

Standard Chartered Bank
(Hong Kong) Limited

Condensed Consolidated
Interim Financial Statements (unaudited)

For the period ended
30 June 2017

Contents

	Page
Introduction	1
Condensed consolidated income statement (unaudited)	2
Condensed consolidated statement of comprehensive income (unaudited).....	3
Condensed consolidated statement of financial position (unaudited).....	4
Condensed consolidated statement of changes in equity (unaudited).....	5
Condensed consolidated cash flow statement (unaudited).....	6
Notes to condensed consolidated interim financial statements (unaudited)	7

The directors are pleased to announce the unaudited consolidated interim results of Standard Chartered Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together the "Group") for the six months ended 30 June 2017.

2017 First Half Results

Profit before taxation increased by HK\$193 million from HK\$4,424 million to HK\$4,617 million. Net interest income increased by 11 per cent to HK\$5,561 million. Net fee and commission income increased by 2 per cent over the corresponding period in 2016. Total operating income increased by 10 per cent to HK\$12,436 million.

Operating expenses increased by 23 per cent over the corresponding period to HK\$8,013 million. Total impairments decreased by HK\$415 million over the corresponding period.

Profit after taxation was HK\$3,984 million, an increase of HK\$177 million over HK\$3,807 million recorded in the first half of 2016.

Condensed consolidated income statement (unaudited)**For the period ended 30 June 2017***(Expressed in millions of Hong Kong dollars)*

	Note	6 months ended 30 June 2017	6 months ended 30 June 2016
Interest income	3	7,652	6,693
Interest expense	4	<u>(2,091)</u>	<u>(1,701)</u>
Net interest income		<u>5,561</u>	<u>4,992</u>
Fee and commission income		<u>4,284</u>	3,778
Fee and commission expense		<u>(659)</u>	(225)
Net fee and commission income	5	3,625	3,553
Net trading income	6	1,375	917
Net losses from financial instruments designated at fair value through profit or loss	7	(30)	(15)
Net gains from disposal of available-for-sale securities		9	136
Other operating income	8	<u>1,896</u>	<u>1,769</u>
		<u>6,875</u>	<u>6,360</u>
Total operating income		12,436	11,352
Staff costs		<u>(3,165)</u>	(2,914)
Premises and equipment		<u>(1,722)</u>	(1,485)
Others		<u>(3,126)</u>	(2,134)
Operating expenses	9	<u>(8,013)</u>	<u>(6,533)</u>
Operating profit before impairment		4,423	4,819
Impairment charge on advances to customers	10	(401)	(896)
Other impairment charges	10	<u>(400)</u>	<u>(320)</u>
Operating profit after impairment		3,622	3,603
Share of profit of associates		<u>995</u>	821
Profit before taxation		4,617	4,424
Taxation	11	<u>(633)</u>	<u>(617)</u>
Profit after taxation		<u>3,984</u>	<u>3,807</u>

The notes on pages 7 to 36 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of comprehensive income (unaudited)**For the period ended 30 June 2017***(Expressed in millions of Hong Kong dollars)*

	<i>Note</i>	6 months ended 30 June 2017	6 months ended 30 June 2016
Profit after taxation		3,984	3,807
Other comprehensive income:			
<u>Items that will not be reclassified to the income statement:</u>			
Own credit adjustment:			
– Own credit losses on financial liabilities designated at fair value through profit or loss		(499)	–
Defined benefit plans:			
– Remeasurement of net defined benefit liability		100	(69)
– Related tax effect		(17)	11
<u>Items that may be reclassified subsequently to the income statement:</u>			
Available-for-sale securities:			
– Changes in fair value recognised during the period		330	791
– Changes in fair value transferred to the income statement on disposal		(9)	(136)
– Transfer to the income statement on fair value hedged items attributable to hedged risk		(163)	(512)
– Share of available-for-sale investment reserve of associates		(123)	(40)
– Related tax effect		(6)	(25)
Cash flow hedges:			
– Changes in fair value recognised during the period		111	111
– Transferred to the income statement on termination of hedging derivatives		7	(19)
– Related tax effect		(20)	(15)
Exchange difference		433	(135)
Other comprehensive income for the period, net of tax		144	(38)
Total comprehensive income for the period		4,128	3,769

Transactions with owners, recorded directly in shareholders' equity include a distribution from owners of HK\$40 million (30 June 2016: HK\$4 million of distribution to owners) in respect of share-based compensation plans.

During the six months ended 30 June 2017, there were no dividend declared and paid in respect of 'A' and 'B' ordinary shares (30 June 2016: nil). A total dividend of HK\$122 million (30 June 2016: HK\$121 million) was paid in respect of the US\$500 million 6.25% perpetual non-cumulative convertible preference shares classified as equity.

The notes on pages 7 to 36 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of financial position as at 30 June 2017 (unaudited)*(Expressed in millions of Hong Kong dollars)*

	Note	At 30 June 2017	At 31 December 2016
Assets			
Cash and balances with banks, central banks and other financial institutions		8,154	15,332
Placements with banks and other financial institutions	13	175,987	156,750
Hong Kong SAR Government certificates of indebtedness		41,081	42,211
Trading assets		12,546	15,634
Financial assets designated at fair value		355	370
Investment securities	17	194,038	207,471
Advances to customers	14	476,242	440,022
Amounts due from immediate holding company		35,389	46,521
Amounts due from fellow subsidiaries		20,984	16,328
Interest in associates		10,389	9,166
Property, plant and equipment	18	42,910	39,471
Goodwill and intangible assets		1,237	1,302
Current tax assets		11	112
Deferred tax assets		426	349
Other assets	19	19,973	14,983
		<u>1,039,722</u>	<u>1,006,022</u>
Liabilities			
Hong Kong SAR currency notes in circulation		41,081	42,211
Deposits and balances of banks and other financial institutions		27,544	19,674
Deposits from customers	21	804,277	778,242
Trading liabilities		6,817	8,289
Financial liabilities designated at fair value	22	10,073	9,568
Debt securities in issue	23	2,234	2,173
Amounts due to immediate holding company		43,740	42,282
Amounts due to fellow subsidiaries		2,851	11,932
Current tax liabilities		642	3
Deferred tax liabilities		397	404
Other liabilities	24	24,211	19,444
Subordinated liabilities	25	6,097	6,088
		<u>969,964</u>	<u>940,310</u>
Equity			
Share capital		20,256	20,256
Reserves		49,502	45,456
Shareholders' equity	26	<u>69,758</u>	<u>65,712</u>
		<u>1,039,722</u>	<u>1,006,022</u>

The notes on pages 7 to 36 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity (unaudited)**For the period ended 30 June 2017***(Expressed in millions of Hong Kong dollars)*

	Attributable to equity shareholders of the Bank								Total HK\$'M
	Share capital	Own credit adjustment reserve	Cash flow hedge reserve	Available- for-sale investment reserve	Revaluation reserve	Exchange reserve	Retained profits	Share option equity reserve	
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
At 1 January 2016	20,256	-	18	(7)	146	(204)	44,834	306	65,349
Total comprehensive income	-	-	77	78	-	(135)	3,749	-	3,769
Dividend paid	-	-	-	-	-	-	(121)	-	(121)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	4	4
At 30 June 2016	20,256	-	95	71	146	(339)	48,462	310	69,001
Total comprehensive income	-	-	(287)	(345)	-	(517)	4,257	-	3,108
Dividend paid	-	-	-	-	-	-	(6,271)	-	(6,271)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	(126)	(126)
At 31 December 2016	20,256	-	(192)	(274)	146	(856)	46,448	184	65,712
Transfer of own credit adjustment, net of taxation	-	363	-	-	-	-	(363)	-	-
Total comprehensive income	-	(499)	98	29	-	433	4,067	-	4,128
Dividend paid	-	-	-	-	-	-	(122)	-	(122)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	40	40
At 30 June 2017	20,256	(136)	(94)	(245)	146	(423)	50,030	224	69,758

The notes on pages 7 to 36 form part of these condensed consolidated interim financial statements.

Condensed consolidated cash flow statement (unaudited)

For the period ended 30 June 2017

(Expressed in millions of Hong Kong dollars)

	For 6 months ended 30 June 2017 HK\$'M	For 6 months ended 30 June 2016 HK\$'M
Operating activities		
Profit before taxation	4,617	4,424
Adjustments for non-cash items and other adjustments included within income statement	571	794
Change in operating assets	(91,940)	(93,649)
Change in operating liabilities	30,093	14,758
Income tax paid	(2)	(6)
Net cash used in operating activities	(56,661)	(73,679)
Investing activities		
Payment for purchase of property, plant and equipment	(6,429)	(4,043)
Proceeds from disposal of property, plant and equipment	378	72
Net cash used in investing activities	(6,051)	(3,971)
Financing activities		
Interest paid on subordinated liabilities	(172)	(261)
Dividend paid to shareholders of the Bank	(122)	(121)
Net cash used in financing activities	(294)	(382)
Net decrease in cash and cash equivalents	(63,006)	(78,032)
Cash and cash equivalents at 1 January	140,893	162,860
Effect of foreign exchange	6,155	1,212
Cash and cash equivalents at 30 June	84,042	86,040

The notes on pages 7 to 36 form part of these condensed consolidated interim financial statements.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

1. Principal activities

The Bank is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank's principal activities are the provision of banking and related financial services.

2. Significant accounting policies

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and International Accounting Standard ("IAS") 34 Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB").

The preparation of the condensed consolidated interim financial statements in conformity with HKAS 34/IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and International Financial Reporting Standards ("IFRSs").

The condensed consolidated interim financial statements are unaudited.

(b) Basis of preparation

Except as described below, the accounting policies applied in preparing these condensed consolidated interim financial statements are materially consistent with those applied in preparing the consolidated financial statements for the year ended 31 December 2016.

During the period, the Group has adopted the following amendments or standards which have insignificant or no effect on the condensed consolidated interim financial statements:

Amendments to existing standards adopted by the Group

- *Disclosure Initiative (Amendments to HKAS 7/IAS 7)* require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to HKAS 12/IAS 12)* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the reporting date, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
- *Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to HKFRS 12/IFRS 12 Disclosure of Interests in Other Entities)* clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***2. Significant accounting policies (continued)****(b) Basis of preparation (continued)***New accounting standards adopted by the Group*

The requirements for the classification and measurement of financial liabilities are specified in HKAS 39/IAS 39, including the ability to designate financial liabilities as fair value through profit or loss. During the period, the Group elected to early apply the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss relating to own credit in other comprehensive income rather than net trading income (without applying the other requirements in HKFRS 9/IFRS 9). The own credit amounts are accounted for as a separate category of equity. Opening retained earnings has been adjusted to reclassify the cumulative own credit adjustment component of the cumulative fair value adjustment on financial liabilities designated at fair value through profit or loss. These amounts will not be recycled to the income statement but will be recycled to retained earnings on derecognition of the applicable instruments.

The reporting of fair value changes relating to own credit in other comprehensive income is only permitted where this does not create or enlarge an accounting mismatch. Where an accounting mismatch arises, the fair value changes are reported in the income statement. The Group currently designates financial liabilities at fair value through profit or loss only on the basis that they contain a bifurcated embedded derivative and not as a result of an accounting mismatch. There is no economic offset between fair value changes in own credit and the fair value changes in financial assets measured at fair value.

Further information on update of implementation of HKFRS 9/IFRS 9 are included in note 33.

(c) Basis of consolidation

These condensed consolidated interim financial statements cover the consolidated positions of Standard Chartered Bank (Hong Kong) Limited and all its subsidiaries, unless otherwise stated, and include the attributable share of the results and reserves of its associates.

3. Interest income

Interest income in the condensed consolidated income statement includes the following:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Interest income on financial assets that are not measured at fair value through profit or loss	7,528	6,516
Of which: Interest income on unwinding of discounts on loan impairment charges	16	30
	<u>7,544</u>	<u>6,546</u>

4. Interest expense

Interest expense in the condensed consolidated income statement includes the following:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Interest expense on financial liabilities that are not measured at fair value through profit or loss	1,998	1,645
	<u>1,998</u>	<u>1,645</u>

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***5. Net fee and commission income**

Net fee and commission income in the condensed consolidated income statement includes the following:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
– fee and commission income	1,100	1,196
– fee and commission expense	95	51
	<u>1,100</u>	<u>1,196</u>
Net fee and commission income from trust and other fiduciary activities where the Bank and its subsidiaries hold or invest assets on behalf of its customers		
– fee and commission income	209	212
– fee and commission expense	62	59
	<u>209</u>	<u>212</u>

6. Net trading income

Net trading income in the condensed consolidated income statement comprises:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Net trading income shown in the condensed consolidated income statement	1,375	917
Add: interest income arising from trading assets	121	174
Less: interest expense arising from trading liabilities	(24)	(34)
	<u>1,472</u>	<u>1,057</u>

7. Net losses from financial instruments designated at fair value through profit or loss

Net losses from financial instruments designated at fair value in the condensed consolidated income statement comprises:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Net losses shown in the condensed consolidated income statement	(30)	(15)
Add: interest income arising from financial assets designated at fair value	3	3
Less: interest expense arising from financial liabilities designated at fair value	(69)	(22)
	<u>(96)</u>	<u>(34)</u>

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***8. Other operating income**

Other operating income in the condensed consolidated income statement comprises:

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Rental income from operating lease assets	1,779	1,639
Dividend income from unlisted available-for-sale securities	13	22
Net losses on disposal of financial instruments measured at amortised cost	(3)	(12)
Net gains on revaluation of investment properties	–	4
Net gains on disposal and write-off of fixed assets	34	62
Others	73	54
	<u>1,896</u>	<u>1,769</u>

9. Operating expenses

	<i>6 months ended 30 June 2017 HK\$'M</i>	<i>6 months ended 30 June 2016 HK\$'M</i>
Staff costs		
– contributions to defined contribution plans	86	106
– expense in respect of the defined benefits plan	42	49
– equity-settled share-based payment expenses	32	(1)
– salaries and other staff costs	3,005	2,760
Depreciation (note 18)	1,053	851
Premises and equipment expense, excluding depreciation		
– rental of premises	420	464
– others	249	170
Amortisation		
– other intangible assets	71	56
Auditor's remuneration	9	10
Others	3,046	2,068
	<u>8,013</u>	<u>6,533</u>

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

10. Impairment charges

	6 months ended 30 June 2017 HK\$'M	6 months ended 30 June 2016 HK\$'M
(a) Impairment charges on advances to customers		
Individual impairment provisions (note 16)		
– additions	611	983
– releases	(45)	(20)
– recoveries	(70)	(82)
	<u>496</u>	<u>881</u>
Portfolio impairment (releases)/charges (note 16)	<u>(95)</u>	<u>15</u>
	<u><u>401</u></u>	<u><u>896</u></u>
(b) Other impairment charges		
Charges for risk participation transactions	–	51
Charges for property, plant and equipments	378	269
Others	22	–
	<u>400</u>	<u>320</u>

11. Taxation

Taxation in the condensed consolidated income statement comprises:

	6 months ended 30 June 2017 HK\$'M	6 months ended 30 June 2016 HK\$'M
Hong Kong profits tax	596	539
Overseas taxation	4	26
Deferred taxation	33	52
	<u>633</u>	<u>617</u>

12. Segmental reporting

The Group manages its businesses by four client segments: Corporate and Institutional, Commercial, Private Banking and Retail:

- **Corporate & Institutional Banking (CIB)** comprises International Corporates (major multinational corporations and large business groups which have sophisticated, cross-border needs requiring high levels of international service); and Financial Institutions (Banks, Investor clients, Insurance companies, Broker Dealers, Public Sector names (including Central Banks, Sovereign Wealth Funds and Development Organisations) and other types of financial institutions). The majority of CIB client income is generated by Transaction Banking, Financial Markets and Corporate Finance products.
- **Commercial Banking** segment serves Local Corporates (typically clients with operations in three geographies or less); medium-sized business clients, Mid Markets clients and High Value Segment clients providing products across Transaction Banking, Financial Markets and Lending.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

12. Segmental reporting (continued)

- **Private Banking** segment is dedicated to giving high net worth clients highly personalised service and a comprehensive suite of products and services tailored to meet their financial needs. Income from Private Banking clients primarily relates to Wealth Management and Retail products.
- **Retail Banking** comprises:
 - Personal & Priority clients, providing banking products and services to a broader consumer market; and
 - Business clients, serving small business clients, sole proprietors and private companies, offering solutions such as working capital, business expansion, businesses protection and yield enhancement.

Besides the four client segments, Treasury Markets and certain items which are not managed directly by a client segment, including unallocated central costs are reported in "Central & Other Items". Financial information is presented internally to the Bank's senior management using these segments.

The Group comprises only one geographical segment as over 90% of the business is based in Hong Kong. Geographical segment is classified by the location of the principal operations of the subsidiary or, in the case of the Bank, the location of the branch responsible for reporting the results or advancing the funds.

(a) Segment results, assets and liabilities

Revenue and expenses are allocated to the reportable segments with reference to income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

6 months ended 30 June 2017	Corporate & Institutional Banking HK\$'M	Commercial Banking HK\$'M	Private Banking HK\$'M	Retail Banking HK\$'M	Central & Other Items HK\$'M	Consolidated Total HK\$'M
<i>Operating income</i>						
- Net interest income	1,152	752	314	3,216	268	5,702
- Other operating income	3,466	446	309	2,612	451	7,284
	4,618	1,198	623	5,828	719	12,986
Operating expenses (note)	(2,599)	(802)	(684)	(3,001)	(10)	(7,096)
Operating profit/(loss) before impairment	2,019	396	(61)	2,827	709	5,890
Impairment charges	(520)	(63)	(1)	(217)	-	(801)
Profit/(loss) before taxation	1,499	333	(62)	2,610	709	5,089
Segment assets	426,217	63,407	31,029	261,440	317,724	1,099,817
Segment liabilities	349,082	105,784	54,145	402,747	75,557	987,315

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

12. Segmental reporting (continued)**(a) Segment results, assets and liabilities (continued)**

6 months ended 30 June 2016	Corporate & Institutional Banking HK\$'M	Commercial Banking HK\$'M	Private Banking HK\$'M	Retail Banking HK\$'M	Central & Other Items HK\$'M	Consolidated Total HK\$'M
<i>Operating income</i>						
- Net interest income	955	709	265	2,821	431	5,181
- Other operating income	3,240	574	276	2,303	313	6,706
	4,195	1,283	541	5,124	744	11,887
Operating expenses (note)	(2,649)	(702)	(528)	(2,600)	-	(6,479)
Operating profit before impairment	1,546	581	13	2,524	744	5,408
Impairment (charges)/releases	(562)	(495)	1	(266)	-	(1,322)
Profit before taxation	984	86	14	2,258	744	4,086
At 31 December 2016						
Segment assets	367,669	56,308	27,698	258,183	354,364	1,064,222
Segment liabilities	361,012	108,680	54,344	379,011	71,648	974,695

(note) Operating expenses in Corporate & Institutional Banking segment included depreciation charges of HK\$958 million (30 June 2016: HK\$768 million) for commercial aircraft and vessels leased to customers under operating leases.

(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities

	6 months ended 30 June 2017 HK\$'M	6 months ended 30 June 2016 HK\$'M
Operating income		
Reportable segment revenue	12,986	11,887
Income relating to Financial Market products	(122)	(296)
Cost of free funds	86	31
Others	(514)	(270)
Total operating income	12,436	11,352

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

12. Segmental reporting (continued)**(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities (continued)**

	6 months ended 30 June 2017 HK\$'M	6 months ended 30 June 2016 HK\$'M
Profit before taxation		
Reportable segment profit before taxation	5,089	4,086
Income relating to Financial Market products	(122)	(296)
Cost of free funds	86	31
Reallocations of impairment charges	–	108
Others	(436)	495
	<u>4,617</u>	<u>4,424</u>
Assets		
Reportable segment assets	1,099,817	1,064,222
Assets of group companies not included in consolidated total assets	(2,957)	(2,066)
Amounts due from immediate holding company and fellow subsidiaries	62,849	62,849
Others	(119,987)	(118,983)
	<u>1,039,722</u>	<u>1,006,022</u>
Liabilities		
Reportable segment liabilities	987,315	974,695
Liabilities of group companies not included in consolidated total liabilities	(1,284)	(1,437)
Amounts due to immediate holding company and fellow subsidiaries	54,214	54,214
Others	(70,281)	(87,162)
	<u>969,964</u>	<u>940,310</u>

Income and profit before taxation recognised in the condensed consolidated interim financial statements represent an arm's length compensation for the services provided and risks borne. For internal management reporting purposes, income and profit before taxation are allocated on a global perspective. In addition, for internal management reporting purposes, a charge is allocated to reportable segments for the use of interest-free funds.

Reportable segment assets and liabilities include assets and liabilities which are not booked on the condensed consolidated statement of financial position but which contribute to the reportable segment's income and profit before taxation.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***13. Placements with banks and other financial institutions**

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Placements with banks and other financial institutions		
– maturing within one month	59,439	64,658
– maturing between one month and one year	111,844	87,100
– maturing between one year to five years	3,754	4,078
– maturing between five years to ten years	950	914
	<u>175,987</u>	<u>156,750</u>

As at 30 June 2017 and 31 December 2016, there were no impaired placements with banks and other financial institutions.

14. Advances to customers

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
(a) Advances to customers		
Gross advances to customers	476,560	440,347
Trade bills	1,510	1,675
	<u>478,070</u>	<u>442,022</u>
Total	478,070	442,022
Less: Impairment provision – individually assessed (note 16)	(1,360)	(1,437)
Impairment provision – collectively assessed (note 16)	(468)	(563)
	<u>476,242</u>	<u>440,022</u>
(b) Impaired advances to customers		
Gross impaired advances to customers	2,774	3,693
Less: Impairment provision – individually assessed	(1,360)	(1,437)
	<u>1,414</u>	<u>2,256</u>
Gross impaired advances to customers as a % of gross advances to customers	<u>0.58%</u>	<u>0.84%</u>
Fair value of collateral held against the covered portion of impaired advances to customers	<u>1,043</u>	<u>1,340</u>
Covered portion of impaired advances to customers	619	934
Uncovered portion of impaired advances to customers	<u>2,155</u>	<u>2,759</u>

The covered portion of impaired advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***15. Repossessed assets**

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Reposessed assets	<u>238</u>	<u>298</u>

Loan collateral acquired from borrowers due to restructuring or their inability to repay, continues to be recorded as "Advances to customers" in the balance sheet at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment provision), until the collateral is realised.

16. Movement in impairment provision on advances to customers***Advances to customers***

	<i>At 30 June 2017</i>		
	<i>Individually assessed HK\$'M</i>	<i>Collectively assessed HK\$'M</i>	<i>Total HK\$'M</i>
At 1 January 2017	1,437	563	2,000
Amounts written off	(627)	–	(627)
Recoveries of advances written off in previous years	70	–	70
Net charge/(release) to the condensed consolidated income statement (note 10(a))	496	(95)	401
Unwind of discount on loan impairment provision	(16)	–	(16)
At 30 June 2017 (note 14(a))	<u>1,360</u>	<u>468</u>	<u>1,828</u>
	<i>At 31 December 2016</i>		
	<i>Individually assessed HK\$'M</i>	<i>Collectively assessed HK\$'M</i>	<i>Total HK\$'M</i>
At 1 January 2016	1,300	808	2,108
Amounts written off	(1,565)	–	(1,565)
Recoveries of advances written off in previous years	206	–	206
Net charge/(release) to the condensed consolidated income statement	1,555	(245)	1,310
Unwind of discount on loan impairment provision	(59)	–	(59)
At 31 December 2016 (note 14(a))	<u>1,437</u>	<u>563</u>	<u>2,000</u>

As at 30 June 2017 and 31 December 2016, there were no individually assessed provision to banks and other financial institutions.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

17. Investment securities

	At 30 June 2017 HK\$'M	At 31 December 2016 HK\$'M
Available-for-sale securities		
Treasury bills	53,730	60,393
Certificates of deposit held	22,630	25,291
Debt securities	110,037	113,236
Equity shares	540	480
Less: impairment provision	(6)	(6)
	<u>186,931</u>	<u>199,394</u>
Loans and receivables – Debt securities	<u>7,107</u>	<u>8,077</u>
	<u>194,038</u>	<u>207,471</u>

18. Property, Plant and Equipment

	<i>Buildings and leasehold land held for own use HK\$'M</i>	<i>Equipment, furniture & fixtures HK\$'M</i>	<i>Operating lease assets HK\$'M</i>	<i>Sub-total HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total property, plant and equipment HK\$'M</i>
<i>Cost or valuation:</i>						
At 1 January 2017	2,959	458	41,689	45,106	958	46,064
Additions	80	73	6,276	6,429	–	6,429
Transferred to asset classified as asset held for sale	–	–	(1,316)	(1,316)	–	(1,316)
Disposals and write-offs	(5)	(44)	(351)	(400)	–	(400)
Reclassification	(7)	7	–	–	–	–
At 30 June 2017	<u>3,027</u>	<u>494</u>	<u>46,298</u>	<u>49,819</u>	<u>958</u>	<u>50,777</u>
<i>Accumulated depreciation:</i>						
At 1 January 2017	942	237	5,414	6,593	–	6,593
Charge for the period	53	42	958	1,053	–	1,053
Impairment	–	–	378	378	–	378
Transferred to asset classified as asset held for sale	–	–	(101)	(101)	–	(101)
Attributable to assets sold or written off	(2)	(39)	(15)	(56)	–	(56)
At 30 June 2017	<u>993</u>	<u>240</u>	<u>6,634</u>	<u>7,867</u>	<u>–</u>	<u>7,867</u>
<i>Net book value:</i>						
At 30 June 2017	<u>2,034</u>	<u>254</u>	<u>39,664</u>	<u>41,952</u>	<u>958</u>	<u>42,910</u>

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

18. Property, Plant and Equipment (continued)

	<i>Buildings and leasehold land held for own use HK\$'M</i>	<i>Equipment, furniture & fixtures HK\$'M</i>	<i>Operating lease assets HK\$'M</i>	<i>Sub-total HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total property, plant and equipment HK\$'M</i>
<i>Cost or valuation:</i>						
At 1 January 2016	2,878	483	38,108	41,469	937	42,406
Additions	112	77	7,932	8,121	-	8,121
Disposals and write-offs	(29)	(104)	(4,351)	(4,484)	-	(4,484)
Reclassification	(2)	2	-	-	-	-
Fair value adjustments	-	-	-	-	21	21
At 31 December 2016	<u>2,959</u>	<u>458</u>	<u>41,689</u>	<u>45,106</u>	<u>958</u>	<u>46,064</u>
<i>Accumulated depreciation:</i>						
At 1 January 2016	837	263	3,826	4,926	-	4,926
Charge for the year	130	78	1,662	1,870	-	1,870
Impairments	-	-	329	329	-	329
Attributable to assets sold or written off	(25)	(104)	(403)	(532)	-	(532)
At 31 December 2016	<u>942</u>	<u>237</u>	<u>5,414</u>	<u>6,593</u>	<u>-</u>	<u>6,593</u>
<i>Net book value:</i>						
At 31 December 2016	<u>2,017</u>	<u>221</u>	<u>36,275</u>	<u>38,513</u>	<u>958</u>	<u>39,471</u>

19. Other assets

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Prepayments and accrued income	4,335	4,754
Sundry debtors	3,639	3,414
Acceptances and endorsements	4,350	3,745
Unsettled trades and others	5,224	2,050
Assets held for sale (note)	2,425	1,020
	<u>19,973</u>	<u>14,983</u>

(note) Assets held for sale as of 30 June 2017 included interest in an associate held for sale and commercial aircrafts held for sale.

Assets held for sale as of 31 December 2016 included interest in an associate held for sale.

20. Investments in subsidiaries

The principal subsidiaries of the Bank are Standard Chartered APR Limited, Standard Chartered Leasing Group Limited, Standard Chartered Securities (Hong Kong) Limited and Standard Chartered Trade Support (HK) Limited.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***21. Deposits from customers**

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Current accounts	159,968	164,374
Savings accounts	470,818	437,750
Time, call and notice deposits	170,557	162,347
Deposits and balances of central banks	2,589	11,764
Liabilities under sale and repurchase agreements	345	2,007
	<u>804,277</u>	<u>778,242</u>

22. Financial liabilities designated at fair value

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Structured deposits from banks and customers	2,881	3,420
Debt securities issued	7,192	6,148
	<u>10,073</u>	<u>9,568</u>

23. Debt securities in issue

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Other debt securities	2,234	2,173
	<u>2,234</u>	<u>2,173</u>

24. Other liabilities

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Accruals and deferred income	3,826	4,078
Provision for liabilities and charges	363	397
Acceptances and endorsements	4,350	3,745
Unsettled trades and others	15,672	11,224
	<u>24,211</u>	<u>19,444</u>

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***25. Subordinated liabilities**

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
US\$750 million 5.875% Fixed Rate Notes 2020	<u>6,097</u>	<u>6,088</u>

Subordinated liabilities are unsecured and subordinated to the claims of other creditors with an interest rate of 5.875 per cent per annum, payable semi-annually, to the maturity date on 24 June 2020.

26. Shareholders' equity

The Hong Kong Monetary Authority ("HKMA") requires the Bank and its subsidiaries to maintain a minimum level of impairment allowance which is in excess of the impairment allowance required under Hong Kong Financial Reporting Standards. Of the retained earnings as at 30 June 2017, an amount of HK\$4,871 million (31 December 2016: HK\$5,208 million) has been reserved for this purpose.

27. Off-balance sheet exposures, capital commitments and contingencies**a) Contingent liabilities and commitments**

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
<u>Contractual or notional amounts</u>		
Direct credit substitutes	7,841	8,079
Transaction-related contingencies	7,712	7,312
Trade-related contingencies	11,020	13,522
Forward asset purchases	197	196
Forward forward deposits placed	776	–
Other commitments:		
which are not unconditionally cancellable:		
with original maturity of not more than one year	1,496	4,898
with original maturity of more than one year	30,742	19,259
which are unconditionally cancellable	<u>365,765</u>	<u>332,358</u>
	<u>425,549</u>	<u>385,624</u>
Credit risk weighted amount	<u>42,653</u>	<u>35,726</u>

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

27. Off-balance sheet exposures, capital commitments and contingencies (continued)**a) Contingent liabilities and commitments (continued)**

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contracted amounts do not represent expected future cash flows.

b) Derivatives

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
<u>Notional amounts</u>		
Exchange rate contracts	3,017,083	2,057,527
Interest rate contracts	259,755	178,618
Others	8,681	7,609
	<u>3,285,519</u>	<u>2,243,754</u>

Derivatives are financial instruments that derive their value in reference to changes in interest or exchange rates, credit risk, financial instrument prices and indices. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

Fair values and credit risk weighted amounts of derivatives

	<i>At 30 June 2017</i>			<i>At 31 December 2016</i>		
	<i>Fair value assets HK\$'M</i>	<i>Fair value liabilities HK\$'M</i>	<i>Credit risk weighted amount HK\$'M</i>	<i>Fair value assets HK\$'M</i>	<i>Fair value liabilities HK\$'M</i>	<i>Credit risk weighted amount HK\$'M</i>
Exchange rate contracts	14,415	15,554	3,538	21,941	21,867	2,691
Interest rate contracts	2,013	2,120	1,136	2,653	2,372	818
Others	257	183	978	151	101	305
	<u>16,685</u>	<u>17,857</u>	<u>5,652</u>	<u>24,745</u>	<u>24,340</u>	<u>3,814</u>

The credit risk weighted amount refers to the amount as calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount calculated is dependent upon the status of the counterparty and maturity characteristics of each type of contract.

The credit risk weighted amounts have included additional capital requirements for asset value correlation and credit valuation adjustment.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

27. Off-balance sheet exposures, capital commitments and contingencies (continued)

c) Capital commitment

Standard Chartered Leasing Group Limited, a subsidiary of the Bank, has commitments totalling HK\$9,033 million (31 December 2016: HK\$6,382 million) to purchase aircrafts for delivery in 2017 and 2018. Pre-delivery payments of HK\$2,280 million (31 December 2016: HK\$2,923 million) have been made to date in respect of these aircrafts.

d) Contingencies

The Group receives legal claims against it arising in the normal course of business. The Group considers none of these matters 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 Securities and Futures Commission ("SFC") in Hong Kong has been investigating Standard Chartered Securities (Hong Kong) Limited's ("SCSHK") role as a joint sponsor of an initial public offering of a company listed on The Stock Exchange of Hong Kong in 2009. In October 2016, SFC informed the Bank that it intends to commence action against SCSHK and other parties. On 16 January 2017 a writ was filed by the SFC with Hong Kong's High Court. The writ names SCSHK as one of six defendants from whom the SFC is seeking compensation for an unspecified amount of losses incurred by certain shareholders in relation to the initial public offering. There may be financial consequences for SCSHK in connection with this matter.

28. Material related-party transactions

There were no significant changes in the related party transactions described in the 2016 consolidated financial statements that have a material effect on the financial position or performance of the Group during the period ended 30 June 2017. All related party transactions that took place in the half-year to 30 June 2017 were similar in nature to those disclosed in the 2016 consolidated financial statements.

29. Ultimate and immediate holding company

The Bank's ultimate holding company is Standard Chartered PLC, a company registered in England and Wales. Standard Chartered PLC has listings on the London Stock Exchange and the Stock Exchange of Hong Kong. In addition, Standard Chartered PLC is also listed on the Bombay and National Stock Exchanges of India in the form of Indian Depository Receipts.

The Bank's immediate holding company is Standard Chartered Bank, a company registered in England and Wales.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***30. Currency risk**

The Group had the following non-structural foreign currency positions which exceeded 10% of the net non-structural position in all foreign currencies. The net option position is calculated on the basis of the delta-weighted positions of all foreign exchange option contracts.

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
US dollars exposure		
Spot assets	360,061	364,096
Spot liabilities	(327,085)	(324,498)
Forward purchases	1,467,920	995,460
Forward sales	(1,498,403)	(1,031,735)
	<u>2,493</u>	<u>3,323</u>
Chinese renminbi exposure		
Spot assets	38,539	57,399
Spot liabilities	(40,800)	(61,396)
Forward purchases	820,197	605,830
Forward sales	(817,734)	(602,494)
	<u>202</u>	<u>(661)</u>

The Group had the following structural foreign currency positions which exceeded 10% of the net structural position in all foreign currencies:

	<i>At 30 June 2017 HK\$'M</i>	<i>At 31 December 2016 HK\$'M</i>
Chinese Renminbi	10,580	9,167
US dollars	2,044	2,283
	<u>12,624</u>	<u>11,450</u>

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

31. Financial instruments

(a) Valuation of financial instruments carried at fair value

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation models, an assessment is made against external market data and consensus services. Financial instruments held at fair value in the condensed consolidated statement of financial position have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

Valuation methodologies

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable (note 1)	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see note 31 (a) (ii))
Types of financial assets	Actively traded government, agency and other securities Listed equities Quoted derivative instruments	Asset backed securities Corporate and other government bonds and loans Over-the-counter derivatives	Asset backed securities in illiquid markets Corporate bonds and loans in illiquid markets Unlisted equities Over-the-counter derivatives with unobservable inputs
Types of financial liabilities	Short positions in actively traded government and agency securities Short positions in listed equities Quoted derivative instruments	Structured bank and customer deposits Debt securities in issue Over-the-counter derivatives	Structured bank and customer deposits Debt securities issued Over-the-counter derivatives with unobservable inputs

(Note 1) These included valuation models such as discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. These models incorporate assumptions and inputs that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above:

	At 30 June 2017			Total HK\$'M
	Level 1 HK\$'M	Level 2 HK\$'M	Level 3 HK\$'M	
Trading assets				
– Trading securities	3,414	8,167	28	11,609
– Positive fair values of trading derivatives	2	935	–	937
Amounts due from immediate holding company				
– Trading securities	4	–	–	4
– Positive fair values of trading derivatives	45	15,175	45	15,265
– Positive fair values of hedging derivatives	–	294	–	294
Amounts due from fellow subsidiaries				
– Positive fair values of trading activities	1	158	–	159
– Positive fair values of hedging derivatives	–	30	–	30
Financial assets designated at fair value				
– Debt securities	–	348	7	355
Available-for-sale securities				
– Treasury bills	53,730	–	–	53,730
– Certificates of deposit held	207	22,423	–	22,630
– Debt securities	52,392	57,645	–	110,037
– Equity shares, net of impairment	–	–	534	534
Total assets measured at fair value	109,795	105,175	614	215,584
Trading liabilities				
– Short positions in securities	2,884	3,484	–	6,368
– Negative fair values of trading derivatives	–	449	–	449
Financial liabilities designated at fair value				
– Structured bank and customer deposits	–	2,881	–	2,881
– Debt securities issued	–	5,673	1,519	7,192
Amounts due to immediate holding company				
– Negative fair values of trading derivatives	42	16,010	–	16,052
– Negative fair values of hedging derivatives	–	1,121	–	1,121
Amounts due to fellow subsidiaries				
– Negative fair values of trading activities	–	120	–	120
– Negative fair values of hedging activities	–	115	–	115
Total liabilities measured at fair value	2,926	29,853	1,519	34,298

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

31. Financial instruments (continued)**(a) Valuation of financial instruments carried at fair value (continued)**

	At 31 December 2016			Total HK\$'M
	Level 1 HK\$'M	Level 2 HK\$'M	Level 3 HK\$'M	
Trading assets				
– Trading securities	6,023	8,461	–	14,484
– Advances to customers	–	116	–	116
– Positive fair values of trading derivatives	–	1,034	–	1,034
Amounts due from immediate holding company				
– Positive fair values of trading derivatives	61	21,998	24	22,083
– Positive fair values of hedging derivatives	–	1,567	–	1,567
Amounts due from fellow subsidiaries				
– Positive fair values of trading activities	–	54	–	54
– Positive fair values of hedging derivatives	–	7	–	7
Financial assets designated at fair value				
– Debt securities	–	370	–	370
Available-for-sale securities				
– Treasury bills	60,393	–	–	60,393
– Certificates of deposit held	449	24,842	–	25,291
– Debt securities	55,277	57,939	20	113,236
– Equity shares, net of impairment	7	–	467	474
Total assets measured at fair value	122,210	116,388	511	239,109
Trading liabilities				
– Short positions in securities	1,954	5,756	–	7,710
– Negative fair values of trading derivatives	–	579	–	579
Financial liabilities designated at fair value				
– Structured bank and customer deposits	–	3,420	–	3,420
– Debt securities issued	–	4,462	1,686	6,148
Amounts due to immediate holding company				
– Negative fair values of trading derivatives	34	22,609	–	22,643
– Negative fair values of hedging derivatives	–	1,108	–	1,108
Amounts due to fellow subsidiaries				
– Negative fair values of trading activities	–	10	–	10
Total liabilities measured at fair value	1,988	37,944	1,686	41,618

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

(i) Valuation of financial instruments with significant unobservable inputs

The movements during the period for level 3 financial assets and liabilities are as follows:

	<i>As at 30 June 2017</i>				<i>Total level 3 assets HK\$'M</i>
	<i>Amounts due from immediate holding company HK\$'M</i>	<i>Available- for-sale securities HK\$'M</i>	<i>Trading Securities HK\$'M</i>	<i>Financial assets designated at fair value HK\$'M</i>	
Financial assets					
At 1 January 2017	24	487	–	–	511
Total gains recognised in the condensed consolidated income statement					
– Net trading income	21	–	–	–	21
– Net gain from financial instruments designated at fair value through profit or loss	–	–	–	1	1
Total gains recognised in the available-for-sale investment reserve	–	64	–	–	64
Purchases	–	3	28	–	31
Sales	–	–	–	–	–
Settlements	–	(20)	–	–	(20)
Transferred into level 3 (note)	–	–	–	6	6
At 30 June 2017	<u>45</u>	<u>534</u>	<u>28</u>	<u>7</u>	<u>614</u>
Total gains recognised in the condensed consolidated income statement relating to assets held at 30 June 2017					
– Net trading income	21	–	–	–	21
– Net gain from financial instruments designated at fair value through profit or loss	–	–	–	1	1

(note) Transfers into level 3 during the period relate to financial instruments where the valuation parameters became unobservable during the period.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

	<i>Financial liabilities designated at fair value HK\$'M</i>	<i>Amounts due to immediate holding company HK\$'M</i>	<i>Total level 3 liabilities HK\$'M</i>
Financial liabilities			
At 1 January 2017	1,686	–	1,686
Total losses recognised in the condensed consolidated income statement			
– Net losses from financial instruments designated at fair value through profit or loss	67	–	67
Issuances	576	–	576
Settlements	(810)	–	(810)
At 30 June 2017	<u>1,519</u>	<u>–</u>	<u>1,519</u>
Total losses recognised in the condensed consolidated income statement relating to liabilities held at 30 June 2017			
– Net losses from financial instruments designated at fair value through profit or loss	<u>67</u>	<u>–</u>	<u>67</u>

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

As at 31 December 2016

	<i>Amounts due from immediate holding company HK\$'M</i>	<i>Available- for-sale securities HK\$'M</i>	<i>Trading Securities HK\$'M</i>	<i>Financial assets designated at fair value HK\$'M</i>	<i>Total level 3 assets HK\$'M</i>
Financial assets					
At 1 January 2016	471	752	–	–	1,223
Total gains recognised in the consolidated income statement					
– Net trading income	4	–	–	–	4
– Net gains from disposal of available-for-sale securities	–	54	–	–	54
Total losses recognised in the available-for-sale investment reserve	–	(53)	–	–	(53)
Purchases	–	91	–	–	91
Sales	–	(237)	–	–	(237)
Settlements	–	(120)	–	–	(120)
Transferred out of level 3 (note)	(451)	–	–	–	(451)
	<u>24</u>	<u>487</u>	<u>–</u>	<u>–</u>	<u>511</u>
At 31 December 2016					
Total gains recognised in the consolidated income statement relating to assets held at 31 December 2016					
– Net trading income	<u>4</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4</u>

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

	<i>Financial liabilities designated at fair value HK\$'M</i>	<i>Amounts due to immediate holding company HK\$'M</i>	<i>Total level 3 liabilities HK\$'M</i>
Financial liabilities			
At 1 January 2016	1,824	12	1,836
Total gains recognised in the consolidated income statement			
– Net gains from financial instruments designated at fair value through profit or loss	(129)	–	(129)
Issuances	404	–	404
Settlements	(404)	(1)	(405)
Transferred out of Level 3	(9)	(11)	(20)
At 31 December 2016	<u>1,686</u>	<u>–</u>	<u>1,686</u>
Total gains recognised in the consolidated income statement relating to liabilities held at 31 December 2016			
– Net gains from financial instruments designated at fair value through profit or loss	<u>(129)</u>	<u>–</u>	<u>(129)</u>

(note) Transfers out of level 3 during the year relate to financial instruments where the valuation parameters became observable during the year.

Notes to condensed consolidated interim financial statements*(Expressed in millions of Hong Kong dollars)***31. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

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

<u>Type of instruments</u>	<u>Principal valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range (Note 1)</u>	<u>Weighted average (Note 2)</u>
Debt securities	Discounted cash flows	Price/Yield	2.7% to 4.2% (2016: 0.4%)	3.9% (2016: 0.4%)
Structured bank and customer deposits	Internal pricing model	Equity-foreign exchange correlation	Nil (2016: 40% to 63%)	Nil (2016: Nil)
Debt securities in issue	Discounted cash flows	Credit spreads	2.0% to 4.0% (2016: 2.0% to 4.0%)	2.5% (2016: 2.4%)
Derivative financial Instruments	Internal pricing model	Equity-foreign exchange correlation	Nil (2016: 40% to 63%)	Nil (2016: Nil)
	Discounted cash flows	Credit spreads	4.0% (2016: 4.0%)	4.0% (2016: 4.0%)

(Note 1) The ranges of values shown represent the highest and lowest levels used in the valuation of the level 3 financial instruments as at 30 June 2017 and 31 December 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 reporting date. However, these ranges of values may not represent the uncertainty in fair value measurements of these level 3 financial instruments.

(Note 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.

(Note 3) Level 3 equity shares, which are mainly measured using unadjusted net asset value, are excluded.

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

Yield

Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. In derivative products, where the payoff is subject to the value of more than one underlying, the correlation between two variables is used as an input in determining the value of the product. Examples include correlation between two stocks, a stock and an index, an index and another index etc. Correlation can be high or low as well as positive or negative. Positive high correlation between two variables means that an increase in one variable is expected to cause a similar increase in other variable.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

31. Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

Credit spreads

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

(ii) Sensitivities in respect of the fair values of level 3 assets and liabilities

	At 30 June 2017											
	Held at fair value through profit or loss			Available-for-sale securities			Trading securities			Designated at fair value		
	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Amounts due from immediate holding company	45	54	35	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	28	28	28	7	7	5
Equity securities	-	-	-	534	589	482	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	(1,519)	(1,469)	(1,547)
	<u>45</u>	<u>54</u>	<u>35</u>	<u>534</u>	<u>589</u>	<u>482</u>	<u>28</u>	<u>28</u>	<u>28</u>	<u>(1,512)</u>	<u>(1,462)</u>	<u>(1,542)</u>

	At 31 December 2016											
	Held at fair value through profit or loss			Available-for-sale securities			Trading securities			Designated at fair value		
	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Amounts due from immediate holding company	24	32	11	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	20	20	20	-	-	-	-	-	-
Equity securities	-	-	-	467	514	421	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	(1,686)	(1,623)	(1,710)
	<u>24</u>	<u>32</u>	<u>11</u>	<u>487</u>	<u>534</u>	<u>441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,686)</u>	<u>(1,623)</u>	<u>(1,710)</u>

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

31. Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of HKFRS 7/IFRS 7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our level 3 financial instruments. 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.

As of 30 June 2017, these reasonably possible alternatives could have increased the net fair values of financial instruments held at fair value through profit or loss by HK\$9 million (31 December 2016: HK\$8 million) or decreased them by HK\$10 million (31 December 2016: HK\$13 million); increased the fair values of available-for-sale securities by HK\$55 million (31 December 2016: HK\$47 million) or decreased them by HK\$52 million (31 December 2016: HK\$46 million); increased the fair values of designated at fair value securities by HK\$50 million (31 December 2016: HK\$63 million) or decreased them by HK\$30 million (31 December 2016: HK\$24 million); and increased the fair values of trading securities by HK\$ nil (31 December 2016: HK\$ nil) or decreased them by HK\$ nil (31 December 2016: HK\$ nil).

(b) Valuation of financial instruments carried at amortised cost

All financial instruments are stated at fair value or amounts not materially different from their fair value as at 30 June 2017 and 31 December 2016, except for subordinated liabilities.

The following table summarises the carrying amounts and fair values (including the valuation hierarchy) of subordinated liabilities. The values in the table below are stated as at 30 June 2017 and 31 December 2016 and may be different from the actual amounts that will be received on the settlement or maturity of the subordinated liabilities.

	At 30 June 2017		At 31 December 2016	
	Carrying amount HK\$'M	Fair value Level 1 HK\$'M	Carrying amount HK\$'M	Fair value Level 1 HK\$'M
Subordinated liabilities	6,097	6,324	6,088	6,298

The following sets out the Bank's basis of establishing the fair value of its financial assets and liabilities which are not carried at fair value. The basis for establishing the fair value of financial assets and liabilities held at fair value and of derivatives is set out in note 2(i) and note 2(j) to the consolidated financial statement for the year ended 31 December 2016 of the Bank, respectively.

Cash and balances with banks, central banks and other financial institutions

The fair value of cash and balances with banks, central banks and other financial institutions is their carrying amounts.

Placements with banks and other financial institutions

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

31. Financial instruments (continued)

(b) Valuation of financial instruments carried at amortised cost (continued)

Advances to customers

Advances are net of provisions for impairment. The estimated fair value of advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and balances of banks, other financial institutions and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue and subordinated liabilities

The aggregate fair values are calculated based on quoted market prices. For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current market yield curve appropriate for the remaining term to maturity.

32. Share based payments

Standard Chartered PLC (the "SC PLC Group") operates a number of share-based arrangements for its directors and employees.

2011 Standard Chartered Share Plan ("the 2011 Plan")

The 2011 Plan was approved by SC PLC's shareholders in May 2011 and is the SC PLC Group's main plan. Since approval, it has been used to deliver various types of share awards:

- Long-term Incentive plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) with a Common Equity Tier 1 (CET1) underpin; strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met.
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the SC PLC Group to meet regulatory requirements relating to deferral levels, and is in line with market practice.
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers vest on anniversaries of the award date specified at the time of grant. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures.
- Underpin shares are subject to a combination of two performance measures: EPS growth and RoRWA. The weighting between the two elements is split equally, one half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance.

Under the 2011 Plan, no grant is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is four years.

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

32. Share based payments (continued)

2011 Standard Chartered Share Plan ("the 2011 Plan") (continued)

2001 Performance Share Plan ("2001 PSP") – now closed to new grants

The SC PLC 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 SC PLC 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, as appropriate, employees may purchase ordinary shares in Standard Chartered PLC at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the "option exercise price"). There are no performance measures attached to options granted under the All Employee Sharesave Plans and no grant price is payable to receive an option. In some countries in which the SC PLC Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the SC PLC 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 SC PLC's shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is five years.

Valuation of share awards

Details of the valuation models used in determining the fair values of share awards granted under the SC PLC Group's share plans are detailed in the Group's *consolidated financial statement for the year ended 31 December 2016*.

Reconciliation of share award movements for the period to 30 June 2017

	2011 Plan					Sharesave	Weighted average Sharesave exercise price (£)	2013 Sharesave	Weighted average Sharesave exercise price (£)
	LTIP	Deferred/ Restricted shares	PSP	RSS	SRSS				
Outstanding at 1 January 2017	2,611,407	3,476,340	468,389	67,267	3,818	8,408	10.14	1,045,315	6.33
Granted	104,329	1,182,627	-	-	-	-	-	-	-
Lapsed	(284,429)	(138,813)	(442,422)	(10,415)	(1,647)	(8,408)	10.14	(128,412)	8.45
Exercised	-	(1,119,374)	(9,883)	(15,693)	(2,171)	-	-	(813)	5.58
Outstanding at 30 June 2017	2,431,307	3,400,780	16,084	41,159	-	-	-	916,090	6.03
Exercisable at 30 June 2017	-	768,731	8,960	41,159	-	-	-	-	-
Range of exercise prices (£)	-	-	-	-	-	-	-	5.30-9.38	-
Weighted average contractual remaining life (years)	8.74	8.44	5.61	0.52	-	-	-	1.98	-

Notes to condensed consolidated interim financial statements

(Expressed in millions of Hong Kong dollars)

33. HKFRS 9 /IFRS 9 Financial Instruments

The effective date of HKFRS 9/IFRS 9 is 1 January 2018. HKFRS 9/IFRS 9 will replace HKAS 39/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. On initial adoption of HKFRS 9/IFRS 9, the opening re-measurements will be incorporated through an adjustment to opening reserves and retained earnings at 1 January 2018.

Update on implementation

The implementation phase of the HKFRS 9/IFRS 9 ECL models is progressing and testing has been completed for the first tranche of ECL models covering a substantial proportion of assets. The remaining models, largely covering Retail assets, will be implemented in the second half of 2017, together with the finalisation of the thresholds for determining significant increase in credit risk and the incorporation of multiple economic scenarios to account for the potential non-linearity in credit risk. The first phase of the parallel assessment commenced on 1 July 2017 and will run throughout the second half of 2017, enabling the Group to better understand the potential effect of HKFRS 9/IFRS 9 and to validate the controls and new governance and operational processes.

The Group continues to assess the impact that adoption will have on its consolidated financial statements and any consequential effects on regulatory capital.

Further information on the requirements of HKFRS 9/IFRS 9 is disclosed in note 43 to the consolidated financial statements for the year ended 31 December 2016.

34. Comparative figures

Certain comparative figures have been adjusted to conform with the current period's presentation.

By order of the Board



Yee Mann Hau

Executive Director and Chief Financial Officer

Hong Kong

2 August 2017