans and advances and other credit risk provisions	8	**(1,296)**	(3,324)	(1,652)
Other impairment				
Goodwill	9	**–**	(488)	–
Other	9	**(229)**	(281)	(86)
Profit from associates and joint ventures		**27**	83	109
Profit/(loss) before taxation		**893**	(3,621)	2,098
Taxation	10	**(339)**	(106)	(567)
Profit/(loss) for the period		**554**	(3,727)	1,531
Profit/(loss) attributable to:				
Non-controlling interests		**45**	(21)	19
Parent company shareholders		**509**	(3,706)	1,512
Profit/(loss) for the period		**554**	(3,727)	1,531
		cents	cents	cents
Earnings per share:				
Basic earnings/(loss) per ordinary share	12	**12.0**	(144.7)	55.7[1]
Diluted earnings/(loss) per ordinary share	12	**11.9**	(144.7)	55.5[1]
Dividends per ordinary share:				
2016 interim dividend declared	11	**–**		
2015 final dividend paid	11		–	
2015 interim dividend paid	11			13.71[1]
		$million	$million	$million
Total dividend:				
2016 interim dividend payable	11	**–**		
2015 final dividend	11		–	
2015 interim dividend (paid 19 October 2015)	11			366

1. Restated for the impact of the bonus element included within the 2015 rights issue in line with the restatement of prior year earnings per share amounts required by *IAS 33 Earnings per share*

Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2016

	Notes	**6 months ended 30.06.16 $million**	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Profit/(loss) for the period		**554**	(3,727)	1,531
Other comprehensive income/(loss):				
Items that will not be reclassified to Income statement:				
Actuarial (losses)/gains on retirement benefit obligations	19	**(100)**	(72)	15
Items that may be reclassified subsequently to Income statement:				
Exchange differences on translation of foreign operations:				
Net gains/(losses) taken to equity		**79**	(1,399)	(604)
Net (losses)/gains on net investment hedges		**(28)**	70	20
Share of other comprehensive (loss)/income from associates and joint ventures		**(5)**	1	(1)
Available-for-sale investments:				
Net valuation gains/(losses) taken to equity		**48**	(197)	140
Reclassified to income statement		**(163)**	(170)	(158)
Cash flow hedges:				
Net gains/(losses) taken to equity		**44**	(79)	8
Reclassified to income statement		**15**	63	44
Taxation relating to components of other comprehensive (loss)/income		**(13)**	47	(22)
Other comprehensive loss for the period, net of taxation		**(123)**	(1,736)	(558)
Total comprehensive income/(loss) for the period		**431**	(5,463)	973
Total comprehensive income/(loss) attributable to:				
Non-controlling interests		**40**	(29)	(11)
Parent company shareholders		**391**	(5,434)	984
		431	(5,463)	973

Condensed consolidated interim balance sheet
As at 30 June 2016

	Notes	30.06.16 $million	31.12.15 $million
Assets			
Cash and balances at central banks	13	**66,163**	65,312
Financial assets held at fair value through profit or loss	13	**23,203**	23,401
Derivative financial instruments	13, 14	**67,584**	63,143
Loans and advances to banks	13	**72,238**	64,494
Loans and advances to customers	13	**262,604**	257,356
Investment securities	13	**111,065**	114,767
Other assets	13, 15	**39,870**	34,601
Current tax assets		**374**	388
Prepayments and accrued income		**2,364**	2,174
Interests in associates and joint ventures		**2,154**	1,937
Goodwill and intangible assets	16	**4,794**	4,642
Property, plant and equipment		**7,442**	7,209
Deferred tax assets		**1,134**	1,059
Total assets		**660,989**	640,483
Liabilities			
Deposits by banks	13	**40,214**	37,611
Customer accounts	13	**362,999**	350,633
Financial liabilities held at fair value through profit or loss	13	**20,332**	20,872
Derivative financial instruments	13, 14	**66,345**	61,939
Debt securities in issue	13	**54,907**	59,880
Other liabilities	13, 17	**40,408**	32,011
Current tax liabilities		**512**	769
Accruals and deferred income		**4,725**	5,451
Subordinated liabilities and other borrowed funds	13, 18	**20,646**	21,852
Deferred tax liabilities		**316**	293
Provisions for liabilities and charges		**230**	215
Retirement benefit obligations	19	**534**	445
Total liabilities		**612,168**	591,971
Equity			
Share capital	20	**1,641**	1,639
Share premium		**5,449**	5,449
Other reserves		**12,162**	12,182
Retained earnings		**27,262**	26,934
Total parent company shareholders' equity		**46,514**	46,204
Other equity instruments	20	**1,987**	1,987
Total equity excluding non-controlling interests		**48,501**	48,191
Non-controlling interests		**320**	321
Total equity		**48,821**	48,512
Total equity and liabilities		**660,989**	640,483

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2016

	Share capital and share premium account $million	Other equity instruments $million	Capital and capital redemption reserve[1] $million	Merger reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company share-holders' equity $million	Non-controlling interests $million	Total $million
At 1 January 2015	6,718	–	18	12,421	456	(57)	(3,148)	30,024	46,432	306	46,738
Profit for the period	–	–	–	–	–	–	–	1,512	1,512	19	1,531
Other comprehensive (loss)/income	–	–	–	–	(13)	31	(555)	9[2]	(528)	(30)	(558)
Distributions	–	–	–	–	–	–	–	–	–	(17)	(17)
Shares issued, net of expenses	5	–	–	–	–	–	–	–	5	–	5
Other equity instruments issued, net of expenses	–	1,987	–	–	–	–	–	–	1,987	–	1,987
Net own shares adjustment	–	–	–	–	–	–	–	(30)	(30)	–	(30)
Share option expense, net of taxation	–	–	–	–	–	–	–	157	157	–	157
Dividends, net of scrip	–	–	–	–	–	–	–	(468)	(468)	–	(468)
Other decreases	–	–	–	–	–	–	–	–	–	(1)	(1)
At 30 June 2015	6,723	1,987	18	12,421	443	(26)	(3,703)	31,204	49,067	277	49,344
Loss for the period	–	–	–	–	–	–	–	(3,706)	(3,706)	(21)	(3,727)
Other comprehensive loss	–	–	–	–	(311)	(20)	(1,323)	(74)[2]	(1,728)	(8)	(1,736)
Distributions	–	–	–	–	–	–	–	–	–	(9)	(9)
Shares issued, net of expenses	365	–	–	4,683	–	–	–	–	5,048	–	5,048
Net own shares adjustment	–	–	–	–	–	–	–	(28)	(28)	–	(28)
Share option expense, net of taxation	–	–	–	–	–	–	–	(9)	(9)	–	(9)
Dividends, net of scrip	–	–	–	–	–	–	–	(453)	(453)	–	(453)
Other increases[3]	–	–	–	–	–	–	–	–	–	82	82
As at 31 December 2015	**7,088**	**1,987**	**18**	**17,104**	**132**	**(46)**	**(5,026)**	**26,934**	**48,191**	**321**	**48,512**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**509**	**509**	**45**	**554**
Other comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(111)**	**29**	**55**	**(91)**[2]	**(118)**	**(5)**	**(123)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30)**	**(30)**
Shares issued, net of expenses	**2**	**–**	**–**	**7**	**–**	**–**	**–**	**–**	**9**	**–**	**9**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**24**	**–**	**24**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(115)**	**(115)**	**–**	**(115)**
Other decreases[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
As at 30 June 2016	**7,090**	**1,987**	**18**	**17,111**	**21**	**(17)**	**(4,971)**	**27,262**	**48,501**	**320**	**48,821**

1. Includes capital reserve of $5 million and capital redemption reserve of $13 million
2. Comprises actuarial loss, net of taxation and non-controlling interests of $86 million (30 June 2015: gain of $9 million and 31 December 2015: loss of $76 million)
3. Additional investment from non-controlling interests in one of the Group's subsidiary undertakings
4. Mainly due to completion of sale of businesses with non-controlling interests held for sale in Pakistan

Condensed consolidated interim cash flow statement

For the six months ended 30 June 2016

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Cash flows from operating activities			
Profit/(loss) before taxation	**893**	(3,621)	2,098
Adjustments for non-cash items and other adjustments included within income statement	**2,121**	4,833	2,116
Change in operating assets	**(20,244)**	27,591	9,221
Change in operating liabilities	**20,587**	(38,869)	(31,375)
Contributions to defined benefit schemes	**(45)**	(78)	(31)
UK and overseas taxes paid	**(654)**	(662)	(623)
Net cash from/(used in) operating activities	**2,658**	(10,806)	(18,594)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(55)**	(79)	(51)
Disposal of property, plant and equipment	**15**	51	58
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	**(183)**	–	–
Disposal of subsidiaries	**9**	2	665
Purchase of investment securities	**(94,099)**	(89,734)	(119,785)
Disposal and maturity of investment securities	**98,245**	83,738	111,719
Dividends received from associates and joint ventures	**1**	1	11
Net cash from/(used in) investing activities	**3,933**	(6,021)	(7,383)
Cash flows from financing activities			
Issue of ordinary and preference share capital, net of expenses	**9**	5,048	5
Issue of Additional Tier 1 capital, net of expenses	**–**	–	1,987
Purchase of own shares	**(2)**	(29)	(39)
Exercise of share options through ESOP	**3**	1	9
Interest paid on subordinated liabilities	**(414)**	(501)	(581)
Repayment of subordinated liabilities	**(1,884)**	(5)	–
Investment by non-controlling interests	**1**	82	–
Interest paid on senior debts	**(254)**	(319)	(265)
Gross proceeds from issue of senior debts	**3,199**	546	4,842
Repayment of senior debts	**(5,043)**	(3,833)	(3,114)
Dividends paid to non-controlling interests, Additional Tier 1 (AT1) securities holders and preference shareholders	**(145)**	(125)	(67)
Dividends paid to ordinary shareholders, net of scrip	**–**	(337)	(418)
Net cash (used in)/from financing activities	**(4,530)**	528	2,359
Net increase/(decrease) in cash and cash equivalents	**2,061**	(16,299)	(23,618)
Cash and cash equivalents at beginning of the period	**88,428**	105,481	129,870
Effect of exchange rate movements on cash and cash equivalents	**1,676**	(754)	(771)
Cash and cash equivalents at end of the period	**92,165**	88,428	105,481

Notes to the financial statements

1. Basis of preparation

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 2015, 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 2016, 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:

- Risk review: from the start of Principal uncertainties on page 41 to the end of the Liquidity risk section on page 61, excluding:
  - Country cross-border risk, page 58
  - Market risk – Backtesting, page 60
  - Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), page 61
  - Encumbered assets, page 62
  - Readily available to encumber, page 63
- Capital review: from the start of the CRD IV capital base on page 67 to the end of Movement in total capital on page 68, excluding capital ratios and risk-weighted assets (RWA) amounts.

Accounting standards adopted by the Group

Except as noted below, the accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in the preceding annual consolidated financial statements.

On 1 January 2016, the Group adopted the following amendments to standards:

- *Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* – this amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in *IFRS 3, Business Combinations*).
- *Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements* – this amendment restores the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements

These changes have not had a significant impact on the Group. There are a number of other changes to IFRS arising from the 2012 to 2014 annual improvements project that were effective from 1 January 2016, which also had an insignificant impact on these interim financial statements.

Significant accounting estimates and judgements

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 2015. A summary of the Group's significant accounting policies will be included in the *2016 Annual Report and Accounts*.

Prior period restatement

In November 2015, the Group announced a reorganisation of its business to better align the Group's structure to client segments with clear local or global needs and to streamline the geographic regions. This approach aligns with how the client segments and geographies are managed internally. These changes became effective on 1 January 2016. In accordance with *IFRS 8 Segmental Reporting* the Group has therefore made changes to the composition of its client segments and geographic regions. On 5 July 2016, the Group re-presented the Group's financial results to reflect these changes for the year ended 31 December 2015 and the six months ended 30 June 2015 and this is available at http://investors.sc.com/en/releases.cfm. This representation has not resulted in any changes to the reported income or balances in total at a Group level and now is the basis upon which the Group reports. There were no other prior period restatements.

Going concern

These interim financial statements were approved by the Board of Directors on 3 August 2016. 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 at least twelve 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.

1. Basis of preparation continued

Accounting standards in issue but not yet effective

A number of new standards are effective for periods beginning after 1 January 2016 and have not been applied in preparing these condensed consolidated interim financial statements as these standards have not yet been endorsed by the EU. These include:

- *IFRS 9 Financial Instruments* – IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. On initial adoption of IFRS 9, the opening re-measurements will be incorporated through an adjustment to the opening reserves position at 1 January 2018. IFRS 9 will replace *IAS 39 Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model for recognising loan loss provisions based on expected credit losses (ECL) and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology. Further information on the requirements of IFRS is disclosed in the *2015 Annual Report and Accounts*. The standard has yet to be endorsed by the EU.
- *IFRS 9 implementation programme* – The Group is committed to a high quality implementation of IFRS 9. In addition to complying with the requirements of IFRS 9, the Group will seek to adhere to supervisory guidance including the Guidance on Expected Credit Losses issued by the Basel Committee on Banking Supervision (BCBS). In addition to complying with the disclosures set out in *IFRS 7 Financial Instruments Disclosures*, the Group will also seek to implement the recommendations of the Enhanced Disclosures Task Force (EDTF) set out in their report *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures*, including the recommendations on disclosures in advance of the date of initial application.

  The Group will also implement the guidance issued by the IASB's Impairment Transition Resource Group (ITG). In December 2015, the ITG clarified that where there is significant non-linearity in the credit risk of a portfolio, multiple forecast economic scenarios should be determined in order to meet the requirement that the assessment of significant credit deterioration and expected credit losses reflect unbiased probability weighted outcomes. These scenarios will be conditional on the Group's most likely view of future economic conditions across its footprint.

  For hedge accounting, the Group's current expectation is that it will continue to apply the existing hedge accounting requirements in IAS 39 until there is further clarification on the IASB's macro hedge accounting project.

  The Group continues to assess the impact that adoption will have on its consolidated financial statements and any consequential effects on regulatory capital. It remains unclear whether there will be any changes to the current regulatory requirements. The Group will quantify the impact of IFRS 9 when it is practicable to provide reliable estimates, which will be no later than the publication of its *2017 Annual Report and Accounts*.

  The IFRS 9 programme has a full-time implementation team in place with an established plan and is one of the largest programmes within the Group. The implementation is jointly run by Finance and Risk and overseen by a Project Steering Group (PSG), which comprises senior management from Risk, Finance and Technology. From a control perspective, the implementation programme is subject to review by Group Internal Audit and regular updates on the implementation are also provided to the Group Risk Committee and the Audit Committee. In addition, there is a Group-wide programme of education and training in place, which includes briefings with the Management Team, the Group Chief Financial Officer, Chief Risk Officer and Chief Information Officer, and independent non-executive directors.

  The build phase of the IFRS 9 implementation is underway and testing of the systems will take place in 2017 to embed the changes. The Group will perform a parallel assessment during the second half of 2017 to better understand the implications of IFRS 9 and the effects on the Group of the impairment models and associated processes.
- *IFRS 15 Revenue from Contracts with Customers* – the effective date of IFRS 15 is 1 January 2018 with early adoption permitted. The standard provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. The standard must be applied retrospectively. Whilst it is expected that a significant proportion of the Group's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these interim financial statements. The standard has yet to be endorsed by the EU.
- *IFRS 16 Leases* – The effective date of IFRS 16 is 1 January 2019 with early adoption permitted if IFRS 15 is also adopted at or before application of IFRS 16. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in *IAS 17 Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. The standard has yet to be endorsed by the EU.

2. Segmental information

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

- Transactions and funding between the segments are carried out on an arm's-length basis
- Corporate Centre costs represent stewardship and central management services roles and activities that are not directly attributable to business and country operations
- Asset and Liability Management, joint ventures and associate investments are managed in the geographies and are included within the applicable region. However, they are not managed directly by a client segment and therefore included in the Central & other Items segment
- In addition to treasury activities, Corporate Centre costs and other group related functions, Central & other Items for geographies includes globally run businesses or activities that are managed by the client segments but not directly by geographic management. These include Principal Finance and Portfolio Management
- The Group allocates central costs (excluding Corporate Centre costs) relating to client segments and geographic regions using appropriate business drivers and these are reported within operating expenses.

Performance by client segments

	6 months ended 30.06.16					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,147	667	261	2,316	419	6,810
Operating expenses	(2,090)	(436)	(209)	(1,643)	(156)	(4,534)
Operating profit before impairment losses and taxation	1,057	231	52	673	263	2,276
Impairment losses on loans and advances and other credit risk provisions	(606)	(247)	(1)	(242)	–	(1,096)
Other impairment	(212)	4	–	–	(5)	(213)
Profit from associates and joint ventures	–	–	–	–	27	27
Underlying profit/(loss) before taxation	239	(12)	51	431	285	994
Restructuring	(115)	–	–	–	–	(115)
Own credit adjustment	–	–	–	–	(70)	(70)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory profit/(loss) before taxation	124	(12)	51	431	299	893
Total assets employed	302,531	28,708	14,318	97,386	218,046	660,989
Of which: Loans to customers	126,626	26,062	14,226	95,246	3,714	265,874
Total liabilities employed	361,071	32,081	24,755	118,736	75,525	612,168
Of which: Customer accounts	199,308	29,807	24,023	115,272	3,288	371,698
Other segment items:						
Interests in associates and joint ventures	–	–	–	–	2,154	2,154
Capital expenditure	322	53	12	367	–	754
Depreciation	91	11	4	100	–	206
Amortisation of intangible assets	26	16	12	88	–	142

2. Segmental information continued

	6 months ended 31.12.15					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,238	686	244	2,365	411	6,944
Operating expenses	(2,184)	(552)	(146)	(1,748)	(806)	(5,436)
Operating profit/(loss) before impairment losses and taxation	1,054	134	98	617	(395)	1,508
Impairment losses on loans and advances and other credit risk provisions	(1,252)	(787)	–	(313)	(4)	(2,356)
Other impairment	(181)	(10)	–	–	(34)	(225)
Profit from associates and joint ventures	–	–	–	–	83	83
Underlying (loss)/profit before taxation	(379)	(663)	98	304	(350)	(990)
Restructuring	(1,193)	(61)	(7)	(395)	(189)	(1,845)
Valuation methodology changes	(863)	–	–	–	–	(863)
Net losses on businesses disposed/held for sale	–	–	–	–	(1)	(1)
Own credit adjustment	–	–	–	–	440	440
Goodwill impairment	–	–	–	–	(362)	(362)
Statutory (loss)/profit before taxation	(2,435)	(724)	91	(91)	(462)	(3,621)
Total assets employed	288,047	25,460	15,393	97,266	214,317	640,483
Of which: Loans to customers	121,523	24,340	15,296	94,697	5,547	261,403
Total liabilities employed	347,184	32,361	24,627	117,189	70,610	591,971
Of which: Customer accounts	187,462	30,685	24,540	114,584	1,856	359,127
Other segment items:						
Interests in associates and joint ventures	–	–	–	–	1,937	1,937
Capital expenditure	376	41	32	92	–	541
Depreciation	157	6	6	42	–	211
Amortisation of intangible assets	70	8	5	35	–	118

	6 months ended 30.06.15					
	Corporate & Institutional Banking $million	Commercial Banking $million	Private Banking $million	Retail Banking $million	Central & other items $million	Total $million
Operating income	3,943	919	290	2,742	601	8,495
Operating expenses	(2,272)	(519)	(195)	(1,762)	(294)	(5,042)
Operating profit before impairment losses and taxation	1,671	400	95	980	307	3,453
Impairment losses on loans and advances and other credit risk provisions	(824)	(373)	(94)	(365)	4	(1,652)
Other impairment	(63)	(7)	–	–	(16)	(86)
Profit from associates and joint ventures	–	–	–	–	109	109
Underlying profit before taxation	784	20	1	615	404	1,824
Net gains on businesses disposed/held for sale	–	–	–	–	219	219
Own credit adjustment	–	–	–	–	55	55
Statutory profit before taxation	784	20	1	615	678	2,098
Total assets employed	318,950	31,309	17,441	99,843	227,413	694,956
Of which: Loans to customers	133,175	29,925	17,318	97,128	4,793	282,339
Total liabilities employed	377,772	34,913	26,691	120,352	85,884	645,612
Of which: Customer accounts	208,953	32,921	26,570	117,466	2,885	388,795
Other segment items:						
Interests in associates and joint ventures	–	–	–	–	1,991	1,991
Capital expenditure	736	40	13	60	–	849
Depreciation	164	7	1	54	–	226
Amortisation of intangible assets	65	6	3	35	–	109

2. Segmental information continued

Performance by geographic regions

The Group's operations are based in the four main geographic regions presented below. The UK is the home country of the Company.

	6 months ended 30.06.16					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,551	2,054	1,420	817	(32)	6,810
Operating expenses	(1,654)	(1,189)	(845)	(669)	(177)	(4,534)
Operating profit/(loss) before impairment losses and taxation	897	865	575	148	(209)	2,276
Impairment losses on loans and advances and other credit risk provisions	(242)	(412)	(214)	(124)	(104)	(1,096)
Other impairment	(35)	4	(19)	–	(163)	(213)
Profit/(loss) from associates and joint ventures	102	(80)	–	–	5	27
Underlying profit/(loss) before taxation	722	377	342	24	(471)	994
Restructuring	(19)	(100)	(17)	22	(1)	(115)
Own credit adjustment	–	–	–	–	(70)	(70)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory profit/(loss) before taxation	703	277	325	46	(458)	893
Total assets employed	240,596	149,855	61,135	200,100	9,303	660,989
Of which: Loans to customers	111,020	81,335	30,015	43,504	–	265,874
Total liabilities employed	212,239	129,761	39,143	187,748	43,277	612,168
Of which: Customer accounts	165,568	89,711	30,459	85,960	–	371,698
Capital expenditure	526	188	11	29	–	754

	6 months ended 31.12.15					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,689	2,053	1,305	891	6	6,944
Operating expenses	(1,857)	(1,334)	(883)	(699)	(663)	(5,436)
Operating profit/(loss) before impairment losses and taxation	832	719	422	192	(657)	1,508
Impairment losses on loans and advances and other credit risk provisions	(509)	(1,127)	(560)	(61)	(99)	(2,356)
Other impairment	(21)	(48)	(33)	16	(139)	(225)
Profit/(loss) from associates and joint ventures	95	(14)	–	–	2	83
Underlying profit/(loss) before taxation	397	(470)	(171)	147	(893)	(990)
Restructuring	(520)	(547)	(112)	(516)	(150)	(1,845)
Valuation methodology changes	–	–	–	–	(863)	(863)
Net losses on businesses disposed/held for sale	–	–	(1)	–	–	(1)
Own credit adjustment	–	–	–	–	440	440
Goodwill impairment	–	–	–	–	(362)	(362)
Statutory loss before taxation	(123)	(1,017)	(284)	(369)	(1,828)	(3,621)
Total assets employed	233,102	150,566	60,123	188,478	8,214	640,483
Of which: Loans to customers	106,161	86,343	31,070	37,829	–	261,403
Total liabilities employed	208,220	130,253	40,961	170,142	42,395	591,971
Of which: Customer accounts	163,519	90,731	33,013	71,864	–	359,127
Capital expenditure	265	238	8	30	–	541

2. Segmental information continued

	6 months ended 30.06.15					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,388	2,200	1,553	986	368	8,495
Operating expenses	(1,906)	(1,287)	(907)	(688)	(254)	(5,042)
Operating profit before impairment losses and taxation	1,482	913	646	298	114	3,453
Impairment losses on loans and advances and other credit risk provisions	(426)	(815)	(284)	(131)	4	(1,652)
Other impairment	(7)	(15)	(3)	2	(63)	(86)
Profit from associates and joint ventures	77	29	–	–	3	109
Underlying profit before taxation	1,126	112	359	169	58	1,824
Gains on businesses disposed/held for sale	217	–	2	–	–	219
Own credit adjustment	–	–	–	–	55	55
Statutory profit before taxation	1,343	112	361	169	113	2,098
Total assets employed	254,914	173,476	63,139	192,199	11,228	694,956
Of which: Loans to customers	116,401	97,617	34,428	33,893	–	282,339
Total liabilities employed	231,095	149,803	42,760	178,361	43,593	645,612
Of which: Customer accounts	173,001	107,094	33,873	74,827	–	388,795
Capital expenditure	661	156	12	20	–	849

2. Segmental information continued

Performance by country

	6 months ended 30.06.16							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,540	436	339	771	468	401	360	346
Operating expenses	(826)	(353)	(311)	(439)	(269)	(250)	(250)	(351)
Operating profit before impairment losses and taxation	714	83	28	332	199	151	110	(5)
Impairment losses on loans and advances and other credit risk provisions	(136)	(36)	(42)	(66)	(224)	(113)	(44)	(59)
Other impairment	(35)	–	–	–	–	–	–	–
Profit from associates and joint ventures	–	–	102	–	–	–	–	–
Underlying profit/(loss) before taxation	543	47	88	266	(25)	38	66	(64)
Total assets employed	135,832	44,969	28,536	86,643	25,067	22,138	130,791	52,984
Of which: Loans to customers	61,258	27,996	11,156	43,389	15,866	11,810	29,202	12,119
Total liabilities employed	121,674	39,101	24,444	86,855	15,193	14,585	131,767	47,615
Of which: Customer accounts	97,647	28,635	19,872	57,197	11,453	10,745	63,562	17,523

	6 months ended 31.12.15							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,517	450	422	745	505	344	393	400
Operating expenses	(853)	(450)	(360)	(463)	(305)	(268)	(259)	(373)
Operating profit before impairment losses and taxation	664	–	62	282	200	76	134	27
Impairment losses on loans and advances and other credit risk provisions	(217)	(102)	(151)	(163)	(462)	(234)	(122)	(32)
Other impairment	(7)	(3)	(10)	–	(4)	–	16	–
Profit from associates and joint ventures	–	–	95	–	–	–	–	–
Underlying profit/(loss) before taxation	440	(105)	(4)	119	(266)	(158)	28	(5)
Total assets employed	131,517	44,252	26,354	87,380	24,840	22,568	118,836	56,356
Of which: Loans to customers	54,927	27,552	12,268	47,394	15,996	12,456	23,897	11,506
Total liabilities employed	121,439	38,364	23,250	90,372	14,244	17,136	106,826	54,828
Of which: Customer accounts	97,848	28,055	19,526	60,158	11,110	13,545	47,901	18,321

	6 months ended 30.06.15							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,925	699	467	835	492	457	492	399
Operating expenses	(883)	(466)	(367)	(488)	(280)	(274)	(253)	(358)
Operating profit before impairment losses and taxation	1,042	233	100	347	212	183	239	41
Impairment losses on loans and advances and other credit risk provisions	(197)	(138)	(88)	(101)	(483)	(116)	(112)	(19)
Other impairment	–	(7)	–	–	(14)	–	2	–
Profit from associates and joint ventures	–	–	77	–	–	–	–	–
Underlying profit/(loss) before taxation	845	88	89	246	(285)	67	129	22
Total assets employed	139,634	49,822	31,787	101,047	29,416	22,788	114,296	70,573
Of which: Loans to customers	60,457	29,146	14,511	52,101	19,732	13,366	18,747	12,493
Total liabilities employed	131,155	43,101	27,469	103,682	15,963	16,285	104,011	66,107
Of which: Customer accounts	104,177	28,994	20,529	72,089	12,467	13,069	43,599	25,539

3. Net fees and commission

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Transaction Banking	**602**	614	688
Financial Markets	**(62)**	63	109
Corporate Finance	**269**	131	176
Wealth Management	**520**	524	686
Retail Products	**234**	257	300
Asset and Liability Management	**(12)**	(10)	(19)
Lending and Portfolio Management	**32**	22	44
Principal Finance	**5**	2	2
Other	**(10)**	46	(28)
	1,578	1,649	1,958

Total fee income arising from financial instruments that are not fair valued through profit or loss is $505 million (31 December 2015: $508 million, 30 June 2015: $682 million) and arising from trust and other fiduciary activities of $57 million (31 December 2015: $70 million, 30 June 2015: $86 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $23 million (31 December 2015: $21 million, 30 June 2015: $19 million) and arising from trust and other fiduciary activities of $9 million (31 December 2015: $11 million, 30 June 2015: $14 million).

4. Net trading income

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Gains less losses on instruments held for trading:			
Foreign currency[1]	**153**	172	1,436
Trading securities and other	**186**	(740)	156
Interest rate derivatives	**1,263**	(217)	(470)
Credit and other derivatives	**(347)**	597	(174)
	1,255	(188)	948
Gains less losses from fair value hedging:			
Gains less losses from fair value hedged items	**(1,096)**	(277)	475
Gains less losses from fair value hedging instruments	**1,026**	280	(472)
	(70)	3	3
Gains less losses on instruments designated at fair value:			
Financial assets designated at fair value through profit or loss	**(56)**	(144)	26
Financial liabilities designated at fair value through profit or loss	**(429)**	(278)	(113)
Own credit adjustment	**(70)**	440	55
Derivatives managed with financial instruments designated at fair value through profit or loss	**102**	110	50
	(453)	128	18
	732	(57)	969

1. Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

The second half of 2015 includes $863 million of valuation losses relating to the change in the methodology for calculating the Credit and Funding Valuation Adjustments.

Gains less losses on instruments held for trading is presented by product type. Gains or losses on certain trading securities are offset by gains or losses within interest rate derivatives and credit and other derivatives.

5. Other operating income

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Other operating income includes:			
Rental income from operating lease assets	271	250	300
Gains less losses on disposal of financial instruments:			
Available-for-sale	162	173	159
Loans and receivables	15	6	(2)
Net gain on sale of businesses	–	–	222
Dividend income	48	32	79
Gains arising on repurchase of subordinated liabilities	84	–	–
Gain on disposal of property, plant and equipment	11	16	50
Receipt of tax refund related income	–	–	13
Fair value loss on business classified as held for sale	–	(1)	(3)

6. Operating expenses

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Staff costs:			
Wages and salaries	2,326	2,442	2,482
Social security costs	74	75	79
Other pension costs (note 19)	162	157	142
Share-based payment costs	37	8	138
Other staff costs	339	1,117	479
	2,938	3,799	3,320

Variable compensation is included within wages and salaries. Other staff costs primarily include redundancy, staff benefits and training costs.

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Premises and equipment expenses			
Rental of premises	198	218	215
Other premises and equipment costs	183	200	176
Rental of computers and equipment	9	11	11
	390	429	402

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
General administrative expenses			
UK bank levy[1]	–	440	–
Other general administrative expenses	868	1,134	985
	868	1,574	985

1. Under current accounting requirements, the UK bank levy is only recognised in the financial statements on 31 December each year. The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2016 is the blended rate of 0.18 per cent for chargeable short-term liabilities, with a lower rate of 0.09 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year)

7. Depreciation and amortisation

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Property, plant and equipment:			
Premises	39	41	50
Equipment	43	44	44
Operating lease assets	124	126	132
	206	211	226
Intangibles:			
Software	134	108	97
Acquired on business combinations	8	10	12
	348	329	335

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

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Net charge against profit on loans and advances:			
Individual impairment charge	1,167	3,133	1,687
Portfolio impairment charge/(release)	28	45	(49)
	1,195	3,178	1,638
Impairment charges related to credit commitments	24	83	11
Impairment charges relating to debt securities classified as loans and receivables	77	63	3
Total impairment losses and other credit risk provisions on loans and advances	1,296	3,324	1,652

An analysis of impairment provisions on loans and advances is set out within the Risk review on pages 55 and 56.

9. Other impairment

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Impairment of goodwill (note 16)	–	488	–
Impairment of fixed assets	104	111	38
Impairment losses on available-for-sale financial assets:			
Debt securities	24	(13)	18
Equity shares	105	94	48
	129	81	66
Impairment of investment in associates	–	46	–
Impairment of acquired intangible assets	–	–	1
Other	(4)	47	(5)
	229	773	100
Recovery of impairment on disposal of instruments[1]	–	(4)	(14)
	229	769	86

1. Relates to investment securities sold during the period which had impairment provisions raised against them in prior periods

10. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

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

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
The charge for taxation based upon the profit/(loss) for the period comprises:			
Current tax:			
United Kingdom corporation tax at 20.00 per cent (31 December 2015 and 30 June 2015: 20.25 per cent)			
Current tax (credit)/charge on income for the period	**–**	(19)	4
Adjustments in respect of prior periods (including double taxation relief)	**4**	37	20
Double taxation relief	**–**	–	(4)
Foreign tax:			
Current tax charge on income for the period	**473**	582	502
Adjustments in respect of prior periods	**(47)**	74	(25)
	430	674	497
Deferred tax:			
Origination/reversal of temporary differences	**(96)**	(597)	71
Adjustments in respect of prior periods	**5**	29	(1)
	(91)	(568)	70
Tax on profits/(loss) on ordinary activities	**339**	106	567
Effective tax rate	**38.0%**	nm[1]	27.0%

1. Not meaningful

Foreign taxation includes current taxation on Hong Kong profits of $71 million (31 December 2015: $59 million and 30 June 2015: $72 million) on the profits assessable in Hong Kong.

Deferred taxation includes origination/reversal of temporary differences in Hong Kong profits of $(2) million (31 December 2015: $(9) million and 30 June 2015: $(3) million) provided at a rate of 16.5 per cent (31 December 2015 and 30 June 2015: 16.5 per cent) on the profits assessable to Hong Kong.

11. Dividends

	30.06.16		31.12.15		30.06.15	
Ordinary equity shares	**Pre-rights cents per share**	**$million**	Pre-rights cents per share	$million	Pre-rights cents per share	$million
2015/2014 final dividend declared and paid during the year	**–**	**–**	–		57.20	1,412
2015 interim dividend declared and paid during the year			14.40	366		
	–	**–**	14.40	366	57.20	1,412

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2016 and 2015. Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years.

On 3 November 2015, the Board announced that no final dividend will be paid for 2015 financial year in light of the strategic review and the rights issue. Accordingly, the total dividend for 2015 was 14.40 cents per share on a pre-rights basis.

11. Dividends continued

Impact of the 2015 rights issue

On 3 November 2015, the Company announced the issue of 728,432,451 new ordinary shares by way of rights to qualifying shareholders at 465 pence per new ordinary share. The issue was on the basis of two ordinary shares for every seven ordinary shares held on 18 November 2015. The dividend per share amounts in the table below have been adjusted for the bonus element included within the 2015 rights issue in line with the restatement of prior period earnings per share amounts required by *IAS 33 Earnings per share* (see note 12).

	30.06.16 Post-rights cents per share	31.12.15 Post-rights cents per share	30.06.15 Post-rights cents per share
2015/2014 final dividend declared and paid during the period	**–**		54.44
2015 interim dividend declared and paid during the period		13.71	

2016 recommended interim dividend

No interim dividend will be paid for 2016 financial year

Preference shares		**30.06.16 $million**	31.12.15 $million	30.06.15 $million
Non-cumulative irredeemable preference shares:	$7^3/_8$ per cent preference shares of £1 each[1]	**5**	5	6
	$8^1/_4$ per cent preference shares of £1 each[1]	**6**	7	6
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each[2]	**26**	27	26
	6.409 per cent preference shares of $5 each[2]	**24**	24	24

1. Dividends on these preference shares are treated as interest expense and accrued accordingly
2. Dividends on these preference shares classified as equity are recorded in the period in which they are declared

Additional Tier 1 securities	**30.06.16 $million**	31.12.15 $million	30.06.15 $million
$2 billion fixed rate resetting perpetual subordinated contingent convertible securities[1]	**65**	65	–

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

12. Earnings per ordinary share

	6 months ended 30.06.16			6 months ended 31.12.15		
	Profit[1] $million	**Weighted average number of shares (000)**	**Per share amount cents**	(Loss)[1] $million	Weighted average number of shares (000)	Per share amount cents
Basic earnings/(loss) per ordinary share	**394**	**3,286,397**	**12.0**	(3,822)	2,641,031	(144.7)
Effect of dilutive potential ordinary shares:						
Options[3]	**–**	**13,491**	**–**	–	–	–
Diluted earnings/(loss) per ordinary share	**394**	**3,299,888**	**11.9**	(3,822)	2,641,031	(144.7)

	6 months ended 30.06.15		
	Profit[1] $million	Weighted average number of shares (000)	Per share amount cents
Basic earnings per ordinary share	1,462	2,496,639	58.6
Pre-rights issue bonus earnings per ordinary share			
Impact of rights issue[2]	–	127,329	–
Post-rights issue basic earnings per ordinary share	1,462	2,623,968	55.7
Effect of dilutive potential ordinary shares:			
Options[3]	–	9,552	–
Diluted earnings per ordinary share	1,462	2,633,520	55.5

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculation had they been issued prior to the end of the balance sheet date.

1. The profit/(loss) amounts represent the profit attributable to ordinary shareholders, which is profit/(loss) for the period after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares and Additional Tier 1 securities classified as equity (see note 11)
2. On 3 November 2015, the Company announced the issue of 728,432,451 new ordinary shares by way of rights to qualifying shareholders at 465 pence per share. The issue was made as two shares for every seven shares held on 18 November 2015. As required by *IAS 33 Earnings per share* the impact of the bonus element included within the rights issue has been included in the calculations of the basic and diluted earnings per share for the year and prior year (and their normalised equivalent) has been represented accordingly
3. The impact of anti-dilutive options has been excluded from this amount as required by *IAS 33 Earnings per share*

12. Earnings per ordinary share continued

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 *Earnings per share*. The table below provides a reconciliation.

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Operating income as reported	**6,935**	6,520	8,769
Items normalised:			
Fair value movements on own credit adjustment	**70**	(440)	(55)
Credit and funding valuation methodology adjustment	**–**	863	–
Gain on disposal of property	**(6)**	(10)	–
Gains arising on repurchase of subordinated liabilities	**(84)**	–	–
Unwinding of discount on liquidation portfolio[1]	**(111)**	–	–
Net gain arising on sale of business	**–**	–	(222)
Fair value loss on business classified as held for sale	**–**	1	3
	(131)	414	(274)
Normalised operating income	**6,804**	6,934	8,495
Operating expenses as reported	**(4,544)**	(6,131)	(5,042)
Items normalised:			
Restructuring costs[1]	**10**	695	–
Amortisation of intangible assets arising on business combinations	**8**	10	12
	18	705	12
Normalised operating expenses	**(4,526)**	(5,426)	(5,030)
Impairment losses on loans and advances and other impairment as reported	**(1,525)**	(4,093)	(1,738)
Items normalised:			
Impairment on loans and advances and other credit provisions[1]	**200**	968	–
Impairment of associates[1]	**–**	46	–
Impairment of fixed assets[1]	**–**	10	–
Impairment of investment securities[1]	**16**	–	–
Impairment of acquired intangibles	**–**	1	–
Impairment of goodwill[1]	**–**	488	–
	216	1,513	–
Normalised impairment provisions	**(1,309)**	(2,580)	(1,738)
Taxation as reported	**(339)**	(106)	(567)
Tax on normalised items[2]	**(30)**	(194)	15
Normalised taxation	**(369)**	(300)	(552)
Profit/(loss) as reported[3]	**394**	(3,822)	1,462
Items normalised as above:			
Operating income	**(131)**	414	(274)
Operating expenses	**18**	705	12
Other impairment	**216**	1,513	–
Taxation	**(30)**	(194)	15
	73	2,438	(247)
Normalised profit/(loss)	**467**	(1,384)	1,215
Normalised basic earnings/(loss) per ordinary share (cents)	**14.2**	(52.4)	46.3[4]
Normalised diluted earnings/(loss) per ordinary share (cents)	**14.2**	(52.4)	46.1[4]

1. Includes charges relating to restructuring actions, further details are provided on page 12
2. No tax is included in respect of the impairment of goodwill as no tax relief is available
3. The profit/(loss) amounts represent the profit attributable to ordinary shareholders, which is profit/(loss) for the period after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares and Additional Tier 1 securities classified as equity (see note 11)
4. On 3 November 2015, the Company announced the issue of 728,432,451 new ordinary shares by way of rights to qualifying shareholders at 465 pence per share. The issue was made as two shares for every seven shares held on 18 November 2015. As required by *IAS 33 Earnings per share* the impact of the bonus element included within the rights issue has been included in the calculations of the basic and diluted earnings per share for the year and prior year (and their normalised equivalent) has been represented accordingly

13. Financial instruments

Classification

The accounting policies in note 1 in the Group's 2015 Annual Report and Accounts describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The Group's classification of its financial assets and liabilities is summarised in the following tables.

		Assets at fair value				Assets at amortised cost			
Assets	Notes	Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held-to-maturity $million	Non-financial assets $million	Total $million
Cash and balances at central banks		–	–	–	–	66,163	–	–	66,163
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		307	–	1,988	–	–	–	–	2,295
Loans and advances to customers[1]		1,710	–	1,560	–	–	–	–	3,270
Treasury bills and other eligible bills		1,590	–	–	–	–	–	–	1,590
Debt securities		14,274	–	389	–	–	–	–	14,663
Equity shares		756	–	629	–	–	–	–	1,385
		18,637	–	4,566	–	–	–	–	23,203
Derivative financial instruments	14	65,445	2,139	–	–	–	–	–	67,584
Loans and advances to banks[1]		–	–	–	–	72,238	–	–	72,238
Loans and advances to customers[1]		–	–	–	–	262,604	–	–	262,604
Investment securities									
Treasury bills and other eligible bills		–	–	–	36,833	–	–	–	36,833
Debt securities		–	–	–	69,552	3,081	235	–	72,868
Equity shares		–	–	–	1,364	–	–	–	1,364
		–	–	–	107,749	3,081	235	–	111,065
Other assets	15	–	–	–	–	37,070	–	2,800	39,870
Total at 30 June 2016		84,082	2,139	4,566	107,749	441,156	235	2,800	642,727
Cash and balances at central banks		–	–	–	–	65,312	–	–	65,312
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		92[2]	–	2,183[2]	–	–	–	–	2,275
Loans and advances to customers[1]		3,008	–	1,039	–	–	–	–	4,047
Treasury bills and other eligible bills		859	–	–	–	–	–	–	859
Debt securities		12,896	–	389	–	–	–	–	13,285
Equity shares		2,237	–	698	–	–	–	–	2,935
		19,092	–	4,309	–	–	–	–	23,401
Derivative financial instruments	14	61,812	1,331	–	–	–	–	–	63,143
Loans and advances to banks[1]		–	–	–	–	64,494	–	–	64,494
Loans and advances to customers[1]		–	–	–	–	257,356	–	–	257,356
Investment securities									
Treasury bills and other eligible bills		–	–	–	32,453	–	–	–	32,453
Debt securities		–	–	–	77,684	2,700	210	–	80,594
Equity shares		–	–	–	1,720	–	–	–	1,720
		–	–	–	111,857	2,700	210	–	114,767
Other assets	15	–	–	–	–	32,408	–	2,193	34,601
Total at 31 December 2015		80,904	1,331	4,309	111,857	422,270	210	2,193	623,074

1. Further analysed in the Risk review on pages 38 to 65
2. Restated

13. Financial instruments continued

Liabilities	Notes	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	1,201	–	–	1,201
Customer accounts		–	–	8,699	–	–	8,699
Debt securities in issue		–	–	7,140	–	–	7,140
Short positions		3,292	–	–	–	–	3,292
		3,292	–	17,040	–	–	20,332
Derivative financial instruments	14	63,832	2,513	–	–	–	66,345
Deposits by banks		–	–	–	40,214	–	40,214
Customer accounts		–	–	–	362,999	–	362,999
Debt securities in issue		–	–	–	54,907	–	54,907
Other liabilities	17	–	–	–	39,953	455	40,408
Subordinated liabilities and other borrowed funds	18	–	–	–	20,646	–	20,646
Total at 30 June 2016		67,124	2,513	17,040	518,719	455	605,851
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	637	–	–	637
Customer accounts		–	–	8,494	–	–	8,494
Debt securities in issue		–	–	8,917	–	–	8,917
Short positions		2,824	–	–	–	–	2,824
		2,824	–	18,048	–	–	20,872
Derivative financial instruments	14	59,390	2,549	–	–	–	61,939
Deposits by banks		–	–	–	37,611	–	37,611
Customer accounts		–	–	–	350,633	–	350,633
Debt securities in issue		–	–	–	59,880	–	59,880
Other liabilities	17	–	–	–	31,525	486	32,011
Subordinated liabilities and other borrowed funds	18	–	–	–	21,852	–	21,852
Total at 31 December 2015		62,214	2,549	18,048	501,501	486	584,798

13. Financial instruments continued

Valuation of financial instruments

There is no significant change to what was disclosed in the Group's *2015 Annual Report and Accounts* in respect of valuation methodology and levelling approaches.

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy at 30 June 2016 and 31 December 2015.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	2,295	–	2,295
Loans and advances to customers	–	3,205	65	3,270
Treasury bills and other eligible bills	1,198	392	–	1,590
Debt securities	4,995	9,370	298	14,663
Of which:				
Government bonds	4,720	3,898	–	8,618
Issued by corporates other than financial institutions	94	3,097	196	3,387
Issued by financial institutions	181	2,375	102	2,658
Equity shares	487	–	898	1,385
Derivative financial instruments	1,566	65,587	431	67,584
Of which:				
Foreign exchange	916	48,927	325	50,168
Interest rate	29	15,046	18	15,093
Commodity	621	1,320	–	1,941
Credit	–	200	–	200
Equity and stock index	–	94	88	182
Investment securities				
Treasury bills and other eligible bills	32,233	4,553	47	36,833
Debt securities	30,124	39,221	207	69,552
Of which:				
Government bonds	17,164	9,656	89	26,909
Issued by corporates other than financial institutions	7,060	9,410	118	16,588
Issued by financial institutions	5,900	20,155	–	26,055
Equity shares	672	6	686	1,364
Total at 30 June 2016	71,275	124,629	2,632	198,536
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	1,201	–	1,201
Customer accounts	–	8,699	–	8,699
Debt securities in issue	–	6,599	541	7,140
Short positions	1,517	1,775	–	3,292
Derivative financial instruments	1,556	64,444	345	66,345
Of which:				
Foreign exchange	903	50,271	230	51,404
Interest rate	42	12,967	15	13,024
Commodity	611	591	–	1,202
Credit	–	516	34	550
Equity and stock index	–	99	66	165
Total at 30 June 2016	3,073	82,718	886	86,677

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

13. 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	–	2,275	–	2,275
Loans and advances to customers	–	3,815	232	4,047
Treasury bills and other eligible bills	810	49	–	859
Debt securities	4,492	8,537	256	13,285
Of which:				
Government bonds	4,181	3,993	12	8,186
Issued by corporates other than financial institutions	21	2,555	141	2,717
Issued by financial institutions	290	1,989	103	2,382
Equity shares	2,122	–	813	2,935
Derivative financial instruments	736	61,929	478	63,143
Of which:				
Foreign exchange	67	46,901	291	47,259
Interest rate	1	11,735	9	11,745
Commodity	668	2,838	–	3,506
Credit	–	303	35	338
Equity and stock index	–	152	143	295
Investment securities				
Treasury bills and other eligible bills	28,978	3,393	82	32,453
Debt securities	34,868	42,559	257	77,684
Of which:				
Government bonds	20,435	10,356	53	30,844
Issued by corporates other than financial institutions	10,005	8,818	204	19,027
Issued by financial institutions	4,428	23,385	–	27,813
Equity shares	872	7	841	1,720
Total at 31 December 2015	72,878	122,564	2,959	198,401

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	637	–	637
Customer accounts	–	8,493	1	8,494
Debt securities in issue	–	8,422	495	8,917
Short positions	1,222	1,602	–	2,824
Derivative financial instruments	695	60,925	319	61,939
Of which:				
Foreign exchange	86	47,681	246	48,013
Interest rate	–	11,913	38	11,951
Commodity	609	818	–	1,427
Credit	–	300	14	314
Equity and stock index	–	213	21	234
Total at 31 December 2015	1,917	80,079	815	82,811

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

13. Financial instruments continued

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. In total, the Group has made $1,192 million (31 December 2015: $1,435 million) of valuation adjustments in determining fair value for financial assets and financial liabilities. The main adjustments are described below:

Valuation adjustments	30.06.16 $million	31.12.15 $million
Bid-offer	59	72
Credit[1]	752	815
Model	7	13
Funding Valuation Adjustment	266	366
Others (including Day one)	108	169
Total	1,192	1,435

1. Includes own debit valuation adjustments on derivatives

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	Treasury bills $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2016	232	–	256	813	478	82	257	841	2,959
Total (losses)/gains recognised in income statement	(42)	–	2	(161)	50	–	(35)	(65)	(251)
Net trading income	(42)	–	2	(155)	35	–	(41)	–	(201)
Other operating income	–	–	–	(6)	15	–	6	–	15
Other impairment charge	–	–	–	–	–	–	–	(65)	(65)
Total gains/(losses) recognised in other comprehensive income	–	–	–	–	–	1	6	(23)	(16)
Available-for-sale reserve	–	–	–	–	–	–	3	(27)	(24)
Exchange difference	–	–	–	–	–	1	3	4	8
Purchases	–	–	124	84	30	–	10	79	327
Sales	–	–	(11)	(31)	–	–	(50)	(26)	(118)
Settlements	(28)	–	(52)	–	(32)	–	(8)	–	(120)
Transfers out[1]	(101)	–	(21)	–	(95)	(36)	(20)	(120)	(393)
Transfers in[2]	4	–	–	193	–	–	47	–	244
At 30 June 2016	65	–	298	898	431	47	207	686	2,632
Total (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 30 June 2016	(45)	–	2	(151)	48	–	(35)	–	(181)

1. Transfers out during the period primarily relate to certain equity loans and advances and derivative financial instruments where the valuation parameters became observable during the period and were transferred to Level 1 and Level 2 financial assets
2. Transfers in during the period primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the period

13. Financial instruments continued

Assets	Held at fair value through profit or loss: Loans and advances to customers $million	Held at fair value through profit or loss: Treasury bills $million	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2015	640	–	395	808	575	–	360	953	3,731
Total (losses)/gains recognised in income statement	(441)	–	5	(75)	22	–	(17)	(24)	(530)
Net trading income	(441)	–	5	(75)	22	–	–	19	(470)
Other operating income	–	–	–	–	–	–	–	30	30
Impairment charge	–	–	–	–	–	–	(17)	(73)	(90)
Total losses recognised in other comprehensive income	–	–	–	–	(4)	(1)	(49)	(20)	(74)
Available-for-sale reserve	–	–	–	–	–	–	(29)	(15)	(44)
Exchange difference	–	–	–	–	(4)	(1)	(20)	(5)	(30)
Purchases	3	–	80	375	101	44	–	398	1,001
Sales	–	–	(161)	(357)	(72)	–	(116)	(304)	(1,010)
Settlements	–	–	(25)	–	(81)	(22)	(52)	–	(180)
Transfers out[1]	–	–	(185)	–	(78)	(78)	(123)	(162)	(626)
Transfers in[2]	30	–	147	62	15	139	254	–	647
At 31 December 2015	232	–	256	813	478	82	257	841	2,959
Total (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2015	(430)	–	6	(66)	33	–	(17)	1	(473)

1. Transfers out during the period primarily relate to certain equity loans and advances and corporate debt securities where the valuation parameters became observable during the period and were transferred to Level 1 and Level 2 financial assets
2. Transfers in during the period primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the period

Level 3 movement tables – financial liabilities

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

Liabilities	30.06.16 Customer accounts $million	30.06.16 Debt securities in issue $million	30.06.16 Derivative financial instruments $million	30.06.16 Total $million
At 1 January 2016	1	495	319	815
Total losses recognised in income statement	–	7	10	17
Net trading income	–	7	10	17
Issues	–	191	85	276
Settlements	–	(152)	(53)	(205)
Transfers out[1]	(1)	–	(16)	(17)
Transfers in[2]	–	–	–	–
At 30 June 2016	–	541	345	886
Total losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 30 June 2016	–	7	13	20

1. Transfers out during the period primarily relate to certain financial instruments where the valuation parameters became observable during the period and were transferred to Level 2 financial liabilities
2. Transfers in during the period primarily relates to certain financial instruments for which parameters became unobservable during the period

13. Financial instruments continued

Liabilities	Customer accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
	31.12.15			
At 1 January 2015	1	208	296	505
Total gains recognised in income statement	–	11	6	17
Net trading income	–	11	6	17
Issues	–	310	40	350
Settlements	–	(176)	(26)	(202)
Transfers out[1]	–	–	(3)	(3)
Transfers in[2]	–	142	6	148
At 31 December 2015	1	495	319	815
Total losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2015	–	–	16	16

1. Transfers out during the period primarily relate to certain financial instruments where the valuation parameters became observable during the period and were transferred to Level 2 financial liabilities
2. Transfers in during the period primarily relates to certain financial instruments for which parameters became unobservable during the period

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

Instrument	Value at 30 June 2016 Assets $million	Value at 30 June 2016 Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to customers	**65**	**–**	Comparable pricing/yield	Price/yield	19.1% to 27.5%	24.1%
				Recovery rates	2.7% to 87.0%	57.6%
Debt securities[2]	**406**	**–**	Comparable pricing/yield	Price/yield	3.4% to 8.5%	6.3%
Asset backed securities	**10**	**–**	Discounted cash flows	Price/yield	1.8% to 13.2%	2.3%
Debt securities in issue	**–**	**541**	Internal pricing model	Equity correlation	-35.0% to 92.0%	N/A
			Discounted cash flows	Credit spreads	0.7% to 4.0%	1.8%
Government bonds	**136**	**–**	Discounted cash flows	Price/yield	1.4% to 15.3%	4.6%
Derivative financial instruments of which:						
Foreign exchange	**325**	**230**	Option pricing model	Foreign exchange option implied volatility	1.5% to 21.7%	9.1%
Interest rate	**18**	**15**	Discounted cash flows	Interest rate curves	0.5% to 13.7%	11.7%
Credit	**–**	**34**	Discounted cash flows	Credit spreads	0.3% to 4.0%	1.1%
Equity	**88**	**66**	Internal pricing model	Equity correlation	-35.0% to 92.0%	N/A
Equity shares (includes private equity investments)	**1,584**	**–**	Comparable pricing/yield	EV/EBITDA multiples P/E multiples Liquidity discount	7.3x to 14.8x 8.0x to 19.2x 10.0% to 20.0%	10.4x 14.2x 18.6%
			Discounted cash flows	Discount rates	10.5% to 15.0%	12.5%
Total	**2,632**	**886**				

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 at 30 June 2016. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments
2. Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

13. Financial instruments continued

The following section describes the significant unobservable inputs identified in the valuation technique table.

Credit spreads

Credit spreads represent the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument.

Recovery rates

Recovery rate is the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan.

Comparable price/yield

Comparable pricing is a valuation methodology in which a price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (e.g. deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates.

Volatility

Volatility represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be.

Interest rate curves

Interest rate curve is the term structure of interest rates and measure of future interest rates at a particular point of time.

EV/EBITDA ratio multiples

This is the ratio of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiple in isolation, will result in a favourable movement in the fair value of the unlisted firm.

P/E multiples

Price-earnings (P/E) multiple is the ratio of the market capitalisation to the net income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm.

Liquidity discounts in the valuation of unlisted investments

A liquidity discount is primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm.

13. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Sensitivity analysis is performed on financial instruments with significant unobservable inputs to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analysis performed on a set of reference prices, which includes certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Financial instruments held at fair value						
Debt securities	**298**	**300**	**296**	**207**	**218**	**196**
Equity shares	**898**	**988**	**808**	**686**	**755**	**617**
Loan and advances	**65**	**71**	**60**	**–**	**–**	**–**
Treasury bills	**–**	**–**	**–**	**47**	**47**	**47**
Derivative financial instruments	**86**	**160**	**11**	**–**	**–**	**–**
Debt securities in issue	**(541)**	**(529)**	**(553)**	**–**	**–**	**–**
At 30 June 2016	**806**	**990**	**622**	**940**	**1,020**	**860**
Financial instruments held at fair value						
Debt securities	256	261	251	257	266	247
Equity shares	813	895	731	841	937	745
Loan and advances	231	259	217	–	–	–
Treasury bills	–	–	–	82	83	81
Derivative financial instruments	159	423	(106)	–	–	–
Debt securities in issue	(495)	(482)	(508)	–	–	–
At 31 December 2015	964	1,356	585	1,180	1,286	1,073

The reasonably possible alternatives could have increased or decreased the fair values of financial instruments held at fair value through profit or loss and those classified as available-for-sale by the amounts disclosed below:

Financial instruments	**Fair value changes**	**30.06.16 $million**	31.12.15 $million
Designated at fair value through profit or loss	Possible increase	**184**	392
	Possible decrease	**(184)**	(379)
Available-for-sale	Possible increase	**80**	106
	Possible decrease	**(80)**	(107)

13. Financial instruments continued

Valuation of financial instruments measured at amortised cost on a recurring basis

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/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]	**66,163**	**–**	**66,163**	**–**	**66,163**
Loans and advances to banks	**72,238**	**–**	**72,134**	**41**	**72,175**
Loans and advances to customers	**262,604**	**–**	**6,048**	**255,976**	**262,024**
Investment securities	**3,316**	**–**	**3,285**	**22**	**3,307**
Other assets[1]	**37,070**	**–**	**37,070**	**–**	**37,070**
At 30 June 2016	**441,391**	**–**	**184,700**	**256,039**	**440,739**
Liabilities					
Deposits by banks	**40,214**	**–**	**40,219**	**–**	**40,219**
Customer accounts	**362,999**	**–**	**363,278**	**–**	**363,278**
Debt securities in issue	**54,907**	**17,436**	**37,389**	**–**	**54,825**
Subordinated liabilities and other borrowed funds	**20,646**	**18,376**	**399**	**–**	**18,775**
Other liabilities[1]	**39,953**	**–**	**39,953**	**–**	**39,953**
At 30 June 2016	**518,719**	**35,812**	**481,238**	**–**	**517,050**

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	65,312	–	65,312	–	65,312
Loans and advances to banks	64,494	–	64,522	161	64,683
Loans and advances to customers	257,356	–	6,547	250,334	256,881
Investment securities	2,910	–	2,836	71	2,907
Other assets[1]	32,408	–	32,409	–	32,409
At 31 December 2015	422,480	–	171,626	250,566	422,192
Liabilities					
Deposits by banks	37,611	–	38,058	–	38,058
Customer accounts	350,633	–	350,614	–	350,614
Debt securities in issue	59,880	17,612	42,230	–	59,842
Subordinated liabilities and other borrowed funds	21,852	20,495	426	–	20,921
Other liabilities[1]	31,525	–	31,525	–	31,525
At 31 December 2015	501,501	38,107	462,853	–	500,960

1. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently

14. Derivative financial instruments

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Derivatives	30.06.16 Notional principal amounts $million	30.06.16 Assets $million	30.06.16 Liabilities $million	31.12.15 Notional principal amounts $million	31.12.15 Assets $million	31.12.15 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	2,136,134	25,914	25,176	1,846,097	20,379	20,013
Currency swaps and options	1,317,880	24,254	26,228	1,325,425	26,880	28,000
Exchange traded futures and options	300	–	–	454	–	–
	3,454,314	50,168	51,404	3,171,976	47,259	48,013
Interest rate derivative contracts:						
Swaps	2,117,425	13,399	11,155	2,121,493	10,810	10,780
Forward rate agreements and options	57,647	1,480	1,682	72,776	935	1,171
Exchange traded futures and options	1,108,054	214	187	586,588	–	–
	3,283,126	15,093	13,024	2,780,857	11,745	11,951
Credit derivative contracts	25,240	200	550	23,561	338	314
Equity and stock index options	5,597	182	165	9,384	295	234
Commodity derivative contracts	71,733	1,941	1,202	96,984	3,506	1,427
Total derivatives	6,840,010	67,584	66,345	6,082,762	63,143	61,939

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business.

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The tables below list the types of derivatives that the Group holds for hedge accounting.

	30.06.16 Notional principal amounts $million	30.06.16 Assets $million	30.06.16 Liabilities $million	31.12.15 Notional principal amounts $million	31.12.15 Assets $million	31.12.15 Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	56,455	1,600	665	52,826	736	233
Forward foreign exchange contracts	5	–	–	5	–	–
Currency swaps	25,484	472	1,736	29,199	510	2,247
	81,944	2,072	2,401	82,030	1,246	2,480
Derivatives designated as cash flow hedges:						
Interest rate swaps	8,676	32	10	8,777	3	20
Forward foreign exchange contracts	954	15	44	1,589	3	46
Currency swaps	3,078	20	6	2,621	40	3
	12,708	67	60	12,987	46	69
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	1,271	–	52	1,339	39	–
Total derivatives held for hedging	95,923	2,139	2,513	96,356	1,331	2,549

15. Other assets

	30.06.16 $million	31.12.15 $million
Financial assets held at amortised cost (note 13)		
Hong Kong SAR Government certificates of indebtedness (note 17)[1]	**5,276**	4,907
Cash collateral	**14,454**	13,430
Acceptances and endorsements	**3,387**	3,949
Unsettled trades and other financial assets	**13,953**	10,122
	37,070	32,408
Non-financial assets and assets held for sale		
Commodities	**2,126**	1,652
Assets held for sale[2]	**336**	349
Other assets	**338**	192
	39,870	34,601

1. The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued
2. This includes disposal groups which are measured at the lower of carrying value or fair value less costs to sell. This mainly includes operating lease assets (ships) and businesses held for sale in China, Thailand and Philippines; the businesses consist of Inner Mongolia Helingeer Standard Chartered Village Bank Limited (IMHSCVBL) in China, Standard Chartered (Thai) Asset Management Co. Ltd in Thailand, Assurance Solutions Insurance Agency Inc. and Price Solutions Philippines Inc. in Philippines and Retail business of Standard Chartered Bank and Standard Chartered Bank FCDU in Philippines

The disposal of businesses held for sale in Pakistan at 31 December 2015, was completed in June 2016.

The disposal groups below have been presented as held for sale following the approval of the Group management and the transactions are expected to complete in the second half of 2016. The assets and liabilities of the disposal groups were remeasured to the lower of carrying amount and fair value less costs to sell, there was no fair value loss resulting from the remeasurement.

	Businesses held for sale in Philippines $million	Other businesses $million	Total $million
Assets			
Cash and balances at central banks	3	2	**5**
Loans and advances to banks	–	14	**14**
Loans and advances to customers	131	3	**134**
Investment securities	–	42	**42**
Other assets	3	10	**13**
Prepayments and accrued income	1	16	**17**
Total assets	138	87	**225**
Liabilities			
Customer accounts	214	2	**216**
Other liabilities	9	6	**15**
Total liabilities	223	8	**231**
Due from Group Undertakings	–	2	**2**

The assets reported above are Level 3 except for cash and balances at central banks (Level 2) and financial assets held at fair value through profit and loss (Level 2). The net liabilities due to Group undertakings will be transferred to the acquirers on completion of the sale.

16. Goodwill and intangible assets

	30.06.16				30.06.15			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost at 30 June	**3,640**	**518**	**1,774**	**5,932**	4,230	522	1,453	6,205
Provision for amortisation	**–**	**(444)**	**(694)**	**(1,138)**	–	(444)	(538)	(982)
Net book value at 30 June	**3,640**	**74**	**1,080**	**4,794**	4,230	78	915	5,223

	31.12.15			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost at 31 December	4,104	494	1,551	6,149
Impairment charge	(488)	–	–	(488)
	3,616	494	1,551	5,661
Provision for amortisation	–	(430)	(589)	(1,019)
Net book value at 31 December	3,616	64	962	4,642

Outcome of impairment assessment

At 30 June 2016, 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 cash flows and/or fluctuations in the discount rate or the assumptions.

At 30 June 2016, the results of this review indicated that there is no goodwill impairment to be recognised. The Group believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

It continues to be possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate would potentially result in the carrying amount of goodwill exceeding the recoverable amount in the future.

17. Other liabilities

	30.06.16 $million	31.12.15 $million
Financial liabilities held at amortised cost (note 13)		
Notes in circulation[1]	**5,276**	4,907
Acceptances and endorsements	**3,387**	3,949
Cash collateral	**12,789**	10,074
Unsettled trades and other financial liabilities	**18,501**	12,595
	39,953	31,525
Non-financial liabilities		
Cash-settled share based payments	**19**	18
Liabilities held for sale[2]	**231**	72
Other liabilities	**205**	396
	40,408	32,011

1. Hong Kong currency notes in circulation of $5,276 million (31 December 2015: $4,907 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 15)
2. This is in respect of businesses held for sale in China, Thailand and Philippines; the disposal group consists of Inner Mongolia Helingeer Standard Chartered Village Bank Limited (IMHSCVBL) in China, Standard Chartered (Thai) Asset Management Co. Ltd. in Thailand, Assurance Solutions Insurance Agency Inc. and Price Solutions Philippines Inc. in Philippines and Retail business of Standard Chartered Bank and Standard Chartered Bank FCDU in Philippines. Further analysis is disclosed in note 15

18. Subordinated liabilities and other borrowed funds

	30.06.16				
	USD $million	GBP $million	Euro $million	Others $million	Total $million
Fixed rate subordinated debt	**10,997**	**3,311**	**4,281**	**1,846**	**20,435**
Floating rate subordinated debt	**160**	**16**	**–**	**35**	**211**
Total	**11,157**	**3,327**	**4,281**	**1,881**	**20,646**

	31.12.15				
	USD $million	GBP $million	Euro $million	Others $million	Total $million
Fixed rate subordinated debt	10,899	4,818	4,093	1,724	21,534
Floating rate subordinated debt	238	45	–	35	318
Total	11,137	4,863	4,093	1,759	21,852

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Repurchases and redemptions during the period

On 23 March 2016, Standard Chartered Bank repurchased the following subordinated debt securities as a result of the tender offer announced on 11 March 2016:

- £172.7 million of £675 million 5.375 per cent undated step up subordinated notes (callable 2020)
- $503.1 million of $1 billion 6.4 per cent subordinated notes 2017
- $145.9 million of $700 million 8.0 per cent subordinated notes 2031
- £65.5 million of £200 million 7.75 per cent undated step up subordinated notes (callable 2022)

On 23 March 2016, Standard Chartered PLC repurchased the following primary capital floating rate notes as a result of the tender offer announced on 11 March 2016:

- $27.7 million of $400 million primary capital floating rate notes
- $11.4 million of $300 million primary capital floating rate notes (Series 2)
- $14.3 million of $400 million primary capital floating rate notes (Series 3)
- $24.1 million of $200 million primary capital floating rate notes (Series 4)
- £18.6 million of £150 million primary capital floating rate notes

On 11 May 2016, Standard Chartered Bank exercised it rights to redeem its £600 million 8.103 per cent step up callable perpetual preferred securities in full on the first optional call date.

Issuance during the period

There was no new issuance during the six months ended 30 June 2016.

19. Retirement benefit obligations

Retirement benefit obligations comprise:

	30.06.16 $million	31.12.15 $million	30.06.15 $million
Total market value of assets	**2,334**	2,409	2,626
Present value of the plans' liabilities	**(2,849)**	(2,831)	(3,020)
Defined benefit plans obligation	**(515)**	(422)	(394)
Defined contribution plans obligation	**(19)**	(23)	(15)
Net obligation	**(534)**	(445)	(409)

Retirement benefit charge comprises:

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Defined benefit plans	**49**	44	52
Defined contribution plans	**113**	113	90
Charge against profit (note 6)	**162**	157	142

The pension cost for defined benefit plans was:

	6 months ended 30.06.16 $million	6 months ended 31.12.15 $million	6 months ended 30.06.15 $million
Current service cost	**40**	45	46
Past service cost and curtailments	**–**	(2)	–
Gain on settlements	**–**	(6)	(1)
Interest income on pension plan assets	**(39)**	(45)	(43)
Interest on pension plan liabilities	**48**	52	50
Total charge to profit before deduction of tax	**49**	44	52
(Return)/charge on plan assets excluding interest income	**(117)**	69	(2)
Loss/(gain) on liabilities	**217**	3	(13)
Total loss/(gain) recognised directly in statement of comprehensive income before tax	**100**	72	(15)
Deferred taxation	**(14)**	4	6
Total loss/(gain)after tax	**86**	76	(9)

20. Share capital, other equity instruments and reserves

Group and Company

	Number of ordinary shares millions	Ordinary share capital[1] $million	Preference share capital $million	Total share capital $million	Other equity instruments $million
At 1 January 2015	2,473	1,236	–	1,236	–
Capitalised on scrip dividend	69	35	–	35	–
Shares issued	5	2	–	2	–
At 30 June 2015	2,547	1,273	–	1,273	–
Capitalised on scrip dividend	2	1	–	1	–
Shares issued	729	365	–	365	–
Additional Tier 1 equity issuance	–	–	–	–	1,987
At 31 December 2015	**3,278**	**1,639**	**–**	**1,639**	**1,987**
Shares issued	**5**	**2**	**–**	**2**	**–**
At 30 June 2016	**3,283**	**1,641**	**–**	**1,641**	**1,987**

1. Issued and fully paid ordinary shares of 50 cents each

20. 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.

2016

During the period, 4,911,947 shares were issued under employee share plans at prices between nil and 938 pence.

2015

On 14 May 2015, the Company issued 69,186,004 new ordinary shares instead of the final dividend and on the 19 October 2015, the Company issued 2,154,390 new ordinary shares instead of the 2015 interim dividend.

During the year 5,694,811 shares were issued under employee share plans at prices between nil and 1,140 pence.

On 3 November 2015, the Company announced the issue of 728,432,451 new ordinary shares by way of rights to qualifying shareholders at 465 pence per new ordinary share.

The issue was on the basis of two ordinary shares for every seven ordinary shares held on 18 November 2015. The rights issue raised $5.1 billion (£3.3 billion) in additional capital for the Company, net of expenses of $107 million. The proceeds will be used in the ordinary course of business. The rights issue used a cash box structure involving a Jersey subsidiary (JerseyCo), which was fully owned by the Company prior to the transaction. In return for an issue of shares by the Company to the investors, the net proceeds of the share issue were paid to JerseyCo. Pursuant to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares it did not own. Under this structure, merger relief applies under Section 612 of the *Companies Act 2006*, which provides relief from the requirements under Section 610 of the *Companies Act 2006* to create a share premium account. JerseyCo then redeemed its redeemable shares in exchange for the share issue proceeds.

Preference share capital

At 30 June 2016, the company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the company and are classified in equity.

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

Other equity instruments

At 30 June 2016, the Company has $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs.

Reserves

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (31.12.15: $27 million).

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed.

The merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the *Companies Act 2006*. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company. Of the 2015 funding, $1.5 billion was used to subscribe to additional equity in Standard Chartered Bank, a wholly owned subsidiary of the Company.

The available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

The cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

The 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.

20. Share capital, other equity instruments and reserves continued

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares held (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

At 30 June 2016, the distributable reserves of the Company were $15.2 billion (31 December 2015: $15.2 billion). These comprised retained earnings and $12.5 billion (31 December 2015: $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 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). The Group companies fund the 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	**30.06.16**	31.12.15	30.06.15	**30.06.16**	31.12.15	30.06.15	**30.06.16**	31.12.15	30.06.15
Shares purchased during the period	**278,224**	3,635,474	2,812,579	**–**	143,425	296,481	**278,224**	3,778,899	3,109,060
Market price of shares purchased ($million)	**2**	20	43	**–**	–	5	**2**	20	48
Shares held at the end of the period	**1,302,798**	4,861,846	2,509,499	**106,471**	137,850	–	**1,409,269**	4,999,696	2,509,499
Maximum number of shares held during the period							**5,140,070**	7,517,013	7,517,013

21. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and 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.

	30.06.16 $million	31.12.15 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**29,626**	29,694
Other contingent liabilities	**7,626**	9,361
	37,252	39,055
Commitments		
Documentary credits and short-term trade-related transactions	**5,500**	4,852
Forward asset purchases and forward deposits placed	**30**	530
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	**43,576**	45,327
Less than one year	**13,084**	14,104
Unconditionally cancellable	**115,057**	123,036
	177,247	187,849

The Group's share of contingent liabilities and commitments relating to joint ventures is $265 million (31 December 2015: $286 million).

Contingent liabilities

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments

Where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not, or letters of credit, and the Group has not made payments at the balance sheet date, those instruments are included in these financial statement as commitments.

22. Legal and regulatory matters

While the Group seeks to comply with the letter and spirit of all applicable laws and regulations at all times, it has been, and may continue to be, subject to regulatory actions, reviews, requests for information (including subpoenas and requests for documents) and investigations across our markets, the outcomes of which are generally difficult to predict and can be material to the Group.

In 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (FED), Deferred Prosecution Agreements (DPAs) with each of the Department of Justice (DOJ) and the New York County District Attorney's Office (DANY) and a Settlement Agreement with the Office of Foreign Assets Control (together, the 'Settlements'). In addition to the civil penalties totalling $667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (the 'Monitor'). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements. In 2013 the Group also established a Financial Crime Risk Mitigation Programme (FCRMP), which is a comprehensive, multi-year programme designed to review and enhance many aspects of the Group's existing approach to money laundering prevention and to combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption. Many of the deliverables under the SRP are reliant on, or led by, individuals or functions outside the US, and in some cases represent the US implementation of Group-wide remediation or upgrade activity managed under the FCRMP. Consequently, there is a close working relationship between the SRP and FCRMP for the purpose of project coordination and delivery. As part of the FCRMP, the Group or its advisors may identify new issues, potential breaches or matters requiring further review or further process improvements that could impact the scope or duration of the FCRMP.

The Group is engaged with all relevant authorities to implement these programmes and meet the obligations under the Settlements.

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the AML transaction surveillance system in its New York branch (the 'Branch'). The system, which is separate from the sanctions screening process, is one part of the Group's overall financial crime controls and is designed to alert the Branch to unusual transaction patterns that require further investigation on a post-transaction basis.

The Settlement provisions are summarised as follows:

(i) A civil monetary penalty of $300 million

(ii) Enhancements to the transaction surveillance system at the Branch

(iii) A two-year extension to the term of the Monitor

(iv) The following set of temporary remediation measures, which will remain in place until the transaction surveillance system's detection scenarios are operating to a standard approved by the Monitor:

  (a) The Branch will not, without prior approval of the NYDFS in consultation with the Monitor, open a dollar demand deposit account for any client that does not already have such an account with the Branch

  (b) Requirements for inclusion of identifying information for originators and beneficiaries of some affiliate and third-party payment messages cleared through the Branch

  (c) A restriction on dollar-clearing services for certain Hong Kong retail business clients

  (d) Enhanced monitoring of certain small and medium-sized enterprise clients in the UAE. The Group decided to exit this business as part of its broader efforts to sharpen its strategic focus, withdrawing from or realigning non-strategic businesses, including those where increased regulatory costs undermine their economic viability. The exit process is largely complete and, in accordance with the settlement agreement, dollar clearance restrictions were implemented effective 17 November 2014

The remit of the SRP has been expanded to cover the management of these obligations.

On 9 December 2014, the Group announced that the DOJ, DANY and the Group had agreed to a three-year extension of the DPAs until 10 December 2017, and to the retention of a monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme. The DOJ agreement acknowledges that the Group has taken a number of steps to comply with the requirements of the original DPAs and to enhance and optimise its sanctions compliance, including the implementation of more rigorous US sanctions policies and procedures, certified staff training, hiring of senior legal and financial crime compliance staff, and recently implementing additional measures to block payment instructions for countries subject to US sanctions laws and regulations. The Group will work closely with the authorities to make additional substantial improvements to its US sanctions programme to reach the standard required by the DPAs.

The Group is cooperating with an investigation by the US authorities and the New York State Attorney General relating to possible historical violations of US sanctions laws and regulations. In contrast to the 2012 settlements, which focused on the period before the Group's 2007 decision to stop doing new business with known Iranian parties, the ongoing investigation is focused on examining the extent to which conduct and control failures permitted clients with Iranian interests to conduct transactions through Standard Chartered Bank after 2007 and the extent to which any such failures were shared with relevant US authorities in 2012.

22. Legal and regulatory matters continued

The nature and timing of the outcome of this matter is uncertain and difficult to predict. As such, it is not possible to predict the extent of liabilities or other adverse consequences that may arise to the Group. Regulatory and enforcement authorities have broad discretion to pursue prosecutions and impose a wide range of penalties for non-compliance with laws and regulations. Penalties imposed by authorities have included substantial monetary penalties, additional compliance and remediation requirements and additional business restrictions. In recent years, such authorities have exercised their discretion to impose increasingly severe penalties on financial institutions that have been determined to have violated laws and regulations, and there can be no assurance that future penalties will not be of a different type or increased severity.

The Group recognises that its compliance with historical, current and future sanctions, as well as AML and BSA requirements, and customer due diligence practices, not just in the US but throughout its footprint, are and will remain a focus of the relevant authorities.

The Financial Conduct Authority (FCA) is investigating Standard Chartered Bank's financial crime controls, looking at the effectiveness and governance of those controls within the correspondent banking business carried out by Standard Chartered Bank's London branch, particularly in relation to the business carried on with respondent banks from outside the European Economic Area, and the effectiveness and governance of those controls in one of Standard Chartered Bank's overseas branches and the oversight exercised at Group level over those controls.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks. The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

The Group is cooperating with all relevant ongoing reviews, requests for information and investigations. The outcome of these reviews, requests for information and investigations is uncertain and could result in further actions, penalties or fines, but it is not possible to predict the extent of any liabilities of other consequences that may arise.

In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise mitigate higher-risk business activities, which could include divesting or closing businesses that exist beyond risk tolerances.

In addition to these matters, the Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these claims as material.

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established.

23. Related party transactions

Directors connected persons or officers

At 30 June 2016, Standard Chartered Bank had created a charge over $73 million (30 June 2015: $79 million; 31 December 2015: $74 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

Other than as disclosed in the accounts, there were no material transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Hong Kong Listing Rules.

Associate and joint ventures

	30.06.16				31.12.15			
	China Bohai Bank $million	Asia Commercial Bank $million	Clifford Capital $million	PT Bank Permata $million	China Bohai Bank $million	Asia Commercial Bank $million	Clifford Capital $million	PT Bank Permata $million
Assets								
Loans and advances	75	–	25	46	11	–	–	69
Debt securities	–	–	–	65	–	–	–	112
Derivative assets	10	–	–	–	18	–	6	–
Total assets	85	–	25	111	29	–	6	181
Liabilities								
Deposits	233	–	–	34	70	–	–	16
Derivative liabilities	15	–	–	–	3	–	–	–
Total liabilities	248	–	–	34	73	–	–	16
Loan commitments and other guarantees	–	–	25	–	–	–	50	–

24. 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 the directors of the Company have complied with the required standards of the adopted code of conduct throughout the period.

As previously announced, Mr David Conner joined the Board as an independent non-executive director on 1 January 2016. Dr Lars Thunell stepped down from the Board as an independent non-executive director on 31 January 2016 and Mr Mike Rees stepped down from the Board as Deputy Group Chief Executive on 30 April 2016. As announced on 27 June 2016 Mr Simon Lowth, an independent non-executive director, stepped down from the Board with effect from 31 July 2016. In addition, it was announced on 27 July 2016 that Mr Jose Vinals will join the Board as Chairman Designate on 3 October 2016, and succeed Sir John Peace as Chairman on 1 December 2016. Sir John will step down as director and Chairman on the same day. It was also announced that Mr Naguib Kheraj will be appointed Deputy Chairman with effect from 1 December 2016.

Since 31 December 2015, the membership of a number of committees has changed resulting in a change in the emolument of a number of independent non-executive directors. A list of the committees' membership can be found at www.sc.com. In compliance with Rule 13.51B(1) of the Hong Kong Listing Rules, Mr David Conner was appointed to the Board Financial Crime Risk Committee, the Audit Committee and the Board Risk Committee on 1 January 2016, becoming Chair of the Board Risk Committee on 1 February 2016. Mr David Conner was appointed to the Governance and Nomination Committee on 1 April 2016. Dr Lars Thunell stepped down from the Board Risk Committee, the Audit Committee, the Board Financial Crime Risk Committee and the Governance and Nomination Committee on 31 January 2016. Ms Jasmine Whitbread was appointed Chair of the Brand, Values and Conduct Committee, a member of the Governance and Nomination Committee on 1 January 2016 and a member of the Board Financial Crime Risk Committee on 1 August 2016. Ms Gay Huey Evans was appointed a member of the Board Financial Crime Risk Committee on 1 March 2016. Members of the Audit, Board Risk and Board Financial Crime Risk Committees receive a fee of GBP30,000 per committee. Members of the Governance and Nomination Committee receive a fee of GBP15,000, the fee for chairing the Brand, Values and Conduct Committee is GBP60,000 and the fee for chairing the Board Risk Committee is GBP70,000.

In compliance with Rule 13.51B (1) of the Hong Kong Listing Rules, the Company confirms that Mr Simon Lowth stepped down from the Board of BG Group plc on 15 February 2016, following its takeover by Royal Dutch Shell plc; Mr Om Bhatt, independent non-executive director was appointed as non-executive chairman of Greenko Energy Holdings with effect from 1 April 2016; and Mr David Conner was appointed as a non-executive director of Gaslog Ltd with effect from 5 May 2016.

25. 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 3 August 2016. The statutory accounts for the year ended 31 December 2015 have been reported on 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.

26. UK 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. EU endorsed IFRS may differ from IFRSs published by the International Accounting Standards Board if a standard has not been endorsed by the EU.

Additional information

A. Remuneration

Performance and reward philosophy and principles

The Group's approach to performance, reward and benefits supports and drives our business strategy and reinforces our values in the context of a clearly-articulated risk appetite. The Group's approach:

- supports a strong performance-oriented culture, ensuring that individual reward and incentives relate directly to (i) the performance and behaviour of the individual (ii) the performance of the business, and (iii) the interests of shareholders
- reinforces the importance of good behaviour and conduct, with remuneration outcomes reflecting how business objectives are achieved, not just what is achieved
- maintains a competitive reward package that enables us to attract, retain and motivate our employees
- reflects the fact that many of our employees bring international experience and expertise, and we recruit from a global marketplace
- encourages an appropriate mix of fixed and variable remuneration based on (i) the individual's role, and (ii) the individual's and their business's risk profile

Total remuneration is typically delivered via a combination of salary, benefits, variable remuneration and, for executive directors, a fixed pay allowance. Consistent with its pay for performance culture, the Group's variable remuneration plays an integral role in enabling it to recognise and reward superior performance and behaviour that support the Group's values.

Our approach to remuneration of employees has not changed significantly since the beginning of the year. The *2015 Annual Report and Accounts* contains a detailed remuneration report.

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 are subject to a three or five-year deferral period, vesting equally on each anniversary of the award date. 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
- Underpin shares are subject to a combination of two performance measures: EPS growth and RoRWA. The weighting between the two elements is split equally, one half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance
- Restricted share awards which are made outside of the annual performance process, as additional incentive, retention mechanisms or as replacement awards to new joiners who forfeit awards on leaving their previous employers, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures

The remaining life of the plan during which new awards can be made is five years.

2001 Performance Share Plan (2001 PSP) – now closed to new grants

The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award was dependent upon TSR performance and the balance was subject to a target of defined EPS growth. Both measures used the same three-year period and were assessed independently.

2006 Restricted Share Scheme (2006 RSS) / 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There remain outstanding vested awards under these plans. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half vested two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plans (comprised of the 2004 International Sharesave Plan, the 2004 UK Sharesave Plan and the 2013 Sharesave Plan)

Under the All Employee Sharesave Plans, employees may open a savings contract. Within a period of six months after the third 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. There are no performance measures attached to options granted under the All Employee Sharesave Plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The 2004 International Sharesave and the 2004 UK Sharesave plans are now closed and no further awards will be granted under these plans.

The 2013 Sharesave Plan was approved by Shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is seven years.

Valuation of share awards

Details of 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 *2015 Annual Report and Accounts*.

B. Group Share Plans continued

Reconciliation of share award movements for the year to 30 June 2016

	2011 Plan[1]						
	LTIP	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average Sharesave exercise price (£)
Outstanding at 1 January 2016	9,658,733	23,108,554	103,768	1,150,866	140,110	15,341,808	7.87
Granted[2,3]	25,319,833	7,938,413	–	–	–	–	–
Rights issue	–	–	–	–	–	–	–
Lapsed	(4,539,317)	(752,539)	(14,007)	(119,441)	(75)	(4,395,469)	9.06
Exercised	(142,301)	(4,565,777)	(1,666)	(201,996)	(31,305)	(207)	5.74
Outstanding at 30 June 2016	30,296,948	25,728,651	88,095	829,429	108,730	10,946,132	7.40
Exercisable at 20 June 2016	167,617	6,416,001	88,095	829,429	108,730	246	10.85
Range of exercise prices (£)	–	–	–	–	–	5.58–11.21	–
Intrinsic value of vested but not exercised options ($million)	0.1	3.4	0.1	0.4	0.1	–	–
Weighted average contractual remaining life (years)	8.9	5.6	2.5	1.4	0.9	2.3	–
Weighted average share price for options exercised during the period (£)	4.66	4.88	4.65	4.83	5.51	5.59	–

1. Employees do not contribute towards the cost of these awards
2. 30,572,342 granted on 11 March 2016, 2,410,848 granted on 4 May 2016 and 92,499 granted on 15 June 2016
3. 26,335 (notional dividend) granted on 10 March 2016, 50,909 (notional dividend) granted on 12 March 2016, 105,077 (notional dividend) granted on 18 March 2016, 187 (notional dividend) granted on 17 June 2016, 49 (notional dividend) granted on 20 June 2016

C. Group Chairman and independent non-executive directors' interests in ordinary shares at 30 June 2016[1]

	Shares beneficially held as at 1 January 2016	Shares beneficially held as at 30 June 2016[2,3]	Vested share awards	Unvested share awards
Chairman				
Sir John Peace	246,681	281,343		10,056
Independent non-executive directors				
Current independent non-executive directors				
O P Bhatt	2,000	2,000	–	–
Dr K M Campbell[4]	–	–	–	–
Dr L Cheung	2,571	2,571	–	–
D P Conner[5]	10,000	10,000	–	–
G Huey Evans, OBE	2,571	2,571	–	–
Dr B E Grote	32,142	37,041	–	–
C M Hodgson	2,571	2,571	–	–
N Kheraj	2,571	2,571	–	–
Dr Han Seung-soo, KBE	3,474	3,474	–	–
J M Whitbread	2,571	2,571	–	–
Former independent non-executive directors				
S J Lowth[6]	14,893	15,136	–	–
Dr L H Thunell[7]	8,708	8,708	–	–

1. All figures are as at 30 June 2016 or on the retirement of a director unless otherwise stated
2. 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. The beneficial interests of 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
4. Independent non-executive directors are required to hold shares with a nominal value of $1,000. All the directors, other than Dr Kurt Campbell, have met this requirement. Shareholders approved a resolution to disapply the shareholding qualification in relation to Dr Kurt Campbell at the Company's Annual General Meeting (AGM) in May 2014. This was in connection with the terms of the then proposed appointment of Dr Kurt Campbell's wife to the Board of Governors of the United States Federal Reserve System
5. David Conner was appointed to the Board on 1 January 2016
6. Simon Lowth resigned from the Board with effect from 31 July 2016
7. Dr Lars Thunell resigned from the Board with effect from 31 January 2016

D. Executive directors' interests in ordinary shares as at 30 June 2016

Scheme interests awarded

	Interest awarded	Face value[1] ($000)	Percentage vesting at threshold (if applicable)	Number of shares	Performance period end date
W T Winters	LTIP award[2]	8,435	25%	992,781	11 March 2019
A N Halford	LTIP award[2]	5,037	25%	592,834	11 March 2019

1. Face value and the higher of (i) closing price on the day prior to grant, and (ii) average closing price over the five trading days prior to grant used to determine number of shares awarded. The applicable share price was £5.56 (the average closing price over the five trading days prior to grant)
2. LTIP awards were granted on 4 May 2016 and vest between the third and seventh anniversaries of the grant date, i.e. 4 May 2019 and 4 May 2023, subject to meeting performance measures

Further details relating to the above awards and individual shareholding requirements can be found in the *2015 Annual Report and Accounts*. LTIP awards may be subject to notional dividend adjustments at the date of vesting.

Executive directors' shareholdings as at 30 June 2016[1]

Director	Shares held beneficially as at 1 January 2016	Shares held beneficially as at 30 June 2016	Vested but unexercised share awards	Unvested share awards not subject to performance measures	Unvested share awards subject to performance measures
W T Winters	294,473	430,370	–	944,560	992,781
A N Halford[2]	140,849	341,794	–	27,751	785,244
Former director					
A M G Rees[3,4]	345,531	668,634	–	70,363	203,714

1. All figures are as at 30 June 2016 or on the retirement of an executive director, unless otherwise stated
2. On 21 March 2016, Andy Halford exercised deferred share awards over a total of 13,068 shares. The closing share price on the day before exercise was £4.94
3. On 11 March 2016, Mike Rees exercised share awards over 394,481 shares and on 21 March 2016 over 70,340 shares. The closing share prices on the days before exercise were £4.49 and £4.94
4. Mike Rees stepped down from the Board on 30 April 2016

The beneficial interests of executive directors and their families 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.

No executive 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.

E. Share price information

The middle market price of an ordinary share at the close of business on 30 June 2016 was 564.60 pence. The share price range during the first half of 2016 was 386.65 pence to 571.40 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 the SFO 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 British Bankers' Association 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 2016 have been prepared in accordance with the Code's principles.

H. Convenience translation of selected financial statements into Indian Rupees

In compliance with clause 37(3) of Indian Depository Receipts Listing agreement, the Consolidated financial statements on pages 75 to 79 are presented in Indian rupees (INR) using a US dollar / Indian rupee exchange rate of 67.6166 as at 30 June 2016, as published by 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.

Condensed consolidated interim income statement (translated to INR)

For the six months ended 30 June 2016

	6 months ended 30.06.16 ₹million	6 months ended 31.12.15 ₹million	6 months ended 30.06.15 ₹million
Interest income	**444,173**	468,313	519,769
Interest expense	**(174,248)**	(169,785)	(182,227)
Net interest income	**269,925**	298,527	337,542
Fees and commission income	**120,966**	126,782	149,636
Fees and commission expense	**(14,267)**	(15,281)	(17,242)
Net trading income	**49,495**	(3,854)	65,520
Other operating income	**42,801**	34,687	57,474
Non-interest income	**198,996**	142,333	255,388
Operating income	**468,921**	440,860	592,930
Staff costs	**(198,658)**	(256,875)	(224,487)
Premises costs	**(26,370)**	(29,008)	(27,182)
General administrative expenses	**(58,691)**	(106,429)	(66,602)
Depreciation and amortisation	**(23,531)**	(22,246)	(22,652)
Operating expenses	**(307,250)**	(414,557)	(340,923)
Operating profit before impairment losses and taxation	**161,671**	26,303	252,007
Impairment losses on loans and advances and other credit risk provisions	**(87,631)**	(224,758)	(111,703)
Other impairment			
Goodwill	**–**	(32,997)	–
Other	**(15,484)**	(19,000)	(5,815)
Profit from associates and joint ventures	**1,826**	5,612	7,370
Profit/(loss) before taxation	**60,382**	(244,840)	141,860
Taxation	**(22,922)**	(7,167)	(38,339)
Profit/(loss) for the period	**37,460**	(252,007)	103,521
Profit/(loss) attributable to:			
Non-controlling interests	**3,043**	(1,420)	1,285
Parent company shareholders	**34,417**	(250,587)	102,236
Profit/(loss) for the period	**37,460**	(252,007)	103,521
	Rupees	Rupees	Rupees
Earnings per share:			
Basic earnings/(loss) per ordinary share	**8.1**	(97.8)	39.6[1]
Diluted earnings/(loss) per ordinary share	**8.0**	(97.8)	37.5[1]
Dividends per ordinary share:			
2016 interim dividend declared	**–**		
2015 final dividend paid		–	
2015 interim dividend paid			9.27[1]
	₹million	₹million	₹million
Total dividend:			
2016 interim dividend payable	**–**		
2015 final dividend		–	
2015 interim dividend (paid 19 October 2015)			24,748

1. Restated for the impact of the bonus element included within the 2015 rights issue in line with restatement of prior year earnings per share amounts required by *IAS 33 Earnings per share*

H. Convenience translation of selected financial statements into Indian Rupees continued

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

For the six months ended 30 June 2016

	6 months ended 30.06.16 ₹million	6 months ended 31.12.15 ₹million	6 months ended 30.06.15 ₹million
Profit/(loss) for the period	**37,460**	(252,007)	103,521
Other comprehensive income/(loss):			
Items that will not be reclassified to Income statement:			
Actuarial (losses)/gains on retirement benefit obligations	**(6,762)**	(4,868)	1,014
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity	**5,342**	(94,596)	(40,840)
Net (losses)/gains on net investment hedges	**(1,893)**	4,733	1,352
Share of other comprehensive (loss)/income from associates and joint ventures	**(338)**	68	(68)
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity	**3,246**	(13,320)	9,466
Reclassified to income statement	**(11,022)**	(11,495)	(10,683)
Cash flow hedges:			
Net gains/(losses) taken to equity	**2,975**	(5,342)	541
Reclassified to income statement	**1,014**	4,260	2,975
Taxation relating to components of other comprehensive (loss)/income	**(879)**	3,178	(1,488)
Other comprehensive loss for the period, net of taxation	**(8,317)**	(117,382)	(37,730)
Total comprehensive income/(loss) for the period	**29,143**	(369,389)	65,791
Total comprehensive income/(loss) attributable to:			
Non-controlling interests	**2,705**	(1,961)	(744)
Parent company shareholders	**26,438**	(367,429)	66,535
	29,143	(369,389)	65,791

H. Convenience translation of selected financial statements into Indian Rupees continued

Condensed consolidated interim balance sheet (translated to INR)

At 30 June 2016

	30.06.16 ₹million	31.12.15 ₹million
Assets		
Cash and balances at central banks	4,473,717	4,416,175
Financial assets held at fair value through profit or loss	1,568,908	1,582,296
Derivative financial instruments	4,569,800	4,269,515
Loans and advances to banks	4,884,488	4,360,865
Loans and advances to customers	17,756,390	17,401,538
Investment securities	7,509,838	7,760,154
Other assets	2,695,874	2,339,602
Current tax assets	25,289	26,235
Prepayments and accrued income	159,846	146,998
Interests in associates and joint ventures	145,646	130,973
Goodwill and intangible assets	324,154	313,876
Property, plant and equipment	503,203	487,448
Deferred tax assets	76,677	71,606
Total assets	44,693,829	43,307,283
Liabilities		
Deposits by banks	2,719,134	2,543,128
Customer accounts	24,544,758	23,708,611
Financial liabilities held at fair value through profit or loss	1,374,781	1,411,294
Derivative financial instruments	4,486,023	4,188,105
Debt securities in issue	3,712,625	4,048,882
Other liabilities	2,732,252	2,164,475
Current tax liabilities	34,620	51,997
Accruals and deferred income	319,488	368,578
Subordinated liabilities and other borrowed funds	1,396,012	1,477,558
Deferred tax liabilities	21,367	19,812
Provisions for liabilities and charges	15,552	14,538
Retirement benefit obligations	36,107	30,089
Total liabilities	41,392,719	40,027,066
Equity		
Share capital	110,959	110,824
Share premium	368,443	368,443
Other reserves	822,353	823,705
Retained earnings	1,843,364	1,821,186
Total parent company shareholders' equity	3,145,119	3,124,157
Other equity instruments	134,354	134,354
Total equity excluding non-controlling interests	3,279,473	3,258,512
Non-controlling interests	21,637	21,705
Total equity	3,301,110	3,280,216
Total equity and liabilities	44,693,829	43,307,283

H. Convenience translation of selected financial statements into Indian Rupees continued

Condensed consolidated interim statement of changes in equity (translated to INR)

For the six months ended 30 June 2016

	Share capital and share premium account ₹million	Other equity instru-ments ₹million	Capital and Capital redemption reserve[1] ₹million	Merger reserve ₹million	Available-for-sale reserve ₹million	Cash flow hedge reserve ₹million	Trans-lation reserve ₹million	Retained earnings ₹million	Parent company share-holders' equity ₹million	Non-controlling interests ₹million	Total ₹million
At 1 January 2015	454,248	–	1,217	839,866	30,833	(3,854)	(212,857)	2,030,121	3,139,574	20,691	3,160,265
Profit for the period	–	–	–	–	–	–	–	102,236	102,236	1,285	103,521
Other comprehensive (loss)/income	–	–	–	–	(879)	2,096	(37,527)	609[2]	(35,702)	(2,028)	(37,730)
Distributions	–	–	–	–	–	–	–	–	–	(1,149)	(1,149)
Shares issued, net of expenses	338	–	–	–	–	–	–	–	338	–	338
Other equity instruments issued, net of expenses	–	134,354	–	–	–	–	–	–	134,354	–	134,354
Net own shares adjustment	–	–	–	–	–	–	–	(2,028)	(2,028)	–	(2,028)
Share option expense, net of taxation	–	–	–	–	–	–	–	10,616	10,616	–	10,616
Dividends, net of scrip	–	–	–	–	–	–	–	(31,645)	(31,645)	–	(31,645)
Other decreases	–	–	–	–	–	–	–	–	–	(68)	(68)
At 30 June 2015	454,586	134,354	1,217	839,866	29,954	(1,758)	(250,384)	2,109,908[2]	3,317,744	18,730	3,336,474
Loss for the period	–	–	–	–	–	–	–	(250,587)	(250,587)	(1,420)	(252,007)
Other comprehensive (loss)/income	–	–	–	–	(21,029)	(1,352)	(89,457)	(5,004)[2]	(116,841)	(541)	(117,382)
Distributions	–	–	–	–	–	–	–	–	–	(609)	(609)
Shares issued, net of expenses	24,680	–	–	316,649	–	–	–	–	341,329	–	341,329
Net own shares adjustment	–	–	–	–	–	–	–	(1,893)	(1,893)	–	(1,893)
Share option expense, net of taxation	–	–	–	–	–	–	–	(609)	(609)	–	(609)
Dividends, net of scrip	–	–	–	–	–	–	–	(30,630)	(30,630)	–	(30,630)
Other increases[3]	–	–	–	–	–	–	–	–	–	5,545	5,545
At 31 December 2015	**479,266**	**134,354**	**1,217**	**1,156,514**	**8,925**	**(3,110)**	**(339,841)**	**1,821,186**	**3,258,512**	**21,705**	**3,280,216**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34,417**	**34,417**	**3,043**	**37,460**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(7,505)**	**1,961**	**3,719**	**(6,153)[2]**	**(7,979)**	**(338)**	**(8,317)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,028)**	**(2,028)**
Shares issued, net of expenses	**135**	**–**	**–**	**473**	**–**	**–**	**–**	**–**	**609**	**–**	**609**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**68**	**68**	**–**	**68**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,623**	**1,623**	**–**	**1,623**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,776)**	**(7,776)**	**–**	**(7,776)**
Other decreases[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(744)**	**(744)**
At 30 June 2016	**479,402**	**134,354**	**1,217**	**1,156,988**	**1,420**	**(1,149)**	**(336,122)**	**1,843,364**	**3,279,473**	**21,637**	**3,301,110**

1. Includes capital reserve of Rs.338 million and capital redemption reserve of Rs.879 million
2. Comprises actuarial loss, net of taxation and non-controlling interests of Rs.5,815 million (30 June 2015: gain of Rs. 609 million and 31 December 2015: loss of Rs.5,139 million)
3. Additional investment from non controlling interests in one of the Group's subsidiary undertakings
4. Mainly due to completion of sale of businesses with non-controlling interests held for sale in Pakistan

H. Convenience translation of selected financial statements into Indian Rupees continued

Condensed consolidated interim cash flow statement (translated to INR)

For the six months ended 30 June 2016

	6 months ended 30.06.16 ₹million	6 months ended 31.12.15 ₹million	6 months ended 30.06.15 ₹million
Cash flows from operating activities			
Profit/(loss) before taxation	**60,382**	(244,840)	141,860
Adjustments for non-cash items and other adjustments included within income statement	**143,415**	326,791	143,077
Change in operating assets	**(1,368,830)**	1,865,610	623,493
Change in operating liabilities	**1,392,023**	(2,628,190)	(2,121,471)
Contributions to defined benefit plans	**(3,043)**	(5,274)	(2,096)
UK and overseas taxes paid	**(44,221)**	(44,762)	(42,125)
Net cash from/(used in) operating activities	**179,725**	(730,665)	(1,257,263)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(3,719)**	(5,342)	(3,448)
Disposal of property, plant and equipment	**1,014**	3,448	3,922
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	**(12,374)**	–	–
Disposal of subsidiaries	**609**	135	44,965
Purchase of investment securities	**(6,362,654)**	(6,067,508)	(8,099,454)
Disposal and maturity of investment securities	**6,642,993**	5,662,079	7,554,059
Dividends received from associates and joint ventures	**68**	68	744
Net cash from/(used in) investing activities	**265,936**	(407,120)	(499,213)
Cash flows from financing activities			
Issue of ordinary and preference share capital, net of expenses	**609**	341,329	338
Issue of Additional Tier-1 Capital, net of expenses	**–**	–	134,354
Purchase of own shares	**(135)**	(1,961)	(2,637)
Exercise of share options through ESOP	**203**	68	609
Interest paid on subordinated liabilities	**(27,993)**	(33,876)	(39,285)
Repayment of subordinated liabilities	**(127,390)**	(338)	–
Investment by non-controlling interests	**68**	5,545	–
Interest paid on senior debts	**(17,175)**	(21,570)	(17,918)
Gross proceeds from issue of senior debts	**216,306**	36,919	327,400
Repayment of senior debts	**(340,991)**	(259,174)	(210,558)
Dividends paid to non-controlling interests, Additional Tier 1 securities holders and preference shareholders	**(9,804)**	(8,452)	(4,530)
Dividends paid to ordinary shareholders, net of scrip	**–**	(22,787)	(28,264)
Net cash (used in)/from financing activities	**(306,303)**	35,702	159,508
Net increase/(decrease) in cash and cash equivalents	**139,358**	(1,102,083)	(1,596,969)
Cash and cash equivalents at beginning of the period	**5,979,201**	7,132,267	8,781,368
Effect of exchange rate movements on cash and cash equivalents	**113,325**	(50,983)	(52,132)
Cash and cash equivalents at end of the period	**6,231,884**	5,979,201	7,132,267

I. Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the period ended 30 June 2016 with comparatives as at 31 December 2015 and 30 June 2015 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union.

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

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit attributable to parent company shareholders for the periods ended 30 June 2016, 31 December 2015 and 30 June 2015 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 30 June 2016. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. Finally, 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 and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)
Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies)
The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision), where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

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

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)
An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

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

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)
There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

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

At each balance sheet date:

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

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)
Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This also includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)
Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

No specific guidance is given by Indian GAAP on consolidation of Structured Entities.

Business combinations

IFRS (IFRS 3 Business Combinations)
All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, *IFRS 3 Business Combinations* requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period. As the Group has not applied IFRS 3 or its predecessor IAS 22 to transactions that occurred before 1 January 2004, no intangible assets, other than goodwill, were recognised on acquisitions prior to that date.

I. Summary of significant differences between Indian GAAP and IFRS 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. Where less than 100 per cent of an entity is acquired, non-controlling interests are stated at their proportion of the fair value of the identifiable net assets and contingent liabilities acquired.

Indian GAAP (AS 14 Accounting for Amalgamations)
Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

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

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

Goodwill

IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)
IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3 or its predecessor IAS 22 to transactions that occurred before 1 January 2004, the date of transition to IFRS. Accordingly, goodwill previously written off to reserves, as permitted under UK GAAP until the implementation of *FRS 10 Goodwill and intangible assets* in 1998, has not been reinstated nor will it be written back on disposal. Amortisation of goodwill that has been charged up to 31 December 2003 has not been reversed and the deemed carrying value of the goodwill on transition to IFRS is equal to the net book value as at 31 December 2003. Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)
Goodwill arising for amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified. For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance. In practice there is either no amortisation or amortisation not exceeding 10 years. Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally-generated intangible assets

IFRS (IAS 38 Intangible Assets)
Intangible assets are recognised if the specific criteria are met. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)
Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)
Fixed assets are recorded at cost or revalued amounts. Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their deemed cost under IFRS. They will not be revalued in the future.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year-end. The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)
Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated. At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- Available for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity and recycled to the income statement when the asset is sold or is impaired
- Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity
- As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- At amortised cost

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis

I. Summary of significant differences between Indian GAAP and IFRS continued

- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- Assets or liabilities include embedded derivatives and such derivatives are not recognised separately

The designation of a financial instrument as held at fair value through profit or loss is irrevocable in respect of the financial instruments to which it relates. Subsequent to initial recognition instruments cannot be classified into or out of this category. Changes in the fair value of available-for-sale financial assets resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences. Foreign currency exchange movements for available for sale equity securities is recognised in reserves.

Indian GAAP (AS 13 Investments)
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

For investments, Reserve Bank of India (RBI) outlines similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS. Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value. *AS 30 Financial Instruments: Recognition and Measurement* provides guidance on classification criteria and measurement requirements, however this is not mandatory.

Derivatives
IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

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

There is no specific guidance on hedge accounting since AS 30 is not mandatory. However, requirements of AS 30 with respect to hedge accounting are largely similar to that of IAS 39. For banks, there are guidelines prescribed by RBI on measurement and accounting of IRS and FRA entered onto for hedging purposes.

Impairment of financial assets
IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
At each balance sheet date an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortised cost
If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets
If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Indian GAAP (AS 13 Investments)
Long-term investments are written down when there is a decline in fair value which is deemed to be other than temporary. Impairments may be reversed through the income statement in subsequent periods if the investment rises in value, or the reasons for the impairment no longer exist.

In accordance with RBI regulations, in respect of available-for-sale investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for the impairment no longer exist.

For loans and advances, the RBI regulations additionally require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial assets
IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
A financial asset is derecognised if substantially all the risks and rewards of ownership have been transferred. If substantially all the risks and rewards have not been transferred, the asset will continue to be recognised to the extent of any continuing involvement.

Indian GAAP (RBI Guidelines on Securitisation of Standard Assets)
There is limited guidance on derecognition of financial assets. Securitised financial assets can only be derecognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option, which entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

Liabilities and equity
IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

I. Summary of significant differences between Indian GAAP and IFRS continued

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingents 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)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on high-quality corporate bonds of a currency and term consistent with the currency and term of the post employment benefit obligations. Actuarial gains or losses are recognised in Other Comprehensive Income (retained earnings).

Under the transitional provisions of *IFRS 1 First time adoption of International Financial Reporting Standards*, and in accordance with IAS 19, the Group elected to record all actuarial gains and losses on the pension surplus or deficit in the year in which they occur within the consolidated statement of comprehensive income.

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 payment)

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred Taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Interest income and expense

IFRS (IAS 18 Revenue)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (AS 9 Revenue Recognition)

In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight line basis over the term of the instrument.

Dividends

IFRS (IAS 10 Events After The Reporting Date)

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company however is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Dividends are reflected in the financial statements of the year to which they relate even if proposed or approved after the year end.

Glossary

Additional Tier 1 capital
Additional Tier 1 (AT1) capital consists of Instruments issued by the Group and related share premium that meet the criteria for inclusion in AT1 capital (and are not included in Common Equity Tier 1), and regulatory adjustments required in the calculation of AT1 capital.

Additional Value Adjustment
See 'Prudent valuation adjustment'.

Advanced Internal Rating Based (AIRB) approach
The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

Advances-to-deposits ratio (ADR)
The ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

ASEAN
Association of South East Asian Nations (ASEAN), which for the Group, includes the operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Attributable profit to ordinary shareholders
Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the *International Convergence of Capital Measurement and Capital Standards*.

Basel III
In December 2010, the Basel Committee on Banking Supervisions issued the Basel III rules text, which were updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in and fully implemented by 1 January 2019.

Basis point (bps)
One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.

BIPRU
The Prudential Regulation Authority's Prudential Sourcebook for Banks, Building Societies and Investment Firms.

Capital Adequacy Directive (CAD) 2
An amendment to CAD that gives national regulators the discretion to permit firms to use their own Value at Risk model for calculating capital requirements subject to certain criteria.

Capital Requirements Directive (CRD) IV
Represents the CRD and Capital Requirements Regulation that implement the Basel III proposals in Europe.

Capital resources
Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

Claw-back
Remuneration already paid to an individual, which has to be returned to the Group under certain circumstances.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically Retail Banking clients are assessed on a portfolio basis.

Commercial real estate (CRE)
Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

Common Equity Tier 1 (CET1) capital
CET1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of CET1.

Constant currency
Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period-end US dollar exchange rates to the income statement and balance sheet respectively.

Contractual maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Core Tier 1 capital
Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Prudential Regulation Authority.

Core Tier 1 capital ratio
Core Tier 1 capital as a percentage of risk-weighted assets.

Cost to income ratio (CIR)
Represents the proportion of total operating expenses to total operating income.

Countercyclical capital buffer
Regulatory capital of up to 2.5 per cent of risk-weighted assets that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk
The risk that defaults before satisfying its obligations under a contract.

Cover ratio
Represents the extent to which non-performing loans are covered by impairment allowances.

Credit conversion factor
Either prescribed by the Prudential Regulation Authority's Prudential Sourcebook for Banks, Building Societies and Investment Firms or modelled by the Group, an estimate of the amount the Group expects a customer to have down further on a facility limit at the point of default.

Credit default swaps
A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit institutions
An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk mitigation
Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.

Credit valuation adjustments (CVA)
An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.

Customer deposits
Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.

Debt restructuring
This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

Debt securities
Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

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 and the carry-forward of unused tax credits.

Deferred tax liability
Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

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
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 repurchase agreement.

Dividend per share
Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Effective tax rate
The tax on profits on ordinary activities as a percentage of profit 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.

Eurozone
Represents the 17 European Union countries that have adopted the euro as their common currency. The 17 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

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 an undrawn commitments.

Exposure at default (EAD)
The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions (ECAI)
For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk-weights. These external ratings must come from Prudential Regulation Authority-approved rating agencies, known as ECAI; namely Moody's, Standard & Poor's and Fitch.

Financial Conduct Authority (FCA)
The FCA 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 liabilities.

Free deliveries
A transaction in which securities, foreign currencies or commodities have been paid for before receiving them or where securities, foreign currencies or commodities have been delivered before receiving payment for them.

Funded/unfunded exposures
Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released/not released.

Funding valuation adjustments (FVA)
FVA reflects an adjustment to fair value in respect of undercollateralised derivative contracts that reflects the funding costs that the market participant would incorporate when determining an exit price.

Global Systemically Important Institutions (G-SII)
In November 2011, the Financial Stability Board established a methodology to identify G-SIIs based on 12 principal indicators. Designation will result in the application of a Common Equity Tier 1 buffer between 1 per cent and 3.5 per cent, to be phased in by 1 January 2019. The list of G-SIIs is re-assessed through annual re-scoring of banks and a triennial review of the methodology. National regulators have discretion to introduce higher charges than the minimum. In Capital Requirements Directive IV this is implemented via the Global Systemically Important Institutions (G-SII) buffer (see G-SII buffer).

Global Systemically Important Institutions (G-SII) buffer
A capital buffer prescribed in the European Union under Capital Requirements Directive IV, to address risks in the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. In the UK this was transposed in January 2015 and is to be applied to ring-fenced banks and building societies over a certain threshold.

High-quality liquid assets
Assets that are unencumbered, liquid in markets during a time of stress and, ideally, are central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III Rules require this ratio to be at least 100 per cent and it is expected to apply from 2015.

Impaired loans
Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment allowances
Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Individually assessed loan impairment provisions
Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate & Institutional Banking client segment of the Group are assessed individually.

Innovative Tier 1 capital
Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 capital (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital.

Interest rate risk
Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

Internal ratings-based (IRB) approach
The IRB approach is used to calculate risk-weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

Internal Model Approach (IMA)
The approach used to calculate market risk capital and risk-weighted assets with an internal market risk model approved by the Prudential Regulation Authority under the terms of Capital Requirements Directive IV/Capital Requirements Regulation. Formerly referred to as Capital Adequacy Directive 2.

International Accounting Standard (IAS)
An IAS is a standard that forms part of the International Financial Reporting Standards framework.

International Financial Reporting Standard (IFRS)
IFRS is a set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRS' and IAS' (see International Accounting Standard). All companies with securities that are publicly traded in the European Union (EU) are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

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 Capital Requirements Directive 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.

Leveraged finance
Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt: earnings before interest tax, depreciation and amortisation (EBITDA)) typically arising from private equity sponsor led acquisitions of the businesses concerned.

Liquid asset buffer
These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks to meet the Prudential Regulation Authority's requirement for liquidity.

Liquid asset ratio
Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquidation portfolio
A portfolio of assets which is beyond our current risk tolerance metrics and is held for liquidation

Liquidity coverage ratio (LCR)
A short-term liquidity measure that considers a 30 day period of liquidity stress

Loans and advances
This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.

Loans to banks
Amounts loaned to credit institutions including securities bought under reverse repurchase agreements.

Loans to individuals
Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.

Loan-to-value ratio (LTV)
The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due
Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

Loss given default (LGD)
LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

Master netting agreement
An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Mezzanine capital
Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

Net asset value per share (NAV)
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.

Net interest income
The difference between interest received on assets and interest paid on liabilities.

Net interest margin
The margin is expressed as net interest income divided by average interest earning assets.

Net stable funding ratio (NSFR)
The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. It is a longer term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon

Non-performing loans (NPL)
A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

- renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or
- renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

Normalised earnings
Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

Over-the-counter (OTC) derivatives
A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

Pillar 1
The first Pillar of the three pillars of Basel II/Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2
Pillar 2 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
Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

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.

Probability of default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders
Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

Prudent valuation adjustment
A deduction from Common Equity Tier 1 capital, to reflect the difference between fair value and prudent value positions, where the application of prudent results in a lower absolute carrying value than recognised in the financial statements.

Prudential Regulation Authority (PRA)
The PRA 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 subsidiary of the Bank of England.

Renegotiated loans
Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forborne loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.

Repo/Reverse repo
A repurchase agreement or repo is a short term funding agreement which allow 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.

Residential mortgage backed securities (RMBS)
Securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Return on equity
Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Risk-weighted assets (RWA)
A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Financial Services Authority.

Risk capital adjusted profit
A risk-adjusted, profit-based funding mechanism. This is applied as a combination of automatic adjustments and other adjustments determined by the Remuneration Committee for specific risk and control matters that are not already taken into account through automatic adjustments.

Risks-not-in-VaR (RNIV)
A framework for identifying and quantifying marginal types of market risk that are not captured in the value at risk measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

Secured (fully and partially)
A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Securitisation
Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

Senior debt
Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Sovereign exposures
Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.

Standardised approach
In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Stressed value at risk
A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured note
A structured note is 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
Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital
Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

Total Loss Absorbing Capacity (TLAC)
A proposal by the Financial Stability Board and not yet finalised for global systemically important institutions to have a sufficient amount of specific types of liabilities which can be used to absorb losses and recapitalise a bank in resolution. These proposals are intended to facilitate an orderly resolution that minimises any impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss.

UK bank levy
A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group at 31 December.

Underlying
Underlying results are adjusted for certain items listed on page 7 to allow a comparison of the Group's underlying performance.

Value at Risk (VaR)
VaR is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Write-downs
After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

XVA
XVA is the general term used to incorporate credit and funding valuation adjustments to fair value. See Credit valuation adjustments and Funding valuation adjustments.

Shareholder information

Preference shares	Next half-yearly dividend
7³⁄₈ per cent non-cumulative irredeemable preference shares of £1 each	1 October 2016
8¼ per cent non-cumulative irredeemable preference shares of £1 each	1 October 2016
6.409 per cent non-cumulative preference shares of $5 each	30 July 2016
7.014 per cent non-cumulative preference shares of $5 each	30 July 2016

Previous dividend payments (not adjusted for rights issue)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under the share dividend scheme
Interim 2005	14 October 2005	18.94c/10.7437p/HK$1.46911	£11.878/$21.3578
Final 2005	12 May 2006	45.06c/24.9055p/HK$3.49343	£14.2760/$24.77885
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	46.45c/28.2725p/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

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 Annual General Meeting 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 visit our website at: http://investors.sc.com/en/resource.cfm or contact the shareholder helpline on 0370 702 0138.

Donating shares to ShareGift
Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from www.sharegift.org. There is no implication for Capital Gains Tax (no gain no loss) when you donate shares to charity and UK taxpayers 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 www.investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries
If you have any enquiries relating to your shareholding and you hold your shares on the UK register, please contact our registrar Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, or contact the shareholder helpline on 0870 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: www.computershare.com/hk/investors.

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Computershare Private Limited, Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad 500 032, 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.

本年報之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后大道東183號合和中心17M樓。

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this 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

Copies of this statement are available from:

Investor Relations, Standard Chartered PLC, 1 Basinghall Avenue, London, EC2V 5DD or on our website at http://investors.sc.com

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Further information for the Half Year 2016 Results will be available on our website:

An investor presentation in pdf format

A live and on demand audio webcast of the investor and analyst presentation in London with Q&A

Images of our Board of directors and senior management are available for the media at http://www.sc.com/en/about-us/our-people/index.html

Information regarding the Group's commitment to Sustainability is available at http://www.sc.com/sustainability

Forward-looking statement

Forward-looking statements

It is possible that this document could or 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 anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they 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.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, 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.

Except as required by any applicable 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.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer or solicitation of any securities, or any advice or recommendation with respect to any securities, in any jurisdiction.

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