


Half Year Report 2018

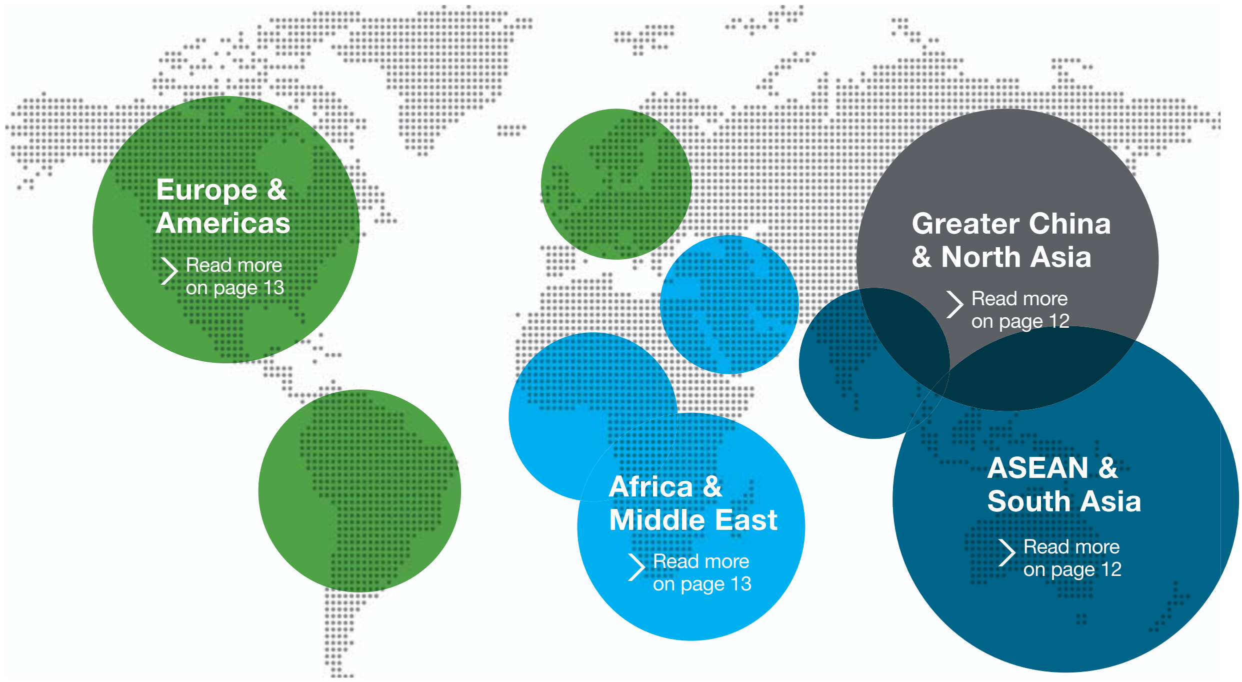
Driving commerce and prosperity through our unique diversity




Who we are

Standard Chartered is a leading international banking group. Our heritage and values are expressed in our brand promise, Here for good.

We operate in over 60 markets worldwide, including some of the world's most dynamic. More than 80 per cent of our income and profits are derived from Asia, Africa and the Middle East. Our businesses serve four client segments in four regions, supported by seven global functions.



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

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

Unless the context requires, within this document, 'China' refers to the People's Republic of China and, for the purposes of this document only, excludes Hong Kong Special Administrative Region (Hong Kong), Macau Special Administrative Region (Macau) and Taiwan. 'Korea' or 'South Korea' refers to the Republic of Korea. Greater China & North Asia (GCNA) includes China, Hong Kong, Japan, Korea, Macau and Taiwan; ASEAN & South Asia (ASA) includes Australia, Bangladesh, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Vietnam; and Africa & Middle East (AME) includes Bahrain, Egypt, Iraq, Jordan, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

Within the tables in this report, blank spaces indicate that the number is not disclosed, dashes indicate that the number is zero and nm stands for not meaningful.

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

OUR PURPOSE AND PROGRESS

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity

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

Financial KPIs and other financial measures below are compared to H1 2017.

FINANCIAL KPIs

Read more from page 14

Return on equity

6.7% ↑ 150bps
Underlying basis

6.1% ↑ 160bps
Statutory basis

Common Equity Tier 1 ratio

14.2% ↑ 40bps

OTHER FINANCIAL MEASURES

Read more from page 14

Operating income	Profit before tax	Earnings per share
$7,649m ↑ 6% Underlying basis	$2,356m ↑ 23% Underlying basis	44.9 cents ↑ 10.5 cents Underlying basis
$7,627m ↑ 6% Statutory basis	$2,346m ↑ 34% Statutory basis	40.7 cents ↑ 11.2 cents Statutory basis

Contents

Summary of results

For the six months ended 30 June 2018

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Underlying performance			
Operating income	**7,649**	7,067	7,222
Operating expenses	**(5,117)**	(5,351)	(4,769)
Credit impairment	**(293)**	(617)	(583)
Other impairment	**(51)**	(85)	(84)
Profit before taxation	**2,356**	1,091	1,919
Return on ordinary shareholders' equity (%)	**6.7**	1.9	5.2
Return on ordinary shareholders' tangible equity (%)	**7.5**	2.1	5.8
Cost to income ratio (%)	**66.9**	75.7	66.0
Statutory performance			
Operating income	**7,627**	7,204	7,221
Operating expenses	**(5,185)**	(5,547)	(4,870)
Credit impairment	**(214)**	(707)	(655)
Goodwill impairment	**–**	(320)	–
Other impairment	**(50)**	(86)	(93)
Profit before taxation	**2,346**	661	1,754
Profit/(loss) attributable to parent company shareholders	**1,560**	23	1,196
Profit/(loss) attributable to ordinary shareholders[1]	**1,343**	(197)	971
Return on ordinary shareholders' equity (%)	**6.1**	(0.9)	4.5
Return on ordinary shareholders' tangible equity (%)	**6.8**	(1.0)	5.0
Net interest margin (%)	**1.6**	1.6	1.6
Cost to income ratio (%)	**68.0**	77.0	67.4
Balance sheet and capital			
Total assets	**694,874**	663,501	657,638
Total equity	**51,488**	51,807	51,362
Loans and advances to customers	**255,100**	248,707	239,198
Customer accounts	**382,107**	370,509	357,810
Total capital	**58,019**	58,758	58,335
Advances-to-deposits ratio (%)[2]	**68.2**	69.4	67.5
Common Equity Tier 1 ratio (%)	**14.2**	13.6	13.8
Total capital (%)	**21.3**	21.0	21.3
UK leverage ratio (%)	**5.8**	6.0	6.0
Information per ordinary share	**Cents**	Cents	Cents
Earnings per share – underlying	**44.9**	12.8	34.4
– statutory	**40.7**	(6.0)	29.5
Ordinary dividend per share[3]	**6.0**	11.0	–
Net asset value per share	**1,353.4**	1,366.9	1,356.7
Tangible net asset value per share	**1,202.8**	1,214.7	1,203.5

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

2 The following balances are included when calculating this ratio: reverse repurchase agreements and other similar secured lending of $37,909 million, repurchase agreements and other similar secured borrowing of $46,675 million, loans and advances to customers held at fair value through profit or loss of $3,710 million and customer accounts held at fair value through or loss of $6,232 million

3 Represents the recommended interim dividend per share for 2018 and the final dividend per share for 2017

What we do

Serving client segments with differentiated expertise

Global

Corporate & Institutional Banking

Serving over 5,300 large corporations, governments, banks and investors.

Operating income

$3,451m Underlying basis

$3,358m Statutory basis

Private Banking

Helping over 7,000 high net-worth individuals manage, preserve and grow their wealth.

Operating income

$271m Underlying basis

$273m Statutory basis

Regional

Retail Banking

Serving over nine million individuals and small businesses.

Operating income

$2,620m Underlying basis

$2,619m Statutory basis

Commercial Banking

Supporting over 40,000 local corporations and medium-sized enterprises.

Operating income

$706m Underlying basis

$706m Statutory basis

Central & other items (segment)

Operating income

$601m Underlying basis

$671m Statutory basis

Where we do it

Building a sustainable business in dynamic economies

Greater China & North Asia

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

Operating income

$3,097m Underlying basis

$3,095m Statutory basis

ASEAN & South Asia

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

Operating income

$2,073m Underlying basis

$2,086m Statutory basis

Africa & Middle East

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

Operating income

$1,376m Underlying basis

$1,377m Statutory basis

Europe & Americas

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

Operating income

$870m Underlying basis

$873m Statutory basis

Central & other items (region)

Operating income

$233m Underlying basis

$196m Statutory basis

Total operating income

$7,649m Underlying basis

$7,627m Statutory basis

Group Chairman’s statement

Striving to be the best we can be for all our stakeholders

I am pleased to report further progress in the first half of the year on our strategic priorities, resulting in positive income growth year-on-year in each of our four client segments, a 23 per cent increase in underlying profit before tax and a stronger Common Equity Tier 1 ratio of 14.2 per cent. Given the improved performance, the Board has declared an interim dividend of 6 cents per share.

Opportunities remain substantial

Our improved performance was delivered against a backdrop of continued global economic growth, with strong trade flows and investments and US interest rates continuing to normalise.

However, the global expansion is becoming more uneven and while some geopolitical concerns have receded, others have increased, particularly surrounding the trading relationship between the US and China. Given our history and purpose – to drive commerce and prosperity through our unique diversity – we believe that trade protectionism would be bad for the global economy. It is, however, worth noting that although the income we make from China’s many trade corridors is important for the Group, our priorities are those radiating from China in Asia, and along the Belt and Road Initiative routes connecting China with our markets in Africa and the Middle East. As a result, our direct exposure to the risks of US-China trade tensions is limited; we generate far more income financing commerce between China and other markets in our footprint – meaning we stand to benefit over time if that were to increase – than we do on trade between China and the US.

Overall, the opportunities for our unique franchise remain substantial.

Focusing on clear priorities

The Board and management team are focused on executing the Group’s strategy, while preserving strong levels of capital and liquidity, further improving the quality of our balance sheet and reinforcing our risk management framework. Our good progress in this regard is described by Andy in the Group Chief Financial Officer’s review. This will increase our resilience to potential threats and shocks.

Now we have built a stable base, we are moving on to the offensive, focusing on what we can control and embedding an enhanced performance culture that will ensure we fully capture the opportunities.

José Viñals
Group Chairman

In this context, I see the Board’s role as supporting an environment where our colleagues feel able to focus on our clients’ needs, innovate and take sensible risks to grow and strengthen our business. As Bill explains in his Group Chief Executive’s review, we are investing at a faster pace to improve the business, including in new digital banking capabilities across all our markets, from the smallest to the largest, and in initiatives that will make us more productive by enhancing internal efficiency and programme management capabilities to drive lasting change.

As I said in the 2017 Annual Report, the Board is overseeing far-reaching changes to transform the Group’s response to financial crime, both internally as well as in partnership with other organisations around the world. You can read more about what we are doing on this critical journey in the reviews of the Group’s Chief Executive and Chief Risk Officer.

Reinforcing excellent governance, and a culture of ethical banking

The Board discusses with depth and candour the strategic issues that face the Group and provides challenge to management. Once agreement has been reached, the Board supports the management team, and holds it accountable for execution.

As well as reviewing performance and our strategic priorities, in the first half of this year the Board has focused on key issues such as cyber security, strengthening all facets of diversity, our approach to environmental and social issues, and our external narrative and brand.

We recently refreshed our brand, retaining the original brand promise of Here for good, but developing it further by posing a new – and tougher – challenge: how can banks help tackle some of the problems that stand in the way of global prosperity and commerce? With the acknowledgment that things are not good enough yet, not with the industry, not with the world we live in, or with ourselves, we are determined to play our part in helping to make things better.

We have also agreed our new sustainability philosophy. This reflects a shift of focus of our environmental and sustainability efforts away from just talking about what we won't do, to increasing our focus on the contribution we can make to promoting sustainable economic and social development to transform the markets in which we operate for the better.

We acknowledge that it can be challenging to balance environmental, social and economic needs. Our revised philosophy sets out how we integrate sustainability into our organisational decision-making and how we will work with our clients, suppliers, NGOs and governments in our markets to address some of those dilemmas.

We want to be a force for good by working with our clients to improve their sustainability performance. This will further strengthen and develop our long-term relationships with our clients, contributing to their competitive advantage and promoting sustainable economic growth in our communities.

Conclusion

As we said when we relaunched our brand: Good enough will never change the world. We will never settle for good enough. Instead, I and all of my colleagues across the world will strive to be the best we can be for all our stakeholders, including our investors, clients, colleagues and communities.

I am confident we have the strategy and ability to successfully complete our transformation and deliver sustainably higher returns over the medium and long term.

José Viñals
Group Chairman

31 July 2018

Group Chief Executive’s review

Further progress
on the path to higher returns

The Group performed steadily in the first half, with encouraging progress on several fronts. Income from key products continues to grow strongly, we are investing in exciting new digital and other transformative initiatives and our strengthened risk discipline is paying off.

Our return on equity improved year-on-year as a result, which reinforces our confidence that we will exceed 8 per cent in the medium term and validates our decision to resume an interim dividend. But I want to be clear that we believe 8 per cent is just a milestone on the route to the sustainably higher returns we can achieve if we continue to execute our strategy with consistency, determination and discipline.

Focusing on the client experience

We have a unique proposition which we know our clients value. We are focusing our energy and our investments on the areas where we can provide exceptional solutions to our clients’ needs. But we know that technical solutions are only part of the story. That is why our strategy is, first and foremost, centred around delivering the highest-quality client experience. And I am pleased to report that our efforts are working.

On the corporate side we are reinforcing and improving our position as a leading bank in Asia, Africa and the Middle East. Independent research suggests large corporations in Asia are consolidating their international business. This is good for us as we have diversified product and regional capabilities and our clients tell us that we offer increasingly exceptional service. This is reflected, for example, in our growing Cash Management income and increasing trade volumes. Although our improving league table positions in Financial Markets are not yet evident in our financial results, clients are offering us an increasing share of their business, boding well for future financial improvement.

And on the personal side, our strategy to become a trusted adviser for the affluent and emerging affluent, especially in core commercial cities in our markets, has resulted in our Priority and Private Banking client segments growing nicely. The more affluent clients rated us the best international bank in seven of our eight largest markets last year, and our Net Promoter Score within that strategically important segment improved significantly year-on-year in six of them, including in India and Singapore where we are growing income and starting to regain share lost over the past decade.

Bill Winters
Group Chief Executive

Improving business performance

Income year-on-year grew in line with the 5-to-7 per cent medium-term target range that we laid out in February this year. And if you adjust that income for impairment charges – considered a good indicator of underlying quality – it increased by 11 per cent. Around half of our income now comes from differentiated and faster-growing products including Wealth Management and Transaction Banking. Our businesses in Greater China & North Asia continue to perform particularly strongly, alongside plenty of good performances and encouraging signs in our other regions.

We are committed to improving the returns of our mass market and lending businesses and on our lower-returning corporate clients, both through delivering a broader range of profitable products and services, as well as through more actively managing our funding costs and capital allocation. We will continue this progress, even if it means we conclude that we cannot sensibly retain some clients or the expenses we carry to cover them.

Investing intelligently

Accelerating our pace of digitisation is, and will remain, a key strategic priority.

We continue to improve the digital connections that link our clients to our world-class lending, wealth, risk management and transaction banking products. Where we do not have the capabilities ourselves, or where we are less differentiated, we connect to third parties who can best address our clients’ needs – an open-architecture approach that has served us, our partners and our clients well over the years in our wealth management business.

That is why we are so energised by the FinTech revolution; these disruptors provide us with the capabilities of much larger firms, but in a cost-effective and timely way. We are currently working with over fifty FinTech companies – from small start-ups to the biggest platforms – to transform our ability to serve our clients digitally. Our recently announced partnership with Ant Financial, part of the Alibaba Group, is one example of this. Together, we have created a blockchain-based cross-border wallet remittance service between Hong Kong and the Philippines through which we leverage jointly-developed technologies to deliver competitive and secure financial services across our uniquely diverse network.

We are also developing our own innovative digital methods of acquiring and servicing clients. Recent successes with our new digital bank in Côte d'Ivoire and our real-time onboarding process in India are encouraging. We will scale and extend these digital innovations across all of our markets – including in Hong Kong where we are in the process of applying for a virtual banking license – allowing us to cover ever greater client volumes more efficiently.

Fighting financial crime in the digital era

While technological advances make doing business simpler, faster and better, the diffusion of cyber capabilities in the criminal underworld also makes the fight against financial crime more difficult. No matter how challenging it may seem, however, we are determined to play a leading role in fighting financial crime and to mitigate its heart-breaking impact on the communities that we are dedicated to serve.

Since 2012, we have seen a nearly ten-fold increase in our annual financial crime compliance (FCC) spending, and a more-than seven-fold increase in FCC headcount. We are investing in new machine-learning technologies that will enable us to evaluate vast quantities of data quickly and to fine-tune the accuracy of our financial crime surveillance tools, freeing up more capacity to investigate suspicious behavioural and transactional patterns. We are forging public-private partnerships with regulators, financial intelligence units, enforcement agencies and other banks around the world to disrupt illicit financial flows. And we are also developing new cyber capabilities of our own: from virtual currency mapping to enhanced profiling.

As described in note 19 to the financial statements, we continue to cooperate with authorities in the US and the UK in their investigations of past conduct and are engaged in ongoing discussions to resolve them. While the Deferred Prosecution Agreements (DPAs) with certain US agencies have recently been extended pending resolution of the relevant reviews, the US Department of Justice also recognised that the Group has made significant progress in complying with the DPA and in enhancing our sanctions compliance programme. Concluding these historical matters remains a focus for us.

Continuing our cultural transformation

We are strengthening our performance culture to match our ambition to be leaders in the markets we serve and to be a driving force for commerce and prosperity in and across those communities.

The needs of our clients and the markets in which we operate are constantly changing. We need to get ahead of the change by continuously innovating and improving. We need to harness the collective intelligence of all our people – their diverse thinking, experiences and backgrounds.

I am constantly inspired by the enthusiasm of my colleagues across the Group, but also dismayed at the degree to which it can be ground down through unnecessarily complicated processes and bureaucracy. This slows us down on our path to sustainably higher returns and we are determined to root out and destroy inefficiencies.

Employees are responding well to this challenge. In the past two years our employee Net Promoter Score has increased from positive 2, to positive 6, to positive 10, meaning that an increasingly large proportion of employees would now recommend the Group as a place to work and the products and services we provide. While the work is far from complete, we are progressing with our cultural transformation to make Standard Chartered a great place to work at, as well as a great bank with which to do business.

Outlook and conclusion

The macroeconomic environment continues to be supported by solid growth fundamentals across our markets but, concurrently, challenged by increasing uncertainty resulting from escalating trade frictions and geopolitical risks. We therefore remain cautiously optimistic on global economic growth.

We have committed to delivering a differentiated proposition for all our stakeholders, and to generating the sustainably higher returns of which we know this unique franchise is capable. Our long-term focus in this regard in no way diminishes our sense of short-term urgency. We have been on a transformation tear these last few years and will not slow down a bit.

I look forward to reporting to you in February next year when I expect to deliver more evidence of progress against our extraordinary agenda.

Bill Winters
Group Chief Executive

31 July 2018

Our goals and progress

Capitalising on our strong position

We are well placed to capture the opportunities in our markets, while being aware of potential threats and areas where we need to improve. We have shown further progress against our strategic objectives so far this year, leaving us in a stronger position compared with the same stage last year. Our balance sheet is more resilient and our profits and returns are higher

Our purpose makes us different

Our purpose is what sets us apart: **we drive commerce and prosperity through our unique diversity.** Our strategy helps us achieve our purpose

What we deliver

We deliver an extensive set of solutions, products and services, adapted to the needs of our clients

Global

Clients in our global businesses are supported by relationship managers with a global reach

Corporate & Institutional Banking

Private Banking

Regional

Country-level teams support clients in our regional businesses. To ensure efficiency and consistency, and to enable greater investment, we have global oversight of our systems and products

Retail Banking

Commercial Banking

The value we create

We aim to create long-term value for all our stakeholders, in a sustainable manner

- **Clients**
- **Society**
- **Regulators and governments**
- **Investors**
- **Colleagues**

	Focus for 2018	Progress in H1 2018
1 **Secure the foundations** We have substantially completed this objective, putting us in a position of strength from which to drive business growth confidently	Maintain a strong capital position Continue efforts to further strengthen risk controls and conduct	**CET1: 14.2%** (H2 2017: 13.6%, H1 2017: 13.8%) **Credit impairment: $0.3bn (underlying)** (H2 2017: $0.6bn, H1 2017: $0.6bn)
2 **Get lean and focused** We have continued the restructuring of our businesses and the shift towards sustainable, profitable growth	Drive income within our desired risk appetite, and contain costs, leveraging technology Focus on driving sustainable momentum in capital and returns-accretive businesses	**Profit before tax: $2.4bn (underlying)** (H2 2017: $1.1bn, H1 2017: $1.9bn) **Return on equity: 6.7% (underlying)** (H2 2017: 1.9%, H1 2017: 5.2%)
3 **Invest and innovate** We have invested to improve the way we serve our clients and the way we collaborate. Examples include significant investments in automation and a revamped learning offering for colleagues	Ambitious investment plan in technology to drive business Invest in our colleagues and culture Leverage our unique diversity to serve our clients better	**Digitisation and analytics** driving efficiency and superior client service **Retail Banking digital adoption: 47.5% of clients** (2017: 44.7%)

Global
Corporate & Institutional Banking

Serving around 5,300 large corporations, governments, banks and investors

Profit before tax
$1,093m
underlying basis
$1,020m
statutory basis

Risk weighted assets
$139bn

Return on equity (RoE)
6.9%
underlying basis

The difference of $73 million between statutory and underlying profit represents restructuring costs

Strategic priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice, and strengthening leadership in flow business
- Manage our balance sheet to grow income and returns by driving balance sheet velocity, improving funding quality and maintaining strengthened risk controls
- Improve our efficiency, innovate and digitise to enhance the client experience

Progress

- Completed on-boarding of over 100 'New 90' OECD clients, and delivered strong growth from the next generation of 'Next 100' clients
- Improved balance sheet quality, with investment-grade clients now representing 65 per cent of customer loans and advances (2017: 57 per cent) and high quality operating account balances improving to 49 per cent of Transaction Banking customer balances (2017: 48 per cent)
- Proportion of low returning client risk-weighted assets improved from 16.8 per cent in 2017 to 16.5 per cent
- Strong collaboration with Retail Banking continues with Employee Banking accounts from our clients up by 75,000

Performance highlights

- Underlying profit before taxation of $1,093 million was up 69 per cent primarily driven by higher income and lower impairment, partially offset by higher operating expenses
- Underlying income of $3,451 million was up 7 per cent primarily driven by growth in Cash Management and Financial Markets income which partially offset margin compression in Corporate Finance and Trade Finance
- Strong balance sheet momentum with loans and advances to customers and customer accounts growing by 14 per cent
- RoE has improved from 4.1 to 6.9 per cent

Private Banking

Helping over 8,000 high-net-worth individuals manage, preserve and grow their wealth

Profit before tax
$(5)m
underlying basis
$(11)m
statutory basis

Risk weighted assets
$6bn

Return on Equity (RoE)
(0.8)%
underlying basis

The difference of $6 million between statutory and underlying loss represents restructuring

Strategic priorities

- Instil a culture of excellence by improving the expertise and enhancing the skills of senior relationship management teams
- Improve our clients' experience by enhancing our advisory proposition and reducing the turnaround time of the investment process
- Balance growth and controls by simplifying the business model through implementation of a rigorous controls enhancement plan

Progress

- Continued to strengthen our relationship management team by adding 15 senior frontline hires
- Leveraged our new open architecture platforms like Equity Structured Products and Fixed Income, and simplified processes to reduce client transaction time
- Targeted marketing of our investment philosophy and advisory capabilities to continue shift towards clients with more than $5 million in assets under management

Performance highlights

- Underlying loss before taxation of $5 million against a loss of $1 million in prior period, with income growth offset by higher expenses
- Underlying income of $271 million was up 12 per cent, with Wealth Management and Retail Products up 18 per cent and 3 per cent respectively
- Assets under management increased $5 billion or 8 per cent driven by positive market movements, and $1.6 billion of net new money
- RoE decreased from (0.2) to (0.8) per cent

Regional
Retail Banking

Serving over nine million individuals and small businesses

Profit before tax
$617m
underlying basis
$613m
statutory basis

Risk weighted assets
$43bn

Return on equity (RoE)
13.0%
underlying basis

The difference of $4 million between statutory and underlying profit represents restructuring costs

Strategic priorities

- Continue to focus on affluent and emerging affluent clients and their wealth needs in core cities and capture the significant rise of the middle class in our markets
- Continue to build on our client ecosystem and alliances initiatives
- Improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our markets

Progress

- Increased the share of income from Priority clients from 45 per cent in 2017 to 47 per cent as a result of strong Wealth Management and Deposit income growth and increasing client numbers
- Launched the first digital-only bank in Côte d'Ivoire with a plan to roll out across other markets in the Africa & Middle East region
- Launched real time on-boarding in India, enabling straight-through current and savings account opening and a significantly improved customer experience
- There has been a further improvement in digital adoption, with 47 per cent of clients now actively using online or mobile banking compared to 45 per cent in 2017

Performance highlights

- Underlying profit before taxation of $617 million was up 23 per cent with income growth and lower loan impairment offset by increased expenses
- Underlying income of $2,620 million was up 9 per cent with growth of 11 per cent in Greater China & North Asia, and 12 per cent in ASEAN & South Asia, partially offsetting a 1 per cent decline in Africa & Middle East
- Strong momentum from Wealth Management and Deposits drove the improved income performance, more than offsetting continued margin compression across asset products
- RoE improved from 10.8 to 13.0 per cent from consistent income growth in focus areas such as Priority clients, Wealth Management and Deposits and continued low levels of loan impairment

Commercial Banking

Supporting over 40,000 local corporations and medium-sized enterprises

Profit before tax
$140m
underlying basis
$139m
statutory basis

Risk weighted assets
$33bn

Return on equity (RoE)
3.9%
underlying basis

The difference of $1 million between statutory and underlying profit represents restructuring costs

Strategic priorities

- Drive quality sustainable growth by deepening relationships with our existing clients and attracting new clients that are aligned with our strategy, with a focus on rapidly growing and internationalising companies in our footprint
- Improve client experience, through investing in frontline training, tools and analytics
- Continue to enhance credit risk management and monitoring and maintain a high bar on operational risk

Progress

- On-boarded over 2,800 new clients, of which over 20 per cent came from our clients' international and domestic networks of buyers and suppliers
- Continued strengthening the foundations in credit risk management and improving asset quality. However, gross loan impairment remains elevated, partially offset by recoveries
- Straight2Bank utilisation increased by 10 per cent with 57 per cent of active Commercial Banking clients using the capability, up from 52 per cent in 2017[1]

Performance highlights

- Underlying profit before taxation of $140 million was down 26 per cent impacted by loan impairments mainly in Africa & Middle East, partially offset by higher income in Greater China & North Asia
- Underlying income of $706 million was up 7 per cent with broad-based growth from Transaction Banking, Financial Markets and Corporate Finance. Income was up 12 per cent in Greater China & North Asia, and up 9 per cent in ASEAN & South Asia, partially offsetting 4 per cent decline in Africa & Middle East
- Customer loans and advances grew by 7 per cent and customer accounts grew by 2 per cent
- RoE from Commercial Banking declined from 5.4 to 3.9 per cent largely due to higher loan impairments

1 Due to a change in methodology for defining client groups in 2018, the comparative for 2017 has been re-presented (originally stated at full-year as 44.7%)

Greater China & North Asia

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

Profit before tax

$1,289m
underlying basis

$1,263m
statutory basis

Risk weighted assets

$83bn

The difference of $26 million between statutory and underlying profit represents restructuring costs

Strategic priorities

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

Progress

- We have been active in the opening of China's capital markets, helping overseas investors do business through channels such as Bond Connect, Stock Connect and the Qualified Domestic Institutional Investor initiative
- Good progress in Retail Banking in Hong Kong. We added more than 18,000 new Priority clients during the year and increasing our active qualified Priority clients by 14 per cent. In June we announced our intent to apply for a virtual bank licence in Hong Kong
- We have delivered a modest profit in Retail Banking Korea and refreshed the strategic agenda in Retail Banking China where performance remained broadly flat

Performance highlights

- Underlying profit before taxation of $1,289 million was 26 per cent higher with income growth and lower loan impairment partially offset by increased expenses
- Underlying income of $3,097 million was 11 per cent higher, with broad-based growth across all markets and client segments particularly in Hong Kong and China
- Strong balance sheet momentum was sustained with loans and advances to customers up 10 per cent and customer accounts up 9 per cent

ASEAN & South Asia

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

Profit before tax

$589m
underlying basis

$677m
statutory basis

Risk weighted assets

$96bn

The difference of $88 million between statutory and underlying profit represents impairment recoveries under restructuring

Strategic priorities

- Optimise geographic portfolio by selectively reshaping sub-scale unprofitable markets and prioritising larger or more profitable markets
- Shift the income mix towards 'asset-light' businesses such as network and flow opportunities in Corporate & Institutional Banking and Commercial Banking; and towards Wealth Management and Priority clients in Retail Banking
- Deploy differentiating digital capabilities in key markets to improve client experience and productivity

Progress

- Broad-based income growth from portfolio reshaping in most markets, with double-digit growth in six markets
- Good progress on improving business mix, with cash liabilities growing by 6 per cent and Wealth Management income and Global Subsidiaries income up 14 per cent each. In addition, we added around 5,000 new Priority clients during the year
- Rolled out several market-leading digital capabilities including real-time onboarding in India and automated individual client due diligence in Singapore

Performance highlights

- Underlying profit before taxation of $589 million grew 47 per cent driven by lower impairments and income growth which was offset by continued investment in our strategic and regulatory agenda
- Underlying income of $2,073 million was up 6 per cent driven by higher income across all segments and in eight out of twelve markets
- Client activity was positive with 6 per cent growth in loans and advances to customers and 2 per cent growth in customer accounts. Risk-weighted assets declined by 1 per cent from improved portfolio quality

Africa & Middle East

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

Profit before tax

$387m

underlying basis

$346m

statutory basis

Risk weighted assets

$54bn

The difference of $41 million between statutory and underlying profit represents restructuring impairments and costs

Strategic priorities

- De-risk and improve the quality of income and maintain a stable platform for sustainable growth
- Build income momentum in Corporate & Institutional Banking by providing best-in-class structuring and financing solutions and driving origination through client initiatives
- Continue investing in market-leading digitisation initiatives in Retail Banking to protect and grow market share in core markets; continue with retail transformation to recalibrate our network and streamline structures

Progress

- Successfully launched digital-only bank in Côte d'Ivoire. On track to deliver digital solutions across more countries in Africa during 2018
- Improved risk profile through tighter underwriting standards, de-risking and higher coverage ratios leading to lower loan impairment levels

Performance highlights

- Underlying profit before taxation of $387 million grew 5 per cent driven by a reduction in loan impairment
- Given the economic challenges in the region, underlying income of $1,376 million was down 1 per cent. Middle East, North Africa and Pakistan delivered flat income while Africa was down 2 per cent
- Good performance in Transaction Banking and Wealth Management was offset by margin compression in Corporate Finance and Retail Products
- Loans and advances to customers were up 5 per cent and customer accounts grew 2 per cent

Europe & Americas

Centred in London and New York with a presence across both continents. The region is a major income origination engine for the Group's Corporate & Institutional Banking business and booking centre for Private Banking

Profit before tax

$86m

underlying basis

$84m

statutory basis

Risk weighted assets

$41bn

The difference of $2 million between statutory and underlying profit represents restructuring impairments and costs

Strategic priorities

- Continue to attract new international corporate and financial institutional clients and deepen relationships with existing and new clients by banking them across more markets in our network
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Grow our Private Banking franchise and assets under management in London and Jersey

Progress

- Good progress in improving the share of business from targeted multinational corporate clients, with income up 114 per cent and 14 per cent from 'New 90' OECD and 'Next 100' client initiatives respectively. We continue to diversify and selectively expand our client base in the region
- Focused on sustainably delivering higher returns through improved quality of income combined with risk-weighted assets optimisation. We continue to improve the quality of our funding base in London and New York and our network markets by increasing the proportion of operating account liabilities relative to our balance sheet size
- Broad-based growth across the region with a number of markets growing income at a double-digit rate. We are setting up a new subsidiary in Frankfurt to seamlessly serve our European client base

Performance highlights

- Underlying profit before taxation of $86 million up 30 per cent from income growth and lower impairments, offset by an increase in expenses as we invest in people, platforms and processes
- Underlying income of $870 million was up 8 per cent driven by strong income in Transaction Banking partially offset by continued subdued Financial Markets performance, particularly in Foreign Exchange. Income generated by our clients booked elsewhere in the network grew by 12 per cent
- Private and Retail Banking income grew 15 per cent and 16 per cent respectively
- Loans and advances to customers were up 23 per cent and customer accounts rose 18 per cent

Group Chief Financial Officer's review

Higher quality business
delivering an encouraging performance

Performance summary

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million	H1 2018 vs H2 2017 Better/(worse) %	H1 2018 vs H1 2017 Better/(worse) %
Operating income	**7,649**	7,067	7,222	8	6
Other operating expenses	**(4,479)**	(4,429)	(4,170)	(1)	(7)
Regulatory costs	**(638)**	(702)	(599)	9	(7)
UK bank levy	**–**	(220)	–	nm	nm
Operating expenses	**(5,117)**	(5,351)	(4,769)	4	(7)
Operating profit before impairment and taxation	**2,532**	1,716	2,453	48	3
Credit impairment	**(293)**	(617)	(583)	53	50
Other impairment	**(51)**	(85)	(84)	40	39
Profit from associates and joint ventures	**168**	77	133	118	26
Underlying profit before taxation	**2,356**	1,091	1,919	116	23
Restructuring	**(79)**	(188)	(165)	58	52
Other items	**69**	(242)	–	nm	nm
Statutory profit before taxation	**2,346**	661	1,754	nm	34
Taxation	**(753)**	(599)	(548)	(26)	(37)
Profit for the period	**1,593**	62	1,206	nm	32
Net interest margin (%)	**1.6**	1.6	1.6		
Underlying return on equity (%)	**6.7**	1.9	5.2		
Underlying return on tangible equity (%)	**7.5**	2.1	5.8		
Statutory return on equity (%)	**6.1**	(0.9)	4.5		
Statutory return on tangible equity (%)	**6.8**	(1.0)	5.0		
Underlying earnings per share (cents)	**44.9**	12.8	34.4		
Earnings/(loss) per share (cents)	**40.7**	(6.0)	29.5		
Dividend per share (cents)	**6.0**	11.0	–		
Common Equity Tier 1 (%)	**14.2**	13.6	13.8		


Andy Halford
Group Chief Financial Officer

The Group's improved performance in the first half of 2018 represents further encouraging progress.

All figures in this review are presented on an underlying basis and comparisons are made to the equivalent period in 2017 unless otherwise stated. A full reconciliation between statutory and underlying results is set out in note 2 to the financial statements.

- Underlying profit before tax of $2.4 billion was 23 per cent higher and statutory profit before tax was up 34 per cent
- Operating income of $7.6 billion grew 6 per cent or 5 per cent on a constant currency basis with strong growth in Transaction Banking, Wealth Management and Deposits more than offsetting lower income from Corporate Finance and the non-repeat of Treasury gains in 2017
- Operating expenses of $5.1 billion were up 7 per cent or 5 per cent on a constant currency basis as the Group accelerated investment to improve the business

- Expenses in the second half of 2018 excluding the UK bank levy are expected to be similar to the first half of the year
- Credit impairment of $293 million on an IFRS 9 basis was 50 per cent lower and reflects management actions to improve asset quality
- Other impairment of $51 million related primarily to transport leasing assets
- Profit from associates and joint ventures of $168 million was 26 per cent higher following a continued good performance by the Group's associate investment in China and a better performance by its joint venture in Indonesia
- Net restructuring charges of $79 million related primarily to Principal Finance and the ongoing reduction of the liquidation portfolio
- Other items included a $69 million gain following the redemption of some GBP-denominated securities
- The Common Equity Tier 1 (CET1) ratio of 14.2 per cent gained a further 60 basis points in the first half
- The Group's return on equity improved 150 basis points to 6.7 per cent and its return on tangible equity improved 170 basis points to 7.5 per cent
- The improved financial performance and the Group's strong capital position underpinned the Board's decision to declare an interim dividend of 6 cents per ordinary share

Income

Operating income was up 6 per cent or 5 per cent on a constant currency basis. Sustained momentum in Transaction Banking, Wealth Management and Deposits more than offset the impact of continued asset margin compression. The combination of favourable macroeconomic conditions and further progress improving the quality of the business reinforces the Group's guidance for a 5-to-7 per cent medium-term compound annual growth rate in income.

- Corporate & Institutional Banking income was 7 per cent higher as the focus on high quality operating accounts and the benefit of rising global interest rates resulted in a 25 per cent increase in income from Cash Management that more than offset the impact of asset margin compression in Corporate Finance and Trade Finance. Income in Financial Markets was 4 per cent higher despite mixed but overall challenging market conditions and Foreign Exchange spread compression in part driven by clients' increasing preference for electronic channels
- Retail Banking income was up 9 per cent driven by strong performances in Greater China & North Asia and ASEAN & South Asia, particularly in Hong Kong and Singapore. Together that offset lower income in Africa & Middle East where market conditions remained challenging. The business continues to benefit from the focus on affluent and emerging affluent clients with income from Wealth Management 15 per cent higher
- Commercial Banking income was up 7 per cent with the businesses in Greater China & North Asia and ASEAN & South Asia growing 12 per cent and 9 per cent respectively. Together this offset 4 per cent lower income from Africa & Middle East
- Private Banking income was 12 per cent higher with growth across all products. The business added $1.6 billion net new money over the past 12 months and assets under management were $5 billion higher
- Income in Central & other items (segment) was 15 per cent lower impacted by the non-repeat of gains in Treasury primarily in India in the prior period
- Income from Greater China & North Asia increased 11 per cent and 9 per cent on a constant currency basis with broad-based improvement across all markets particularly China and Hong Kong
- Income from ASEAN & South Asia was 6 per cent higher and 3 per cent on a constant currency basis with growth in most markets and particularly Singapore where income was up 15 per cent. Excluding Treasury gains booked in the prior period income in India was broadly stable
- Income from Africa & Middle East was 1 per cent lower and broadly stable on a constant currency basis as market conditions there remained challenging
- Europe & Americas income grew 8 per cent with 10 per cent higher income in the UK more than offsetting 3 per cent lower income in the US. The region is an important hub for the Group and originates around one-third of Corporate & Institutional Banking total income

Expenses

Operating expenses of $5.1 billion were up 7 per cent or 5 per cent on a constant currency basis and broadly flat half-on-half. Increases year-on-year were driven by investments in people and technology, including the amortisation of cash investments made in prior periods. Expenses in the second half of 2018 excluding the UK bank levy are expected to be similar to the first half due to the more even phasing of investments compared to 2017.

The Group has achieved its four-year $2.9 billion gross cost efficiency target six months ahead of plan. The ongoing discipline of delivering gross cost efficiencies to fund investments is expected to result in cost growth below the rate of inflation over the medium term.

Impairment

Credit impairment of $293 million was 50 per cent lower driven by a significant reduction in impairment in Corporate & Institutional Banking reflecting past actions to improve the risk profile of this business and the continued focus on high quality new origination. This was partially offset by an increase in Commercial Banking.

Other impairment of $51 million related primarily to transport leasing assets.

Profit from associates and joint ventures

Profit from associates and joint ventures of $168 million reflected the continuing good performance of the Group's associate investment in China and a better performance by its joint venture in Indonesia.

As a result, profit before tax of $2.4 billion was 23 per cent higher and statutory profit before tax of $2.3 billion which is stated after restructuring and other items was 34 per cent higher.

Operating profit improved significantly in Corporate & Institutional Banking and Retail Banking driven by income growth and lower impairments, which offset lower profit in Commercial Banking. By region, operating profit improvement was broad-based, with Hong Kong and Singapore performing particularly strongly. The prior year performance in Central & other items (segment) was impacted by the non-repeat of gains in Treasury.

	6 months ended 30.06.2018 $million	6 months ended 30.06.2017 $million	Better/ (worse) %
Corporate & Institutional Banking	**1,093**	648	69
Retail Banking	**617**	501	23
Commercial Banking	**140**	188	(26)
Private Banking	**(5)**	(1)	nm
Central & other items	**511**	583	(12)
Underlying profit before tax	**2,356**	1,919	23

	6 months ended 30.06.2018 $million	6 months ended 30.06.2017 $million	Better/ (worse) %
Greater China & North Asia	**1,289**	1,025	26
ASEAN & South Asia	**589**	400	47
Africa & Middle East	**387**	369	5
Europe & Americas	**86**	66	30
Central & other items	**5**	59	(92)
Underlying profit before tax	**2,356**	1,919	23

Credit quality

Credit quality overall has continued to improve in the first six months of 2018 due to the disciplined focus on high quality origination within a more granular risk appetite.

IFRS 9 became effective from 1 January 2018 and requires the recognition of expected credit losses rather than incurred losses under IAS 39. Financial instruments that are not already credit-impaired are originated in stage 1 and a 12 month expected credit loss provision is recognised.

An instrument will remain in stage 1 until it is repaid unless it experiences significant credit deterioration in which case it will transfer to stage 2, or it becomes credit-impaired where it would transfer to stage 3. The Group has not restated prior periods and comparisons are made to balances as at 1 January 2018.

The Group has made significant progress exiting exposures in the liquidation portfolio with the remaining $1.6 billion gross loans and advances 72 per cent covered or 90 per cent covered after collateral.

Gross credit-impaired (stage 3) loans in the ongoing business of $6.2 billion were $372 million lower following a number of repayments, debt sales and write-offs and significantly lower new inflows. These exposures represent 2.3 per cent of gross loans and advances in the ongoing business and are 53 per cent covered or 76 per cent covered after collateral.

The proportion of investment grade clients has increased to 61 per cent, exposures in the early alerts portfolio have reduced by $1.8 billion and credit grade 12 accounts were $456 million lower.

	30.06.18 (IFRS 9)			01.01.18 (IFRS 9)		
	Ongoing business $million	**Liquidation portfolio $million**	**Total $million**	Ongoing business $million	Liquidation portfolio $million	Total $million
Gross loans and advances to customers[1]	**263,056**	**1,579**	**264,635**	255,591	2,248	257,839
Of which stage 1 and 2	***256,885***	***22***	***256,907***	*249,048*	*22*	*249,070*
Of which stage 3	***6,171***	***1,557***	***7,728***	*6,543*	*2,226*	*8,769*
Expected credit loss provisions	**(4,186)**	**(1,118)**	**(5,304)**	(4,704)	(1,626)	(6,330)
Of which stage 1 and 2	***(905)***	**–**	***(905)***	*(1,048)*	–	*(1,048)*
Of which stage 3	***(3,281)***	***(1,118)***	***(4,399)***	*(3,656)*	*(1,626)*	*(5,282)*
Net loans and advances to customers	**258,870**	**461**	**259,331**	250,887	622	251,509
Of which stage 1 and 2	***255,980***	***22***	***256,002***	*248,000*	*22*	*248,022*
Of which stage 3	***2,890***	***439***	***3,329***	*2,887*	*600*	*3,487*
Stage 3 cover ratio before collateral (%)	**53**	**72**	**57**	56	73	60
Stage 3 cover ratio after collateral (%)	**76**	**90**	**79**	78	88	81
Credit grade 12 accounts ($million)	**1,027**	**22**	**1,049**	1,483	22	1,505
Early alerts ($million)	**6,857**	**–**	**6,857**	8,668	–	8,668
Investment grade corporate exposures (%)	**61**	**–**	**61**	57	–	57

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $4,231 million at 30.06.18 and $4,568 million at 01.01.18

Restructuring and other items

The Group incurred net restructuring charges of $79 million including a $153 million loss in respect of Principal Finance that offset recoveries in relation to the ongoing reduction of the liquidation portfolio.

In other items the redemption of some GBP-denominated subordinated and senior securities resulted in a net gain of $69 million.

	6 months ended 30.06.18		6 months ended 31.12.17		6 months ended 30.06.17	
	Restructuring $million	**Other items $million**	Restructuring $million	Other items $million	Restructuring $million	Other items $million
Operating income	**(91)**	**69**	59	78	(1)	–
Operating expenses	**(68)**	**–**	(196)	–	(101)	–
Credit impairment	**79**	**–**	(90)	–	(72)	–
Other impairment	**1**	**–**	(1)	(320)	(9)	–
Profit/(loss) from associates and joint ventures	**–**	**–**	40	–	18	–
Profit before taxation	**(79)**	**69**	(188)	(242)	(165)	–

Balance sheet and liquidity

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

Loans and advances to customers were up 3 per cent to $255 billion with broad-based growth across a range of products.

Customer accounts were also higher by 3 per cent as the Group continued to focus on improving the quality and mix of its liabilities.

The advances-to-deposits ratio reduced to 68.2 per cent from 69.4 per cent.

As a result of classification and measurement of financial assets under IFRS 9, $45 billion of reverse repurchase agreement assets and $38 billion of repurchase agreement liabilities were reclassified as financial assets held at fair value through profit or loss. Further details are provided in note 27 to the financial statements.

	30.06.18 $million	31.12.17 $million	Increase/ (decrease) $million	Increase/ (decrease) %
Assets				
Loans and advances to banks	**55,603**	57,494	(1,891)	(3)
Loans and advances to customers	**255,100**	248,707	6,393	3
Reverse repurchase agreements and other similar secured lending[1, 2]	**12,781**	54,275	(41,494)	(76)
Other assets	**371,390**	303,025	68,365	23
Total assets	**694,874**	663,501	31,373	5
Liabilities				
Deposits by banks	**30,816**	30,945	(129)	–
Customer accounts	**382,107**	370,509	11,598	3
Repurchase agreements and other similar secured borrowing[3, 4]	**5,863**	39,783	(33,920)	(85)
Other liabilities	**224,600**	170,457	54,143	32
Total liabilities	**643,386**	611,694	31,692	5
Equity	**51,488**	51,807	(319)	(1)
Total equity and liabilities	**694,874**	663,501	31,373	5
Advances-to-deposits ratio (%)	**68.2**	69.4		

1 Includes loans and advances to banks of $8,550 million at 30.06.18 and $20,694 million at 31.12.17 (see note 14)

2 Includes loans and advances to customers of $4,231 million at 30.06.18 and $33,581 million at 31.12.17 (see note 14)

3 Includes customer accounts of $2,987 million at 30.06.18 and $35,979 million at 31.12.17 (see note 14)

4 Includes deposits by banks of $2,876 million at 30.06.18 and $3,804 million at 31.12.17 (see note 14)

Risk-weighted assets

Total risk-weighted assets (RWAs) were 3 per cent or $7.9 billion lower since 31 December 2017 with decreases in Corporate & Institutional Banking and Retail Banking more than offsetting increases in Commercial Banking, Private Banking and Central & other items.

Credit risk RWAs were $3.0 billion lower with increases related to underlying asset growth offset by model, methodology and policy changes and the positive impact of foreign exchange translation.

Market risk RWAs decreased by $2.4 billion. Around half of this reduction related to the full recognition of certain structured products in the Group's internal models approach. The remainder followed a reduction in trading book debt security holdings.

Operational risk RWAs were $2.4 billion lower due to a decrease in the average income over a rolling three-year time horizon, as lower 2017 income replaced higher 2014 income.

	30.06.18 $million	31.12.17 $million	Increase/ (decrease) $	Increase/ (decrease) %
By client segment				
Corporate & Institutional Banking	**138,735**	147,102	(8,367)	(6)
Retail Banking	**42,719**	44,106	(1,387)	(3)
Commercial Banking	**33,261**	33,068	193	1
Private Banking	**6,268**	5,943	325	5
Central & other items	**50,884**	49,529	1,355	3
Total risk-weighted assets	**271,867**	279,748	(7,881)	(3)
By risk type				
Credit risk	**223,198**	226,230	(3,032)	(1)
Operational risk	**28,050**	30,478	(2,428)	(8)
Market risk	**20,619**	23,040	(2,421)	(11)

Capital base and ratios

The Group's capital and liquidity positions remain strong with all metrics above regulatory thresholds. The CET1 ratio of 14.2 per cent was 60 basis points higher driven by profits in the period and lower RWA, mainly due to foreign exchange translation, lower operational risk RWA and other model changes.

On 4 June 2018, the Group invited holders of a number of GBP-denominated subordinated and senior securities to tender their notes for repurchase by the Group.

As a result of this liability management exercise and other movements, tier 2 capital reduced $1.1 billion.

Given the Group's improving financial performance and strong capital the Board has recommended resuming the interim dividend at 6 cents per ordinary share.

	30.06.18 $million	31.12.17 $million
Common Equity Tier 1 capital	**38,512**	38,162
Additional Tier 1 capital (AT1) instruments	**6,692**	6,699
Tier 1 capital	**45,204**	44,861
Tier 2 capital	**12,815**	13,897
Total capital	**58,019**	58,758
Common Equity Tier 1 capital ratio end point (%)	**14.2**	13.6
Total capital ratio transitional (%)	**21.3**	21.0
UK leverage ratio (%)	**5.8**	6.0

Outlook and summary

The Group remains vigilant in relation to the impact of current and potential further trade tariffs introduced by China, the US and the EU, and considering geopolitical uncertainties particularly in the Middle East. However these issues had no apparent impact on our financial performance in the first half.

The combination of favourable macroeconomic conditions and our efforts to improve the quality of the business has delivered another encouraging performance in the first half and supports our existing guidance for income growth in the medium term. This income growth will create capacity to continue investing at scale and pace to further improve and increase the resilience of the business.

Andy Halford
Group Chief Financial Officer

31 July 2018

Group Chief Risk Officer's review

Continuing to build on positive momentum

We are committed to growing a strong and sustainable business, and in the first six months of 2018 we continued to build on the progress made last year. We have further strengthened the Group's ability to manage risk while continuing to provide an effective service to our clients. Credit impairment and asset quality have sustained improvements seen in 2017 and our portfolio remains well diversified across client segments, geographies, and industry sectors. We have implemented our revised Enterprise Risk Management Framework, elevating Compliance, Conduct, Financial Crime and Information and Cyber Security to principal risk types. We have also formalised a risk identification process and a risk inventory to assess principal risks, as well as identify new and emerging risks and uncertainties. These changes help to articulate the risk landscape, enabling us to embed a healthy risk culture across the Group.

Proactively managing emerging geopolitical and environmental risks is key to the execution of our strategy. The launch of our new Sustainability Philosophy in May 2018 provides a stronger framework through which we can better promote economic and social development in a manner consistent with our values. We are translating these words into action, for example by restricting our services to clients in the palm oil industry that do not subscribe to established environmental standards. By recognising that we have responsibilities beyond financial activities and by instilling the right behaviours into our daily activities, we not only mitigate risks in our business but also set an example for investors and clients alike.

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

Our key risk priorities

Effective risk and compliance functions are an essential part of the Group's strategy to deliver strong and sustainable growth. Through a comprehensive risk appetite, we manage a wide range of existing risks and continue to scan the horizon to anticipate new threats. Below are our key priorities for 2018:

Strengthen the Group's risk culture – Embedding a healthy risk culture remains one of the Group's key priorities. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action regarding current and future risks. The revised Enterprise Risk Management Framework sets out the guiding principles for the behaviours expected from our people when managing risks and enables us to have integrated and holistic risk conversations covering all our principal risks. We are also implementing changes to assess strategic initiatives and growth opportunities from both the financial and non-financial risk perspective. In addition, our enhanced approach to effectiveness reviews facilitates challenge, learning from self-identified issues or weaknesses, and making improvements that are lasting and sustainable

Manage and improve information and cyber security – We are expanding our capability in this area and enhancing our operating models to manage this risk better. A new risk type framework was approved to prioritise mitigation and governance activities. We are making further improvements through enhanced awareness campaigns and are active participants in external partnerships including the UK Cyber Defence Alliance. These combined efforts will strengthen our defences and aid our efforts to keep pace with evolving cyber threats

Manage financial crime risks – We have continued to enhance our controls, systems and processes, and have made good progress building an effective and sustainable financial crime programme. We passed a number of important milestones in the last six months, such as the launch of a new Mantas transaction monitoring platform in the US and the roll-out of a proprietary client risk assessment covering Corporate & Institutional and Commercial Banking. We are involved in public-private information sharing partnerships in the UK, US, Singapore and Hong Kong, as well as pursuing innovation in financial crime compliance by partnering with RegTech firms in the areas of surveillance and investigations. We are continuing our 'De-risking through education' initiative for correspondent banking and non-governmental organisation clients helping them to enhance their own controls. This collaborative approach facilitates the continued safe provision of services that are vital to the world economy

+ More information about the Group's commitment to fighting financial crime can be found at sc.com/fightingfinancialcrime


Mark Smith
Group Chief Risk Officer

Strengthen our conduct environment – We are committed to being a force for good, and central to this ethos is our conduct. The Group's Code of Conduct sets the standards for individual behaviour and in 2018 we added Conduct to our principal risk types. Our framework defines and identifies good conduct and illustrates how the different elements of conduct – such as the fair treatment of clients, preventing financial crime and responding to environmental and social risks – all fit together, embedding an integrated approach to ownership and accountability for conduct risk management. While incidents cannot be entirely avoided, we have no appetite for breaches of laws or regulations and have made it a priority in 2018 to review, refine and further strengthen our conduct environment. We expect nothing less than the highest standard at all levels, and where concerns are raised we undertake thorough and fair investigations which allow us to make swift and clear decisions

+ More information on our Group Code of Conduct can be found at sc.com/codeofconduct

Enhance our compliance infrastructure – In 2018 we established a multi-year programme to review and enhance our existing structures and processes to ensure we deliver efficiently and effectively across our markets. Areas of focus include: using technology to support issue management and regulatory relationship management, and enable a more data-driven risk management approach extending across the second and third lines of defence; commencing the roll-out of an enhanced learning and development programme for our compliance officers to set standards and expectations, ensure we are getting the best from our people, and encourage independent thought and challenge; developing a new surveillance hub in Global Business Services Kuala Lumpur; and developing tools to help our people assess compliance risks arising from new technologies or solutions such as application programming interfaces or cloud computing

Improve our efficiency and effectiveness – The Group has continued to invest in improvements to infrastructure for exposure management, data quality and stress testing. Further enhancements are planned for operational risk management, reporting and data analytics infrastructure. We continue to streamline and simplify our processes to serve clients better and drive internal efficiencies

Our risk profile and performance

In 2018 we have continued to improve our portfolios through our focus on high quality origination within a more granular risk appetite. The Group's client exposures remain predominantly short tenor, and our portfolio remains well diversified across client segments, geographies and industry sectors. Our capital and liquidity positions remain strong. While no new areas of stress have emerged, we remain vigilant in light of continued geopolitical uncertainty.

IFRS 9 became effective from 1 January 2018 and the Group has not restated comparative information. Accordingly, amounts prior to 1 January 2018 have been prepared and disclosed on an IAS 39 basis. This primarily impacts credit impairment, which is determined using an expected credit loss approach under IFRS 9 compared with an incurred loss approach under IAS 39.

Credit impairment in the Group's ongoing book was $293 million in the first half of 2018. This was 50 per cent lower than the equivalent period last year (H2 2017: $617 million; H1 2017: $583 million), with reductions seen in Corporate & Institutional Banking and Retail Banking. Including the restructuring charge, gross credit impairment is 67 per cent lower than in the first half of 2017 at $214 million (H2 2017: $707 million, H1 2017: $655 million).

Credit impairment

	6 months ended 30.06.18 $million (IFRS 9)[1]	6 months ended 31.12.17 $million (IAS 39)[2]	6 months ended 30.06.17 $million (IAS 39)[2]
Corporate & Institutional Banking	**67[3]**	288	369
Commercial Banking	**106**	126	42
Private Banking	**1**	1	–
Retail Banking	**119**	202	172
Total ongoing business	**293**	617	583
Restructuring charge (including liquidation portfolio)	**(79)**	90	72

1 Credit impairment under IFRS 9 covers a broader asset base than loan impairment under IAS 39, effective from 1 January 2018

2 2017 data is prepared and disclosed on an IAS 39 basis

3 Credit impairment recovery of $14 million in Central & Other items is included in Corporate & Institutional Banking

The credit quality of the corporate portfolio has continued to improve. The percentage of exposure to investment grade clients within the total corporate book increased to 61 per cent (31 December 2017: 57 per cent) as we continued to focus on higher quality origination. Exposures in our early alerts portfolio reduced to $6.9 billion (31 December 2017: $8.7 billion) mainly due to exposures being regularised, as well as active mitigating actions such as exposure reduction.

Overall gross credit-impaired (stage 3) loans for the Group have decreased to $7.7 billion (1 January 2018: $8.8 billion) with large reductions observed in the liquidation portfolio as we continued to exit these exposures. Gross stage 3 loans in the ongoing business have decreased to $6.2 billion (1 January 2018: $6.5 billion); driven by repayments, debt sales and write-offs in Corporate & Institutional Banking. Corporate & Institutional Banking also saw lower inflows into stage 3, at around 46 per cent of the levels seen in previous periods (H1 2018: $535 million; H2 2017: $1,150 million; H1 2017: $1,153 million) as historically high inflows in India and in the Oil and Gas sector did not repeat. Commercial Banking saw higher inflows (H1 2018: $402 million; H2 2017: $268 million; H1 2017: $192 million) mainly driven by exposures in Greater China & North Asia and Africa & Middle East, with no specific industry concentration.

We continue to focus on early identification of emerging risks across all of our portfolios so that we can manage any areas of weakness on a proactive basis. We also perform regular reviews and stress tests of our portfolio to help mitigate any risks that might arise.

The cover ratio in the total book reduced to 57 per cent in the first half of 2018 (1 January 2018: 60 per cent), driven by write-offs and settlements in the liquidation portfolio, and including collateral decreased to 79 per cent (1 January 2018: 81 per cent).

The Group maintains a strong liquidity position, with the liquidity coverage ratio higher at 151 per cent from 146 per cent at the end of 2017, driven by an increase in our liquid asset position. Loans and deposits grew, with our advances-to-deposits ratio decreasing slightly to 68 per cent (H2 2017: 69 per cent). We remain a net provider of liquidity to the interbank markets and our customer deposit base is diversified by type and maturity. We have a substantial portfolio of marketable securities which can be realised in the event of a liquidity stress.

Average Group VaR in the first half of 2018 was 19 per cent lower at $20.4 million (H2 2017: $25.1 million), primarily driven by a reduction in the duration of the Treasury Markets portfolio. Trading activities remain primarily client-driven.

Further details of the risk performance for the first six months of 2018 are set out in the Risk profile section pages 26 to 69

Key indicators

	30.06.18 (IFRS 9)	01.01.18 (IFRS 9)	31.12.17 (IAS 39)	30.06.17 (IAS 39)
Group total business				
Stage 3 loans, credit-impaired (2018)[1]/ non-performing loans (2017) ($ billion)	**7.7**	8.8	8.7	9.9
Group ongoing business				
Stage 1 loans ($ billion)	**235.1**	228.5		
Stage 2 loans ($ billion)	**21.8**	20.6		
Stage 3 loans, credit-impaired (2018)[1]/ non-performing loans (2017) ($ billion)	**6.2**	6.5	6.5	6.3
Cover ratio	**53%**	56%	56%[2]	56%[2]
Cover ratio (including collateral)	**76%**	78%	79%	73%
Corporate & Institutional Banking and Commercial Banking[3]				
Investment grade corporate exposures as a percentage of total corporate exposures	**61%**		57%	54%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers	**71%**		70%	70%
Early alert portfolio ($ billion)	**6.9**		8.7	10.4
Credit grade 12 ($ billion)	**1.0**		1.5	1.3
Aggregate top 20 corporate exposures as a percentage of Tier 1 capital	**53%**		50%	56%
Collateralisation of sub-investment grade exposures maturing in more than 1 year	**55%**		55%	56%
Retail Banking [3]				
Loan-to-value ratio of retail mortgages	**45%**		47%	48%

1 Stage 3 loans under IFRS 9 cover a broader asset base than the Group's definition of NPL

2 2017 cover ratios rebased to exclude portfolio impairment provisions to align to IFRS 9 (IAS39: 63 per cent on 31.12.17; 67 per cent on 30.06.17)

3 These metrics are not impacted by the switch to IFRS 9, hence data as at 1 January 2018 is not needed for comparative purposes

Our risk management approach

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

The revised Enterprise Risk Management Framework approved in December 2017 sets out a refreshed risk culture and a clear control framework, with sharper delineation of responsibilities between the three lines of defence, and it is being adopted by branches and subsidiaries. In addition, a Group-wide e-learning programme has been launched to support awareness and understanding of the key features of the Framework across all levels of the organisation.

Distinct risk type frameworks have been developed for our ten principal risk types, and these are being communicated and rolled out throughout the organisation. The roll out will include suitable training plans tailored to teams and individuals as required. As at July 2018 all risk type frameworks have been approved.

We are also working on developing the links between our strategy, risk appetite and stress testing in order to better integrate risk considerations into strategic decision-making.

Principal risks

Principal risks are those risks that are inherent in our strategy and our business model. These are formally defined in our Enterprise Risk Management Framework which provides a structure for monitoring and control of these risks through the Board-approved risk appetite. The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns. The table below provides an overview of the Group's principal risks and how these are managed. Further details on these can be found in our 2017 Annual Report.

Principal risk types	How these are managed
Credit risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country risk	The Group manages its country cross-border exposures following the principle of diversification across geographies and controls business activities in line with the level of jurisdiction risk
Market risk[1]	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise
Capital and liquidity risk	The Group maintains a strong capital position, including the maintenance of management buffers sufficient to support its strategic aims, and holds an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support
Operational risk	The Group controls operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Reputational risk	The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight
Compliance risk	The Group has no appetite for breaches in laws and regulations; while recognising that regulatory non-compliance cannot be entirely avoided, the Group strives to reduce this to an absolute minimum
Conduct risk	The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we do business
Information and cyber security risk	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank
Financial crime risk	The Group has no appetite for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided

1 Effective from July 2018 Market risk is now a sub-type under 'Traded risk', which also encompasses Counterparty credit risk. A new risk type framework has been approved and further details will be provided in the 2018 Annual Report

Our principal uncertainties

Principal uncertainties refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to impact our business materially.

As part of our continual risk identification process, we have updated our Group principal uncertainties from those disclosed in the 2017 Annual Report. The table below summarises our current list of principal uncertainties outlining risk trend changes in relation to 2017, the reasons for the changes and the mitigating actions we are taking.

Principal uncertainties	Risk trend since December 2017[1]	Key risk trend drivers	How these are mitigated/next steps
Geopolitical events, in particular: increase in trade protectionism driven by nationalist agenda, Korean peninsula and Middle East geopolitical tensions, and post-Brexit implications	↑	There are increased concerns on the Middle East geopolitical situation following the decision by the US President to exit the Iran Nuclear Deal and to move the US embassy from Tel Aviv to Jerusalem. In addition, there are increased concerns on global trade implications following a first wave of measures taken by China, the US and the EU on trade tariffs	→ We monitor and assess geopolitical events and take action as appropriate to ensure we minimise the impact to the Group and our clients → We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events
Macroeconomic conditions, in particular: moderation of growth in key footprint markets led by China and sharp interest rate rises and asset price corrections	↔	The risk remains at similar levels as at the end of 2017	→ We monitor economic trends and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events → We monitor on a centralised basis contractual and behavioural interest rate risk exposures, and manage these within a clearly defined risk management framework and risk appetite

Principal uncertainties	Risk trend since December 2017[1]	Key risk trend drivers	How these are mitigated
Climate-related transition risks and physical risks[2]	⇔	The risk remains at similar levels as at the end of 2017	→ We have developed an approach for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under multiple climate scenarios and a range of time horizons which will be implemented by the end of 2018. We are considering how we extend this to other sectors in 2018 → We have made a public commitment to fund and facilitate $4 billion towards clean technology between 2016 and 2020
Regulatory reviews and investigations, legal proceedings[3]	⇔	The risk remains at similar levels as at the end of 2017	→ We have invested in enhancing systems and controls, and implementing remediation programmes (where relevant) → We are cooperating with all relevant ongoing reviews, requests for information and investigations
Regulatory changes	⇔	The risk remains at similar levels as at the end of 2017	→ We monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model → We establish specific regulatory programmes to ensure effective and efficient implementation of changes required by new, or changes in existing, regulations
New technologies (i.e. blockchain and artificial intelligence) and digitisation implications (including data risks)	⇔	The risk remains at similar levels as at the end of 2017	→ We monitor developments in the technology space which affect the banking sector → We have set up SC Ventures to help promote innovation across the Group → We have existing governance and control frameworks in place for the deployment of new technology services and remain vigilant regarding legal and regulatory developments in respect of the usage of new technologies and related data risks. In addition, we are building a framework to ensure fairness, ethics, accountability and transparency in the Group's use of artificial intelligence

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

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

3 Further details on current material claims and proceedings are set out in note 19 of the Notes to the financial statements

Conclusion

The Group has carried its momentum of positive change into the first half of 2018. Through disciplined application of our refreshed risk appetite, we can focus on building an efficient, resilient bank that not only supports our clients financially, but also practises behaviours that benefit society as a whole. The financial services industry continues to evolve, and we intend to remain at the forefront of progress within it.

Mark Smith
Group Chief Risk Officer

31 July 2018

Risk review and Capital review

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

→ From the start of the 'Credit risk review' section (page 26) to the end of 'Other principal risks' in the same section (page 69), excluding:

Risk section	Page
Credit quality by geographic region	37
Credit quality by industry	39
Credit-impaired (stage 3) loans by geographic region	46
Industry and Retail Products analysis by geographic region	51
Country risk	58
Market risk changes – risks not in VaR	60
Market risk changes – backtesting	60
Liquidity coverage ratio (LCR)	61
Stressed coverage	61
Net stable funding ratio (NSFR)	62
Liquidity pool	62
Encumbrance	63
Interest rate risk in the banking book	69
Operational risk	69
Other principal risks	69

→ From the start of 'Capital Requirements Directive (CRD) IV Capital base' (page 71) to the end of 'Movement in total capital' (page 72), excluding capital ratios and risk-weighted assets (RWA)

Disclosures noted as 'unaudited' are not within the scope of KPMG LLP's review.

Risk review

Credit risk

Basis of preparation

Unless otherwise stated the balance sheet and income statement information presented within this section is based on the Group's management view. This is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. This view reflects how the client segments and regions are managed internally.

Loans and advances to customers balances comprise the ongoing portfolio and liquidation portfolio in this section unless otherwise separately identified.

Loans and advances to customers and banks held at amortised cost in this Risk Review section include reverse repurchase agreement balance held at amortised cost, per Note 14 Reverse repurchase and repurchase agreements including other similar secured lending and borrowing.

Credit risk overview

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

IFRS 9 changes and methodology

IFRS 9 came into effect on 1 January 2018.

A summary of the primary changes for the Group are provided below.

New impairment model

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses (ECL) rather than incurred losses under IAS 39. This applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant change in the credit risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out overleaf (page 27).

Instruments are classified as stage 3 when they become credit-impaired.

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

The Group has not restated comparative information. Accordingly, amounts prior to 1 January 2018 are prepared and disclosed on an IAS 39 basis. This primarily impacts the credit risk disclosures, where loan loss provisioning is determined on an expected credit loss basis under IFRS 9 compared with an incurred credit loss basis under IAS 39.

Where relevant, the 1 January 2018 balance sheet has been used for comparative purposes. The Group's initial estimate of credit impairment provisions on adoption of IFRS 9 was $6,720 million. Following refinement of the Group's expected loss models, the estimate of the opening credit impairment provisions has been revised down by $222 million to $6,498 million, and the net expected credit loss of $(1,296) million adjusted against retained earnings has similarly decreased by $222 million to $(1,074) million.

A summary of the differences between IFRS 9 and IAS 39 is disclosed in the Notes to the financial statements (page 137).

IFRS 9 changes and methodology

The accounting policies under IFRS 9 are set out in Note 7 Credit impairment and Note 12 Financial instruments. The impact upon adoption of IFRS 9 as at 1 January 2018 is set out in Note 27 Transition to IFRS 9 Financial Instruments. The main methodology principles and approach adopted by the bank are set out in the following table with cross references to other sections.

Title	Description	Supporting information	Page
Approach to determining expected credit losses	For material loan portfolios, the Group has adopted a statistical modelling approach for determining expected credit losses that makes extensive use of credit modelling. Where available, the Group has leveraged existing advanced Internal Ratings Based (IRB) regulatory models that have been used to determine regulatory expected loss. For portfolios that follow a standardised regulatory approach, the Group has developed new models where these portfolios are material.	Credit risk methodology Key differences between regulatory IFRS expected credit loss models Determining lifetime expected credit loss for revolving products	53 53 54
Incorporation of forward looking information	The determination of expected credit loss includes various assumptions and judgements in respect of forward looking macroeconomic information.	Incorporation of forward-looking information and impact of non-linearity Forecast of key macroeconomic variables underlying the expected credit loss calculation	54 54
Significant increase in credit risk ('SICR')	Expected credit loss for financial assets will transfer from a 12 month basis to a lifetime basis when there is a significant increase in credit risk (SICR) relative to that which was expected at the time of origination, or when the asset becomes credit impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty. The Group uses a mix of quantitative and qualitative criteria to assess SICR.	Quantitative criteria Significant increase in credit risk thresholds Specific qualitative and quantitative criteria per segment: Corporate & Institutional and Commercial Banking clients Retail Banking clients Private Banking clients Debt securities	55 55 56 56 56 56 56
Assessment of credit-impaired financial assets	Credit-impaired financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay. Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit-related modifications of contractual cash flows due to significant financial difficulty (forbearance) where the bank has granted concessions that it would not ordinarily consider.	Retail Banking clients Corporate & Institutional Banking clients Commercial Banking and Private Banking clients	57 57 57
Modified financial assets	Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cash flows and the modified cash flows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument. If the modification is credit related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's credit risk has increased significantly since origination by comparing the remaining lifetime probability of default (PD) based on the modified terms with the remaining lifetime PD based on the original contractual terms.	Forbearance and other modified loans	

Title	Description	Supporting information	Page
Transfers between stages	Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms. In addition: → Loans that were subject to forbearance measures must remain current for 12 months before they can be transferred to stage 2; → Retail loans that were not subject to forbearance measures must remain current for 180 days before they can be transferred to stage 2 or stage 1. Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in credit risk. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).	Movement in loan exposures and expected credit losses	
Governance and application of expert credit judgement in respect of expected credit losses	The determination of expected credit losses requires a significant degree of management judgement which has impacted governance processes, with the output of the expected credit models assessed by the IFRS 9 Impairment Committee.	Group Credit Model Assessment Committee IFRS 9 Impairment Committee	57 57

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 30 June 2018, before and after taking into account any collateral held or other credit risk mitigation.

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

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

The Group's gross maximum exposure to credit risk has increased by $34.8 billion when compared with 1 January 2018, mainly due to on-balance sheet exposure driven by growth in loans and advances, investment securities, expansion of the reverse repo business and other assets. Investment securities increased by $6.6 billion mainly due to higher yield and concentration on investing in high-quality liquid assets for regulatory metrics. Increase in other assets is driven by higher amount of short term unsettled trades at the end of H1 2018 relative to 2017 year end.

Maximum exposure to credit risk

	30.06.18				01.01.18			
		Credit risk management				Credit risk management		
	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On-balance sheet								
Cash and balances at central banks	**58,213**	**–**	**–**	**58,213**	58,864	–	–	58,864
Loans and advances to customers held at:[1]	**258,810**				250,848			
Fair value through profit or loss	**3,710**				3,907			
Amortised cost	**255,100**				246,941			
Loans and advances to banks held at:[1]	**58,847**				60,059			
Fair value through profit or loss	**3,244**				2,865			
Amortised cost	**55,603**				57,194			
Total loans and advances to banks and customers	**317,657**	**106,084**	**–**	**211,573**	310,907	113,062	–	197,845
Reverse repurchase agreements and other secured lending[6]	**64,421**	**64,421**	**–**	**–**	55,185	55,185	–	–
Fair value through profit or loss	**51,640**				45,518			
Amortised cost	**12,781**				9,667			
Investment securities[2]	**142,369**	**–**	**–**	**142,369**	135,814	–	–	135,814
As per balance sheet	**123,081**	**–**	**–**	**123,081**	115,813	–	–	115,813
Fair value through profit or loss	**21,275**	**–**	**–**	**21,275**	22,350	–	–	22,350
Less: equity securities	**(1,987)**	**–**	**–**	**(1,987)**	(2,349)	–	–	(2,349)
Derivative financial instruments[3]	**51,780**	**10,631**	**34,153**	**6,996**	47,031	9,825	29,135	8,071
Accrued income	**2,082**	**–**	**–**	**2,082**	1,947	–	–	1,947
Assets held for sale	**2**	**–**	**–**	**2**	2	–	–	2
Other assets[4]	**34,441**	**–**	**–**	**34,441**	29,922	–	–	29,922
Total balance sheet	**670,965**	**181,136**	**34,153**	**455,676**	639,672	178,072	29,135	432,465
Off-balance sheet								
Contingent liabilities	**42,538**	**–**	**–**	**42,538**	43,521	–	–	43,521
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[5]	**68,222**	**–**	**–**	**68,222**	63,890	–	–	63,890
Documentary credits and short-term trade-related transactions	**4,021**	**–**	**–**	**4,021**	3,880	–	–	3,880
Total off-balance sheet	**114,781**	**–**	**–**	**114,781**	111,291	–	–	111,291
Total	**785,746**	**181,136**	**34,153**	**570,457**	750,963	178,072	29,135	543,756

1 An analysis of credit quality is set out in the credit quality analysis section (page 33). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 48)

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

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

4 Other assets include Hong Kong certificates of indebtedness, cash collateral, and acceptances, in addition to unsettled trades and other financial assets

5 Excludes unconditionally cancellable facilities

6 Collateral capped at maximum exposure (over-collateralised)

Maximum exposure to credit risk

	31.12.17 (IAS 39)			
		Credit risk management		
	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On-balance sheet				
Cash and balances at central banks	58,864	–	–	58,864
Loans and advances to customers held at:[1]	251,625			
Fair value through profit or loss	2,918			
Amortised cost	248,707			
Loans and advances to banks held at:[1]	60,066			
Fair value through profit or loss	2,572			
Amortised cost	57,494			
Total loans and advances to banks and customers	311,691	113,060	–	198,631
Reverse repurchase agreements and other secured lending[6]	55,187	55,187	–	–
Fair value through profit or loss	912			
Amortised cost	54,275			
Investment securities	135,842	–	–	135,842
As per balance sheet	117,025	–	–	117,025
Fair value through profit or loss	21,162	–	–	21,162
Less: equity securities[2]	(2,345)	–	–	(2,345)
Derivative financial instruments[3]	47,031	9,825	29,135	8,071
Accrued income	1,947	–	–	1,947
Assets held for sale	2	–	–	2
Other assets[4]	29,922	–	–	29,922
Total balance sheet	640,486	178,072	29,135	433,279
Off-balance sheet				
Contingent liabilities	43,521	–	–	43,521
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[5]	63,890	–	–	63,890
Documentary credits and short-term trade-related transactions	3,880	–	–	3,880
Total off-balance sheet	111,291	–	–	111,291
Total	751,777	178,072	29,135	544,570

1 An analysis of credit quality is set out in the credit quality analysis section (page 33). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 48)

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

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

4 Other assets include Hong Kong certificates of indebtedness, cash collateral and acceptances, in addition to unsettled trades and other financial assets

5 Excludes unconditionally cancellable facilities

6 Collateral capped at maximum exposure (over-collateralised)

Analysis of financial instrument by stage

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

Total credit impairment provisions decreased by $1.0 billion in the first half of 2018, reflecting lower stage 3 provisions largely due to write-offs within the Corporate & Institutional Banking portfolio.

	30.06.18											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Loans and advances to customers (excluding FVTPL)[2]	235,063	(435)	234,628	21,844	(470)	21,374	7,728	(4,399)	3,329	264,635	(5,304)	259,331
Loans and advances to customers (FVTPL)[3]												37,388
Total loans and advances to customers	235,063	(435)	234,628	21,844	(470)	21,374	7,728	(4,399)	3,329	264,635	(5,304)	296,719
Loans and advances to banks (excluding FVTPL)[2]	62,448	(4)	62,444	1,712	(3)	1,709	–	–	–	64,160	(7)	64,153
Loans and advances to banks (FVTPL)[3]												21,206
Total loans and advances to banks	62,448	(4)	62,444	1,712	(3)	1,709	–	–	–	64,160	(7)	85,359
Debt securities and other eligible bills – amortised cost	6,451	(5)	6,446	431	(19)	412	216	(208)	8	7,098	(232)	6,866
Debt securities and other eligible bills – FVOCI[4]	109,550	(26)		6,411	(30)		4	–		115,965	(56)	
Total debt securities and other eligible bills	116,001	(31)		6,842	(49)		220	(208)		123,063	(288)	
Undrawn commitments[5]	128,422	(45)		12,592	(68)		–	–		141,014	(113)	
Financial guarantees[5]	28,814	(7)		3,363	(64)		571	(87)		32,748	(158)	
Total undrawn commitment and financial guarantees	157,236	(52)		15,955	(132)		571	(87)		173,762	(271)	
Total	570,748	(522)		46,353	(654)		8,519	(4,694)		625,620	(5,870)	

1 Gross carrying amount for off-balance sheet refers to notional values

2 Loans and advances include reverse repurchase agreements and other similar secured lending for $4,231 million under 'Customers' and for $8,550 million under 'Banks'

3 Loans and advances include reverse repurchase agreements and other similar secured lending for $33,678 million under 'Customers' and for $17,962 million under 'Banks'

4 These instruments are held at fair value on the balance sheet. The expected credit loss provision in respect of debt securities measured at FVOCI is held within reserves

5 These are off-balance sheet instruments. Only the expected credit loss is recorded on balance sheet as a financial liability and therefore there is no 'net carrying amount'. expected credit loss provision on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component

	01.01.18											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Loans and advances to customers (excluding FVTPL)[2]	228,485	(472)	228,013	20,585	(576)	20,009	8,769	(5,282)	3,487	257,839	(6,330)	251,509
Loans and advances to customers (FVTPL)[3]												33,268
Total loans and advances to customers	228,485	(472)	228,013	20,585	(576)	20,009	8,769	(5,282)	3,487	257,839	(6,330)	284,777
Loans and advances to banks (excluding FVTPL)[2]	59,926	(6)	59,920	2,370	(2)	2,368	9	(4)	5	62,305	(12)	62,293
Loans and advances to banks (FVTPL)[3]												19,022
Total loans and advances to banks	59,926	(6)	59,920	2,370	(2)	2,368	9	(4)	5	62,305	(12)	81,315
Debt securities and other eligible bills – amortised cost[4]	6,204	(3)	6,201	995	(16)	979	221	(213)	8	7,420	(232)	7,188
Debt securities and other eligible bills – FVOCI[5]	101,104	(23)		7,307	(42)		–	–		108,411	(65)	
Total debt securities and other eligible bills	107,308	(26)		8,302	(58)		221	(213)		115,831	(297)	
Undrawn commitments[6]	147,007	(66)		15,240	(90)		–	–		162,247	(156)	
Financial guarantees[6]	24,391	(6)		4,795	(16)		199	(77)		29,385	(99)	
Total undrawn commitment and financial guarantees	171,398	(72)		20,035	(106)		199	(77)		191,632	(255)	
Total	567,117	(576)		51,292	(742)		9,198	(5,576)		627,607	(6,894)	

1 Gross carrying amount for off-balance sheet refers to notional values

2 Loans and advances include reverse repurchase agreements and other similar secured lending for $4,568 million under 'Customers' and for $5,099 million under 'Banks'

3 Loans and advances include reverse repurchase agreements and other similar secured lending for $29,361 million under 'Customers' and for $16,157 million under 'Banks'

4 Stage 3 Gross balance and Total credit impairment of debt securities and other eligible bills – amortised cost has increased by $208 million, with no impact on net carrying value. The balances have been restated to present securities with zero carrying value previously classified as available for sale under IAS 39 on a gross basis as required under IFRS 9

5 These instruments are held at fair value on the balance sheet. The expected credit loss provision in respect of debt securities measured at FVOCI is held within reserves

6 These are off-balance sheet instruments. Only the expected credit loss is recorded on balance sheet as a financial liability and therefore there is no 'net carrying amount'. Expected credit loss provisions on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component

Credit quality analysis

Credit quality by client segment

For Corporate and Institutional Banking and Commercial Banking portfolios, exposures are analysed by credit grade (CG), which plays a central role in the quality assessment and monitoring of risk (page 34). 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 stage 1 and stage 2 (performing) clients or accounts, while CG 13 and 14 are assigned to stage 3 (non-performing or defaulted) clients. The mapping of credit quality is as follows:

Mapping of credit quality

The Group uses the following internal risk mapping to determine the credit quality for loans.

	Corporate & Institutional Banking and Commercial Banking			Private Banking	Retail Banking
Credit quality description	**Default grade mapping**	**S&P external ratings equivalent**	**Regulatory PD range**	**Internal ratings**	**Number of days past due**
Strong	Grades 1-5	AAA/AA+ to BB+/BBB-	0.000-0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	Grades 6-8	BB+ to BB-/B+	0.426-2.350	Class II and Class III	Loans past due till 29 days
	Grades 9-11	B+/B to B-/CCC	2.351-15.750		
Higher Risk	Grade 12	B-/CCC	15.751-50.000	GSAM managed	Past due loans 30 days and over till 90 days

The table overleaf sets out the gross loans and advances held at amortised cost, expected credit loss provisions and expected credit loss coverage by business segment and stage.

Within Corporate & Institutional Banking, the proportion of stage 1 accounts rated as 'Strong' increased from 58 per cent to 65 per cent due to the focus on investment grade origination. Stage 2 accounts fell $1.0 billion to $12.6 billion. Within this, early alert balances fell $1.3 billion and higher-risk accounts declined by $312 million to $816 million due to lower levels of inflows into this category.

For Retail Banking, the majority of the portfolio remains in the 'Strong' credit quality Stage 1 category (95 per cent of total Retail Banking portfolio). Stage 2 balances remain at 2.5 per cent of total Retail Banking loans and advances, of which 60 per cent are 'Strong' credit quality. Stage 3 remains broadly stable compared to the beginning of the year.

Commercial Banking saw the proportion of stage 2 assets increasing from 14 per cent of total loans to 21 per cent. However, higher-risk stage 2 accounts fell by $102 million due to repayments and reduced inflows.

Expected credit loss coverage ratios have remained broadly in line with 1 January 2018, except for higher-risk stage 2 accounts, which have fallen from 12 per cent to 9.3 per cent. The Group overall stage 3 cover ratio declined to 57 per cent (1 January 2018: 60 per cent) reflecting a small number of write-offs from the Corporate & Institutional Banking ongoing business and liquidation portfolio.

By client segment

Amortised cost	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
	30.06.18						
		Loans to customers					
Gross loans							
Stage 1	62,448	92,313	98,504	21,455	13,035	9,756	235,063
– Strong	50,939	59,603	96,770	7,044	9,457	9,663	182,537
– Satisfactory	11,509	32,710	1,734	14,411	3,578	93	52,526
Stage 2	1,712	12,618	2,573	6,231	422	–	21,844
– Strong	269	1,973	1,540	166	308	–	3,987
– Satisfactory	1,431	9,829	524	5,844	10	–	16,207
– Higher-risk	12	816	509	221	104	–	1,650
Of which (stage 2):							
– Less than 30 days past due	–	929	524	295	10	–	1,758
– More than 30 days past due	–	69	509	92	4	–	674
Stage 3, credit-impaired financial assets	-	4,686	800	2,030	212	–	7,728
Total[1]	64,160	109,617	101,877	29,716	13,669	9,756	264,635
Expected credit loss provisions							
Stage 1	(4)	(58)	(332)	(38)	(7)	–	(435)
– Strong	(2)	(22)	(185)	(22)	(6)	–	(235)
– Satisfactory	(2)	(36)	(147)	(16)	(1)	–	(200)
Stage 2	(3)	(243)	(156)	(70)	(1)	–	(470)
– Strong	(3)	(12)	(27)	–	(1)	–	(40)
– Satisfactory	–	(144)	(80)	(53)	–	–	(277)
– Higher-risk	–	(87)	(49)	(17)	–	–	(153)
Of which (stage 2):							
– Less than 30 days past due	(1)	(63)	(80)	(40)	–	–	(183)
– More than 30 days past due	(2)	(15)	(49)	–	–	–	(64)
Stage 3, credit-impaired financial assets	–	(2,536)	(372)	(1,395)	(96)	–	(4,399)
Total	(7)	(2,837)	(860)	(1,503)	(104)	–	(5,304)
Coverage							
Stage 1	0.0%	0.1%	0.3%	0.2%	0.1%	–	0.2%
– Strong	0.0%	0.0%	0.2%	0.3%	0.1%	–	0.1%
– Satisfactory	0.0%	0.1%	8.5%	0.1%	0.0%	–	0.4%
Stage 2	0.2%	1.9%	6.1%	1.1%	0.2%	–	2.2%
– Strong	1.1%	0.6%	1.8%	–	0.3%	–	1.0%
– Satisfactory	–	1.5%	15.3%	0.9%	–	–	1.7%
– Higher-risk	–	10.7%	9.6%	7.7%	–	–	9.3%
Of which (stage 2):							
– Less than 30 days past due	0.0%	6.8%	15.3%	13.6%	–	–	10.4%
– More than 30 days past due	0.0%	21.7%	9.6%	–	–	–	9.5%
Stage 3, credit-impaired financial assets	–	54.1%	46.5%	68.7%	45.3%	–	56.9%
Fair value through profit or loss							
Performing	21,206	36,452	513	346	–	–	37,311
– Strong	20,118	31,620	497	35	–	–	32,152
– Satisfactory	1,065	4,828	12	311	–	–	5,151
– Higher-risk	23	4	4	–	–	–	8
Impaired	–	65	–	12	–	–	77
Total[2]	21,206	36,517	513	358	–	–	37,388
Net loans and advances	85,359	143,297	101,530	28,571	13,565	9,756	296,719

1 Loans and advances include reverse repurchase agreements and other similar secured lending for $4,231 million under 'Customers' and for $8,550 million under 'Banks'

2 Loans and advances include reverse repurchase agreements and other similar secured lending for $33,678 million under 'Customers' and for $17,962 million under 'Banks'

Amortised cost	01.01.18 Loans to banks $million	Loans to customers Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Gross loans							
Stage 1	59,926	83,575	99,971	23,130	12,481	9,328	228,485
– Strong	50,820	48,638	98,721	5,573	8,527	9,240	170,699
– Satisfactory	9,106	34,937	1,250	17,557	3,954	88	57,786
Stage 2	2,370	13,641	2,186	4,023	735	–	20,585
– Strong	1,940	4,400	1,432	394	693	–	6,919
– Satisfactory	376	8,113	349	3,306	–	–	11,768
– Higher-risk	54	1,128	405	323	42	–	1,898
Of which (stage 2):							
– Less than 30 days past due	246	493	347	153	–	–	993
– More than 30 days past due	25	232	407	123	5	–	767
Stage 3, credit-impaired financial assets	9	5,788	818	1,956	207	–	8,769
Total[1]	62,305	103,004	102,975	29,109	13,423	9,328	257,839
Expected credit loss provisions							
Stage 1	(6)	(65)	(370)	(25)	(8)	(4)	(472)
– Strong	(4)	(12)	(324)	(5)	(8)	(4)	(353)
– Satisfactory	(2)	(53)	(46)	(20)	–	–	(119)
Stage 2	(2)	(326)	(170)	(79)	(1)	–	(576)
– Strong	(2)	(14)	(84)	–	(1)	–	(99)
– Satisfactory	–	(165)	(25)	(59)	–	–	(249)
– Higher-risk	–	(147)	(61)	(20)	–	–	(228)
Of which (stage 2):							
– Less than 30 days past due	–	(65)	(24)	(28)	–	–	(117)
– More than 30 days past due	–	(71)	(61)	(14)	–	–	(146)
Stage 3, credit-impaired financial assets	(4)	(3,433)	(389)	(1,369)	(91)	–	(5,282)
Total	(12)	(3,824)	(929)	(1,473)	(100)	(4)	(6,330)
Coverage							
Stage 1	0.0%	0.1%	0.4%	0.1%	0.1%	0.0%	0.2%
– Strong	0.0%	0.0%	0.3%	0.1%	0.1%	0.0%	0.2%
– Satisfactory	0.0%	0.2%	3.7%	0.1%	–	–	0.2%
Stage 2	0.1%	2.4%	7.8%	2.0%	0.1%	–	2.8%
– Strong	0.1%	0.3%	5.9%	0.0%	0.1%	–	1.4%
– Satisfactory	–	2.0%	7.2%	1.8%	–	–	2.1%
– Higher-risk	–	13.0%	15.1%	6.2%	–	–	12.0%
Of which (stage 2):							
– Less than 30 days past due	–	13.2%	6.9%	18.3%	–	–	11.8%
– More than 30 days past due	–	30.6%	15.0%	11.4%	–	–	19.0%
Stage 3, credit-impaired financial assets	44.4%	59.3%	47.6%	70.0%	44.0%	–	60.2%
Fair value through profit or loss							
Performing	19,022	32,209	539	457	–	–	33,205
– Strong	16,199	22,647	539	100	–	–	23,286
– Satisfactory	2,823	9,555	–	357	–	–	9,912
– Higher-risk	–	7	–	–	–	–	7
Impaired	–	59	–	4	–	–	63
Total[2]	19,022	32,268	539	461	–	–	33,268
Net loans and advances	81,315	131,448	102,585	28,097	13,323	9,324	284,777

1 Loans and advances include reverse repurchase agreements and other similar secured lending for $4,568 million under 'Customers' and for $5,099 million under 'Banks'

2 Loans and advances include reverse repurchase agreements and other similar secured lending for $29,361 million under 'Customers' and for $16,157 million under 'Banks'

By client segment

	31.12.17 (IAS 39)						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Performing loans							
– Strong	68,958	75,672	100,687	6,072	9,220	9,253	200,904
– Satisfactory	12,309	52,610	1,586	21,216	3,951	90	79,453
– Higher-risk	54	1,128	405	323	42	–	1,898
	81,321	129,410	102,678	27,611	13,213	9,343	282,255
Impaired forborne loans, net of provisions	–	–	269	–	–	–	269
Non-performing loans, net of provisions	5	2,484	274	596	140	–	3,494
Total loans	81,326	131,894	103,221	28,207	13,353	9,343	286,018
Portfolio impairment provision	(1)	(156)	(208)	(99)	(2)	–	(465)
Total net loans	81,325	131,738	103,013	28,108	13,351	9,343	285,553

The following table further analyses total loans included within the table above

Included in performing loans							
Neither past due nor impaired							
– Strong	68,740	75,482	100,687	6,058	9,220	9,251	200,698
– Satisfactory	12,255	51,846	–	20,831	3,866	90	76,633
– Higher-risk	54	899	–	239	42	–	1,180
	81,049	128,227	100,687	27,128	13,128	9,341	278,511
Past due but not impaired							
– Up to 30 days past due	247	951	1,586	360	69	–	2,966
– 31-60 days past due	25	32	278	49	16	–	375
– 61-90 days past due	–	200	127	74	–	2	403
	272	1,183	1,991	483	85	2	3,744
Total performing loans	81,321	129,410	102,678	27,611	13,213	9,343	282,255
Of which, forborne loans amounting to	2	480	84	31	–	–	595
Included in non-performing loans							
Past due but not impaired							
– 91-120 days past due	–	–	67	–	–	–	67
– 121-150 days past due	–	–	56	–	–	–	56
	–	–	123	–	–	–	123
Individually impaired loans, net of provisions	5	2,484	151	596	140	–	3,371
Total non-performing loans	5	2,484	274	596	140	–	3,494
Of the above, forborne loans	4	861	268	186	–	–	1,315

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

Neither past due nor impaired							
– Strong	2,081	1,451	–	30	–	–	1,481
– Satisfactory	1,056	1,572	–	186	–	–	1,758
– Higher-risk	–	7	–	–	–	–	7
	3,137	3,030	–	216	–	–	3,246
Individually impaired loans	–	19	–	–	–	–	19
Total loans held at fair value through profit and loss	3,137	3,049	–	216	–	–	3,265

1 Loans and advances include reverse repurchase agreements and other similar secured lending for $55,187 million

Credit quality by geographic region (unaudited)

The following table sets out the credit quality for gross loans and advances to customers and banks, held at amortised cost, by geographic region and stage.

Loans and advances to customers

	30.06.18				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Loans classified as					
Stage 1	**119,419**	**70,672**	**24,231**	**20,741**	**235,063**
Stage 2	**6,761**	**7,752**	**5,145**	**2,186**	**21,844**
Total stage 1 and stage 2 loans	**126,180**	**78,424**	**29,376**	**22,927**	**256,907**
Stage 3, credit-impaired financial assets[2]	**821**	**3,322**	**2,715**	**870**	**7,728**
Total loans[1]	**127,001**	**81,746**	**32,091**	**23,797**	**264,635**

	01.01.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans classified as					
Stage 1	114,990	70,594	23,120	19,781	228,485
Stage 2	5,796	7,578	4,762	2,449	20,585
Total stage 1 and stage 2 loans	120,786	78,172	27,882	22,230	249,070
Stage 3, credit-impaired financial assets[2]	806	4,248	2,657	1,058	8,769
Total loans[1]	121,592	82,420	30,539	23,288	257,839

1 Amounts gross of expected credit losses

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

	31.12.17 (IAS 39)				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Neither past due nor individually impaired	125,565	79,175	27,774	45,997	278,511
Past due but not individually impaired	809	1,711	1,153	194	3,867
Individually impaired	806	4,233	2,654	1,184	8,877
Individual impairment provision	(312)	(2,361)	(1,858)	(706)	(5,237)
Portfolio impairment provision	(129)	(179)	(121)	(36)	(465)
Total[1]	126,739	82,579	29,602	46,633	285,553

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to Note 7 of the financial statements for details (page 95)

Loans and advances to banks

	30.06.18				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Loans classified as					
Stage 1	**29,772**	**12,079**	**4,384**	**16,213**	**62,448**
Stage 2	**266**	**528**	**472**	**446**	**1,712**
Total stage 1 and stage 2 loans	**30,038**	**12,607**	**4,856**	**16,659**	**64,160**
Stage 3, credit-impaired financial assets[2]	**–**	**–**	**–**	**–**	**–**
Total loans[1]	**30,038**	**12,607**	**4,856**	**16,659**	**64,160**

	01.01.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans classified as					
Stage 1	28,792	11,853	4,425	14,856	59,926
Stage 2	1,212	557	169	432	2,370
Total stage 1 and stage 2 loans	30,004	12,410	4,594	15,288	62,296
Stage 3, credit-impaired financial assets[2]	–	– 9	– 9		
Total loans[1]	30,004	12,410	4,594	15,297	62,305

1 Amounts gross of expected credit losses

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

	31.12.17 (IAS 39)				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Neither past due nor individually impaired	33,096	16,482	7,328	24,143	81,049
Past due but not individually impaired	130	41	101	–	272
Individually impaired	–	–	–	9	9
Individual impairment provision	–	–	–	(4)	(4)
Portfolio impairment provision	–	–	(1)	–	(1)
Total[1]	33,226	16,523	7,428	24,148	81,325

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to Note 7 of the financial statements for details (page 95)

Credit quality by industry (unaudited)

This section provides an analysis of the Group's amortised cost portfolio by industry on a gross, total credit impairment and net basis.

	30.06.18											
	Stage 1			Stage 2			Stage 3			Total		
	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million
Industry:												
Energy	15,699	(16)	15,683	2,783	(71)	2,712	962	(770)	192	19,444	(857)	18,587
Manufacturing	20,025	(11)	20,014	3,220	(73)	3,147	827	(676)	151	24,072	(760)	23,312
Financing, insurance and non-banking	21,783	(9)	21,774	1,242	(9)	1,233	348	(143)	205	23,373	(161)	23,212
Transport, telecom and utilities	13,567	(12)	13,555	2,735	(59)	2,676	757	(401)	356	17,059	(472)	16,587
Food and household products	6,930	(6)	6,924	2,258	(20)	2,238	781	(356)	425	9,969	(382)	9,587
Commercial real estate	13,232	(16)	13,216	1,466	(24)	1,442	330	(50)	280	15,028	(90)	14,938
Mining and quarrying	4,994	(9)	4,985	1,239	(21)	1,218	684	(365)	319	6,917	(395)	6,522
Consumer durables	7,260	(5)	7,255	1,733	(11)	1,722	649	(359)	290	9,642	(375)	9,267
Construction	2,355	(3)	2,352	793	(14)	779	725	(450)	275	3,873	(467)	3,406
Trading companies & distributors	1,744	(2)	1,742	370	(2)	368	423	(217)	206	2,537	(221)	2,316
Government	11,622	(1)	11,621	81	–	81	–	–	–	11,703	(1)	11,702
Other	4,313	(6)	4,307	929	(9)	920	230	(144)	86	5,472	(159)	5,313
Retail Products:												
Mortgages	75,406	(18)	75,388	1,254	(6)	1,248	359	(121)	238	77,019	(145)	76,874
CCPL and other unsecured lending	15,350	(288)	15,062	1,206	(144)	1,062	410	(225)	185	16,966	(657)	16,309
Auto	643	(2)	641	5	–	5	1	–	1	649	(2)	647
Secured wealth products	17,130	(21)	17,109	424	(3)	421	202	(114)	88	17,756	(138)	17,618
Other	3,010	(10)	3,000	106	(4)	102	40	(8)	32	3,156	(22)	3,134
Loans and advances to customers[1]	235,063	(435)	234,628	21,844	(470)	21,374	7,728	(4,399)	3,329	264,635	(5,304)	259,331
Loans and advances to banks[2]	62,448	(4)	62,444	1,712	(3)	1,709	–	–	–	64,160	(7)	64,153
Total[3]	297,511	(439)	297,072	23,556	(473)	23,083	7,728	(4,399)	3,329	328,795	(5,311)	323,484

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $4,231 million

2 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $8,550 million

3 Excludes loans held at fair value through profit or loss

	01.01.2018											
	Stage 1			Stage 2			Stage 3			Total		
	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million	Gross carrying amount $million	Total credit impairment $million	Net carrying amount $million
Industry:												
Energy	14,679	(15)	14,664	3,052	(78)	2,974	1,442	(913)	529	19,173	(1,006)	18,167
Manufacturing	18,848	(9)	18,839	3,254	(77)	3,177	801	(614)	187	22,903	(700)	22,203
Financing, insurance and non-banking	18,275	(17)	18,258	1,341	(9)	1,332	403	(179)	224	20,019	(205)	19,814
Transport, telecom and utilities	12,482	(11)	12,471	3,031	(89)	2,942	753	(397)	356	16,266	(497)	15,769
Food and household products	7,707	(7)	7,700	1,933	(41)	1,892	757	(423)	334	10,397	(471)	9,926
Commercial real estate	13,452	(16)	13,436	919	(41)	878	385	(44)	341	14,756	(101)	14,655
Mining and quarrying	5,046	(3)	5,043	1,038	(11)	1,027	952	(674)	278	7,036	(688)	6,348
Consumer durables	7,108	(4)	7,104	1,155	(18)	1,137	728	(553)	175	8,991	(575)	8,416
Construction	2,546	(3)	2,543	792	(31)	761	786	(493)	293	4,124	(527)	3,597
Trading companies & distributors	1,862	(1)	1,861	290	2	292	463	(336)	127	2,615	(335)	2,280
Government	9,521	(1)	9,520	78	(1)	77	6	(1)	5	9,605	(3)	9,602
Other	4,507	(7)	4,500	781	(11)	770	268	(175)	93	5,556	(193)	5,363
Retail Products:												
Mortgages	77,858	(8)	77,850	758	–	758	280	(131)	149	78,896	(139)	78,757
CCPL and other unsecured lending	15,959	(337)	15,622	685	(163)	522	505	(234)	271	17,149	(734)	16,415
Auto	626	(3)	623	6	(1)	5	1	–	1	633	(4)	629
Secured wealth products	13,301	(14)	13,287	720	(1)	719	197	(93)	104	14,218	(108)	14,110
Other	4,708	(16)	4,692	752	(6)	746	42	(22)	20	5,502	(44)	5,458
Loans and advances to customers[1]	228,485	(472)	228,013	20,585	(576)	20,009	8,769	(5,282)	3,487	257,839	(6,330)	251,509
Loans and advances to banks[2]	59,926	(6)	59,920	2,370	(2)	2,368	9	(4)	5	62,305	(12)	62,293
Total[3]	288,411	(478)	287,933	22,955	(578)	22,377	8,778	(5,286)	3,492	320,144	(6,342)	313,802

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $4,568 million

2 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $5,099 million

3 Excludes loans held at fair value through profit or loss

	31.12.2017 (IAS 39)								
						Movements in impairment			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Total $million	Individual impairment provision held as at 1 Jan 2017 $million	Net impairment charge/ (release) $million	Amounts written off/other movements $million	Individual impairment provision held as at 31 Dec 2017 $million
Industry:									
Energy	18,090	116	1,217	(879)	18,544	814	208	(143)	879
Manufacturing	22,085	397	860	(611)	22,731	644	250	(283)	611
Financing, insurance and non-banking	44,439	314	444	(213)	44,984	409	79	(275)	213
Transport, telecom and utilities	15,640	123	777	(376)	16,164	218	230	(72)	376
Food and household products	9,543	179	756	(422)	10,056	561	75	(214)	422
Commercial real estate	14,574	199	400	(34)	15,139	33	9	(8)	34
Mining and quarrying	6,063	64	1,297	(783)	6,641	1,140	26	(383)	783
Consumer durables	8,792	132	725	(583)	9,066	523	124	(64)	583
Construction	3,346	60	781	(484)	3,703	553	59	(128)	484
Trading companies & distributors	2,155	43	458	(331)	2,325	310	46	(25)	331
Government	14,390	25	6	(1)	14,420	–	(1)	2	1
Other	5,579	16	252	(176)	5,671	195	37	(54)	178
Retail Products:									
Mortgages	77,279	1,340	276	(117)	78,778	104	34	(21)	117
CCPL and other unsecured lending	16,700	610	360	(135)	17,535	140	398	(405)	133
Auto	588	45	–	–	633	–	1	(1)	–
Secured wealth products	13,969	57	198	(70)	14,154	4	28	38	70
Other	5,279	147	70	(22)	5,474	19	19	(16)	22
Loans and advances to customers[1]	278,511	3,867	8,877	(5,237)	286,018				
Individual impairment provision						5,667	1,622	(2,052)	5,237
Portfolio impairment provision					(465)	687	(239)	17	465
Total					285,553	6,354	1,383	(2,035)	5,702
Loans and advances to banks[2]	81,049	272	9	(4)	81,326	–	–	–	–
Individual impairment provision						163	–	(159)	4
Portfolio impairment provision					(1)	1	–	–	1
Total					81,325	164	–	(159)	5

1 Includes loans held at fair value through profit or loss of $2,918 million and reverse repurchase agreements held at amortised cost of $33,581 million and fair value through profit or loss of $347 million

2 Includes loans held at fair value through profit or loss of $2,572 million and reverse repurchase agreements held at amortised cost of $20,694 million and fair value through profit or loss of $565 million

Movement in expected credit impairment for loans and advances to banks and customers

The table below sets out the movement in expected credit loss provisions by stage in respect of loan exposures relating to banks and customers. Loan exposures in this context means the balance sheet outstanding, together with undrawn committed facilities and undrawn cancellable facilities relating to overdrafts and credit cards.

The table is an aggregate of monthly movements. Transfers between stages are deemed to occur at the beginning of a month and therefore amounts transferred net to zero. The re-measurement of expected credit loss resulting from a change in stage is reported within the profit and loss line of the stage in which they are transferred to.

Amortised cost	Stage 1 $million	Stage 2 $million	Stage 3 $million	Total $million
Credit impairment provisions as reported on balance sheet	478	578	5,286	6,342
Credit impairment provisions as reported on undrawn commitments	66	90	–	156
Total credit impairment provisions as at 1 January[1]	**544**	**668**	**5,286**	**6,498**
Exchange rate differences and other movements	(48)	6	(154)	(196)
Transfer across stages	118	(267)	149	–
Net profit and loss (release)/charge[2]	(130)	134	154	158
Unwinding of discount	–	–	(29)	(29)
Recoveries of amounts previously written off	–	–	175	175
Write offs	–	–	(1,182)	(1,182)
Total credit impairment provisions as at 30 June[2]	**484**	**541**	**4,399**	**5,424**
Of which:				
Credit impairment provisions as reported on balance sheet	439	473	4,399	5,311
Credit impairment provisions as reported on undrawn commitments	45	68	–	113

1 Includes reverse repurchase agreements and other similar lending

2 Total credit impairment charge of $214 million reported in the income statement includes $60 million charge in respect of financial guarantees and a $4 million release relating to debt securities which are not included here

Movement in gross exposures for loans and advances to banks and customers

	Stage 1 $million	Stage 2 $million	Stage 3 $million	Total $million
Loan exposures as reported on balance sheet (amortised cost)	288,411	22,955	8,778	320,144
Undrawn commitments	147,007	15,240	–	162,247
Total loan exposures as at 1 January[1]	**435,418**	**38,195**	**8,778**	**482,391**
Loan exposures as reported on balance sheet (amortised cost)	297,511	23,556	7,728	328,795
Undrawn commitments	128,422	12,592	–	141,014
Total loan exposures as at 30 June[1]	**425,933**	**36,148**	**7,728**	**469,809**

1 Includes reverse repurchase agreements and other similar lending

Loan exposures are 3 per cent lower than 1 January 2018, primarily reflecting lower levels of undrawn commitments.

On-balance sheet loan exposures in stage 1 have increased by $9.1 billion reflecting growth in Financing, Insurance and non-banking clients within Corporate & Institutional Banking, together with higher levels of Secured wealth products in Retail Banking.

On-balance sheet loan exposure in stage 2 increased $0.6 billion to $23.6 billion.

Total loan exposures in stage 3 decreased 12 per cent ($1.1 billion) to $7.7 billion, primarily due to increased levels of write-offs and recoveries.

Problem credit management and provisioning

Credit impairment

The ongoing business credit impairment charge in Corporate & Institutional Banking of $67 million for the first half of 2018 is significantly lower than the previous half in 2017. This was due to lower stage 3 impairment which was driven by lower losses particularly in ASEAN & South Asia and recoveries from a small number of major exposures in India and the Middle East.

Commercial Banking ongoing business credit impairment was at $106 million, a decrease of 16 per cent from the second half of 2017 albeit higher than the first half of 2017. Geographically, Africa & Middle East contributed to 60 per cent of the first half credit impairment. The Group remains vigilant for emerging risks.

In the liquidation portfolio, there was a net release of $70 million due to resolution of some of the assets as the disposal work out process progresses.

Retail Banking credit impairment reduced 41 per cent to $119 million at June 2018 (H2 2017: $202 million, H1 2017: $172 million), mainly driven by continued improvement in portfolio shape and performance, particularly within the unsecured portfolios.

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

	6 months ended 30.06.18 $million (IFRS 9)	6 months ended 31.12.17[1] $million (IAS 39)	6 months ended 30.06.17[1] $million (IAS 39)
Ongoing business portfolio credit impairment			
Corporate & Institutional Banking	**67**[2]	288	369
Retail Banking	**119**	202	172
Commercial Banking	**106**	126	42
Private Banking	**1**	1	–
Credit impairment	**293**	617	583
Restructuring			
Liquidation portfolio	**(70)**	59	61
Others	**(9)**	31	11
Credit impairment	**(79)**	90	72
Total credit impairment	**214**	707	655

1 Prepared and disclosed on an IAS 39 basis

2 Credit impairment recovery of $14 million in Central & Other items is included in Corporate & Institutional Banking

Forborne and other modified loans

A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties. The table below presents stage 2 and stage 3 loans with forbearance measures by segment.

	30.06.18						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	–	2,202	385	709	–	–	3,296
Credit impairment (stage 3)	–	(657)	(136)	(466)	–	–	(1,259)
Net balance	–	1,545	249	243	–	–	2,037

	01.01.18						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	6	2,143	797	612	–	–	3,558
Credit impairment (stage 3)	–	(802)	(176)	(394)	–	–	(1,372)
Net balance	6	1,341	621	218	–	–	2,186

	31.12.17 (IAS 39)						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	6	2,143	797	647	–	–	3,593
Accumulated impairment	–	(802)	(176)	(430)	–	–	(1,408)
Net balance	6	1,341	621	217	–	–	2,185

Credit impaired (stage 3) loans by client segment

Overall gross credit-impaired (stage 3) loans for the Group have decreased significantly to $7.7 billion (1 January 2018: $8.8 billion) with significant reductions in the liquidation portfolio as the Group continued to assertively manage down and exit the exposures.

Stage 3 loans in Corporate & Institutional Banking decreased by $1.1 billion or 19 per cent compared with 1 January 2018. The reductions were largely due to recoveries and write-offs, coupled with a lower level of inflows. The Corporate & Institutional Banking liquidation portfolio stage 3 loans reduced by $0.6 billion (30 per cent) due to progress made in resolving and exiting accounts.

Stage 3 loans in Commercial Banking increased marginally by $74 million (4 per cent) due to higher levels of inflows. New inflows were driven by a small number of exposures in Greater China & North Asia and Africa & Middle East with no specific industry concentration.

Stage 3 loans in Retail Banking remain broadly stable (30 June 2018: $800 million and 1 January 2018: $818 million).

Cover ratio

The cover ratio measures the proportion of stage 3 impairment provisions to gross stage 3 loans, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of stage 3 loans and should be used in conjunction with other credit risk information provided, including the level of collateral cover.

By client segment, the cover ratio before collateral for Corporate & Institutional Banking reduced from 59 per cent to 54 per cent due to a small number of write-offs which had a high level of provisions. The cover ratio for Commercial Banking remained broadly stable at 69 per cent (1 January 2018: 70 per cent). The cover ratio for Retail Banking remained broadly stable at 47 per cent (1 January 2018: 48 per cent) and cover ratio including collateral improved to 79 per cent (1 January 2018: 74 per cent).

The Private Banking segment remains fully covered taking into account the collateral held.

The balance of stage 3 loans not covered by stage 3 impairment provisions represents the adjusted value of collateral held and the net outcome of any workout or recovery strategies.

Collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions. Further information on collateral is provided in the credit risk mitigation section.

The table below presents the balance of the gross stage 3 loans to banks and customers, together with the provisions held, for all segments and the respective cover ratios. For the reconciliation between the non-performing loans under IAS 39 and under IFRS 9, refer to note 27.

	30.06.18				
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Total $million**
Gross credit impaired[1]	**4,686**	**800**	**2,030**	**212**	**7,728**
Credit impaired provisions	**(2,536)**	**(372)**	**(1,395)**	**(96)**	**(4,399)**
Net credit impaired	**2,150**	**428**	**635**	**116**	**3,329**
Cover ratio	**54%**	**47%**	**69%**	**45%**	**57%**
Collateral ($million)	**992**	**262**	**307**	**118**	**1,679**
Cover ratio (after collateral)	**75%**	**79%**	**84%**	**100%**	**79%**

	01.01.18				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross credit impaired[1]	5,797	818	1,956	207	8,778
Credit impaired provision	(3,437)	(389)	(1,369)	(91)	(5,286)
Net credit impaired	2,360	429	587	116	3,492
Cover ratio	59%	48%	70%	44%	60%
Collateral ($million)	1,111	218	277	203	1,809
Cover ratio (after collateral)	78%	74%	84%	100%	81%

1 Excludes FVTPL impaired loans

	31.12.17 (IAS 39)				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross non-performing loans	5,957	489	2,026	207	8,679
Individual impairment provisions[1]	(3,468)	(215)	(1,430)	(67)	(5,180)
Net non-performing loans	2,489	274	596	140	3,499
Portfolio impairment provision	(157)	(208)	(99)	(2)	(466)
Total	2,332	66	497	138	3,033
Cover ratio	61%	87%	75%	33%	65%
Cover ratio (excluding portfolio impairment provision)	58%	44%	71%	32%	60%
Collateral ($ million)	1,111	218	277	203	1,809
Cover ratio (after collateral)	77%	89%	84%	100%	81%

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

Credit-impaired (stage 3) loans by geographic region (unaudited)

Stage 3 loans decreased by $1.1 billion or 12 per cent compared with January 2018. The largest decrease was in the ASEAN & South Asia region ($926 million), primarily driven by reductions in the liquidation portfolio through disposal of loans and write-offs.

The following tables present a breakdown of total stage 3 loans to banks and customers by geographic regions:

	30.06.18				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Gross credit impaired	**821**	**3,322**	**2,715**	**870**	**7,728**
Credit impairment provisions	**(327)**	**(2,028)**	**(1,724)**	**(320)**	**(4,399)**
Net credit impaired	**494**	**1,294**	**991**	**550**	**3,329**
Cover ratio	**40%**	**61%**	**63%**	**37%**	**57%**

	01.01.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross credit impaired	806	4,248	2,657	1,067	8,778
Credit impairment provisions	(308)	(2,500)	(1,846)	(632)	(5,286)
Net credit impaired	498	1,748	811	435	3,492
Cover ratio	38%	59%	69%	59%	60%

	31.12.17 (IAS 39)				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross non-performing loans	895	3,948	2,692	1,144	8,679
Individual impairment provisions	(396)	(2,389)	(1,675)	(720)	(5,180)
Non-performing loans net of individual impairment provision	499	1,559	1,017	424	3,499
Portfolio impairment provisions	(129)	(180)	(121)	(36)	(466)
Net non-performing loans and advances	370	1,379	896	388	3,033
Cover ratio	59%	65%	67%	66%	65%
Cover ratio (excluding portfolio impairment provisions)					60%

Movement of credit impaired (stage 3) provisions by client segment

The credit impairment provisions as at 30 June 2018 were lower at $4,399 million, compared with $5,286 million as at 1 January 2018, largely due to material reductions in Corporate and Institutional Banking.

The Corporate and Institutional Banking credit impairment provisions as at 30 June 2018 decreased by 26 per cent ($901 million) compared with 1 January 2018 driven by write offs and lower new provisions taken in the first half 2018.

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

	30.06.18				
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Total[1] $million**
Gross credit impaired loans at 30 June	**4,686**	**800**	**2,030**	**212**	**7,728**
Credit impairment provisions at 1 January	**3,437**	**389**	**1,369**	**91**	**5,286**
Exchange translation difference	**(126)**	**(11)**	**(13)**	**–**	**(150)**
Amounts written off	**(853)**	**(266)**	**(63)**	**–**	**(1,182)**
Recoveries of amounts written off	**49**	**115**	**11**	**–**	**175**
Discount unwind	**(7)**	**(3)**	**(19)**	**–**	**(29)**
New provisions charge/(release)	**357**	**187**	**194**	**6**	**744**
Recoveries/derecognition (repayment)	**(374)**	**(125)**	**(91)**	**–**	**(590)**
Other movements	**–**	**(3)**	**–**	**(1)**	**(4)**
Net transfers into and out of stage 3	**53**	**89**	**7**	**–**	**149**
Credit impairment provisions at 30 June	**2,536**	**372**	**1,395**	**96**	**4,399**
Net credit impairment	**2,150**	**428**	**635**	**116**	**3,329**

	31.12.17 (IAS 39)				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total[1] $million
Gross impaired loans at 31 December	5,957	695	2,027	207	8,886
Provisions held at 1 January	3,961	262	1,602	5	5,830
Exchange translation differences	55	15	31	1	102
Amounts written off	(1,139)	(577)	(444)	–	(2,160)
Releases of acquisition fair values	(1)	–	–	–	(1)
Recoveries of amounts previously written off	27	153	22	32	234
Discount unwind	(41)	(23)	(19)	–	(83)
Transfer to assets held for sale	–	(6)	–	–	(6)
New provisions	1,197	669	327	63	2,256
Recoveries/provisions no longer required	(314)	(218)	(86)	(34)	(652)
Net individual impairment charge against profit	883	451	241	29	1,604
Other movements[2]	(277)	–	(2)	–	(279)
Individual impairment provisions held at 31 December	3,468	275	1,431	67	5,241
Net individually impaired loans	2,489	420	596	140	3,645

1 Excludes credit impairment relating to loan commitments and financial guarantees

2 Other movements include provisions for liabilities and charges that have been drawn down and are now part of loan impairment

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting arrangements, credit insurance and credit derivatives, taking into account expected volatility and guarantees.

The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. As a result of reinforcing our collateralisation requirements, the fair value of collateral held as a percentage of amount outstanding has decreased from 46 per cent to 45 per cent in the first half of 2018.

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was $263 billion (2017: $247 billion).

The collateral values in the table below are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. 50 per cent of clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 38 per cent.

We have remained prudent in the way we assess the value of collateral, which is calibrated for a severe downturn and backtested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value. Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $73 billion.

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral level for Retail Banking has increased by $1.7 billion in the first half of 2018.

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.

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

	30.06.18								
	Amount outstanding			Collateral			Net exposure[1,2]		
	Total $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million	Total $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million	Total $million	Stage 2 financial assets $million	Credit impaired financial assets (Stage 3) $million
Corporate & Institutional Banking	**228,656**	**14,084**	**2,215**	**67,342**	**1,715**	**999**	**161,314**	**12,369**	**1,216**
Retail Banking	**101,530**	**2,417**	**428**	**78,194**	**1,279**	**262**	**23,336**	**1,138**	**166**
Commercial Banking	**28,571**	**6,161**	**647**	**6,055**	**2,795**	**307**	**22,516**	**3,366**	**340**
Private Banking	**13,565**	**421**	**116**	**9,158**	**196**	**118**	**4,407**	**225**	**(2)**
Central and other items	**9,756**	**–**	**–**	**9,756**	**–**	**–**	**–**	**–**	**–**
Total	**382,078**	**23,083**	**3,406**	**170,505**	**5,985**	**1,686**	**211,573**	**17,098**	**1,720**

	31.12.17 (IAS 39)								
	Maximum exposure			Collateral			Net exposure[1,2]		
	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	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
Corporate & Institutional Banking	193,442	1,455	5,957	70,499	160	1,111	122,943	1,295	4,846
Retail Banking	103,371	2,114	695	76,543	1,514	218	26,828	600	477
Commercial Banking	29,602	483	2,027	6,570	247	277	23,032	236	1,750
Private Banking	13,359	85	207	9,296	82	203	4,063	3	4
Central and other items	27,570	2	–	5,339	–	–	22,231	2	–
Total	367,344	4,139	8,886	168,247	2,003	1,809	199,097	2,136	7,077

1 Includes loans held at fair value through profit or loss

2 Includes loans and advances to banks

Collateral – Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $73 billion. The decrease of $4 billion was primarily in reverse repurchase (repo) collateral due to increased liquidity management activity by the Group. The proportion of investment grade securities in reverse repos collateral remains stable at 97 per cent. The average residual maturity of the reverse repo collateral is 8.1 years.

Collateral taken for longer-term and sub-investment grade corporate loans continues to be high at 55 per cent.

Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral. 28 per cent of collateral held comprises physical assets or is property-based, with the remainder largely in cash and investment securities.

Non-tangible collateral such as guarantees and standby letters of credit 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 is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

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

Corporate & Institutional Banking

	30.06.18 $million	31.12.17 (IAS 39) $million
Maximum exposure	**228,656**	193,442
Property	**8,260**	7,014
Plant, machinery and other stock	**3,152**	3,612
Cash	**5,531**	5,742
Reverse repos	**46,092**	49,736
AAA	**284**	1,027
A- to AA+	**39,700**	40,421
BBB- to BBB+	**4,693**	6,448
Lower than BBB-	**558**	915
Unrated	**857**	925
Commodities	**228**	162
Ships and aircraft	**4,079**	4,233
Total value of collateral	**67,342**	70,499
Net exposure	**161,314**	122,943

Commercial Banking

	30.06.18 $million	31.12.17 (IAS 39) $million
Maximum exposure	**28,571**	29,602
Property	**4,191**	4,642
Plant, machinery and other stock	**762**	767
Cash	**901**	923
Reverse repos	**–**	–
AAA	**–**	–
A- to AA+	**–**	–
BBB- to BBB+	**–**	–
Lower than BBB-	**–**	–
Unrated	**–**	–
Commodities	**6**	4
Ships and aircraft	**195**	234
Total value of collateral	**6,055**	6,570
Net exposure	**22,516**	23,032

Collateral – Retail Banking and Private Banking

In Retail Banking and Private Banking, 85 per cent of the portfolio is fully secured. The proportion of unsecured loans remains broadly stable at 14 per cent and remaining 1 per cent is partially secured.

Loan-to-value (LTV) ratios measure the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured.

In mortgages the value of property held as security significantly exceeds the value of mortgage loans. The average LTV of the overall mortgage portfolio is less than 45 per cent. Hong Kong, which represents 37 per cent of the Retail Banking mortgage portfolio has an average LTV of 35.4 per cent. All of our other key markets continue to have low portfolio LTVs, (Korea, Singapore and Taiwan at 45.6 per cent, 57.1 per cent and 51.2 per cent respectively).

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

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

	30.06.18				31.12.17 (IAS 39)			
	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million
Maximum exposure	**97,592**	**758**	**16,745**	**115,095**	97,523	1,301	17,750	116,574
Loans to individuals								
Mortgages	**76,829**	**45**	**–**	**76,874**	78,755	23	–	78,778
CCPL	**243**	**98**	**16,474**	**16,815**	240	86	17,209	17,535
Auto	**647**	**–**	**–**	**647**	630	–	3	633
Secured wealth products	**17,164**	**215**	**246**	**17,625**	13,903	156	95	14,154
Other	**2,709**	**400**	**25**	**3,134**	3,995	1,036	443	5,474
Total collateral				**87,352**				85,839
Net exposure				**27,743**				30,735
Percentage of total loans	**85%**	**1%**	**14%**		84%	1%	15%	

1 Amounts net of individual impairment provisions

Mortgage loan-to-value ratios by geography

The following table provides an analysis of loan-to-value ratios by region for the mortgages portfolio:

	30.06.18				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	**68.5**	**38.8**	**21.2**	**23.1**	**58.4**
50 per cent to 59 per cent	**15.0**	**17.9**	**17.2**	**23.5**	**16.0**
60 per cent to 69 per cent	**11.4**	**19.3**	**22.7**	**29.8**	**14.2**
70 per cent to 79 per cent	**4.2**	**21.6**	**20.6**	**21.3**	**9.6**
80 per cent to 89 per cent	**0.7**	**2.0**	**11.0**	**2.3**	**1.4**
90 per cent to 99 per cent	**0.1**	**0.2**	**4.1**	**–**	**0.2**
100 per cent and greater	**0.1**	**0.2**	**3.2**	**–**	**0.2**
Average portfolio loan-to-value	**41.2**	**53.2**	**64.2**	**53.4**	**44.7**
Loans to individuals – mortgages ($million)	**52,754**	**20,005**	**2,237**	**1,878**	**76,874**

	31.12.17 (IAS 39)				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	62.9	36.1	21.6	28.4	54.7
50 per cent to 59 per cent	16.4	17.5	16.9	23.4	16.8
60 per cent to 69 per cent	15.3	18.7	22.6	31.4	16.6
70 per cent to 79 per cent	4.5	22.8	20.8	13.7	9.5
80 per cent to 89 per cent	0.7	4.3	11.2	2.0	1.9
90 per cent to 99 per cent	0.1	0.3	3.9	0.4	0.3
100 per cent and greater	0.1	0.3	3.0	0.8	0.2
Average portfolio loan-to-value	43.5	55.0	63.9	52.1	46.8
Loans to individuals – mortgages ($million)	54,609	20,105	2,279	1,785	78,778

Industry and Retail Products analysis by geographic region (unaudited)

This section provides an analysis of the Group's amortised cost loan portfolio, net of provisions, by industry and region.

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposures are manufacturing and financing, insurance and non-banking, each constituting 16 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers. Lending to financing, insurance and non-banking clients is mostly to investment grade institutions and is part of the liquidity management of the Group.

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 4,553 clients.

Loans and advances to the energy sector have remained stable and constitute 13 per cent of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The energy sector lending is spread across five subsectors and over 460 clients.

The Group provides loans to commercial real estate counterparties of $14.9 billion, which represents 6 per cent of total customer loans and advances. In total, $8.6 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining commercial real estate loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of the commercial real estate portfolio has increased to 44 per cent, compared with 41 per cent in 2017. The proportion of loans with an LTV greater than 80 per cent has remained at 1 per cent during the same period.

Credit cards and personal loans (CCPL) and other unsecured lending of total Retail Products loans and advances remains broadly stable at 14 per cent.

Industry and Retail Products analysis by geographic region

	30.06.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,408	6,516	3,037	6,626	18,587
Manufacturing	11,434	5,767	3,945	2,166	23,312
Financing, insurance and non-banking	10,423	5,189	1,188	6,412	23,212
Transport, telecom and utilities	6,813	4,056	4,773	945	16,587
Food and household products	2,059	3,898	2,498	1,132	9,587
Commercial real estate	8,084	4,923	1,780	151	14,938
Mining and quarrying	2,316	2,241	1,195	770	6,522
Consumer durables	6,060	1,810	777	620	9,267
Construction	932	1,025	1,267	182	3,406
Trading companies and distributors	1,158	589	511	58	2,316
Government	1,419	7,910	2,077	296	11,702
Other	1,939	1,812	905	657	5,313
Retail Products:					
Mortgages	52,754	20,005	2,237	1,878	76,874
CCPL and other unsecured lending	9,587	4,093	2,628	1	16,309
Auto	–	457	190	–	647
Secured wealth products	6,680	9,006	381	1,551	17,618
Other	2,351	109	674	–	3,134
Net loans and advances to customers	126,417	79,406	30,063	23,445	259,331
Net loans and advances to banks	30,036	12,605	4,855	16,657	64,153

	01.01.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,841	5,874	3,188	6,264	18,167
Manufacturing	10,885	6,290	3,145	1,883	22,203
Financing, insurance and non-banking	7,096	4,996	1,242	6,480	19,814
Transport, telecom and utilities	6,396	3,870	4,508	995	15,769
Food and household products	2,173	4,100	2,485	1,168	9,926
Commercial real estate	8,047	5,084	1,472	52	14,655
Mining and quarrying	1,878	2,857	1,033	580	6,348
Consumer durables	4,214	2,536	975	691	8,416
Construction	987	1,097	1,275	238	3,597
Trading companies and distributors	1,153	573	426	128	2,280
Government	1,669	6,585	1,184	164	9,602
Other	1,831	1,884	1,069	579	5,363
Retail Products:					
Mortgages	54,602	20,099	2,273	1,783	78,757
CCPL and other unsecured lending	9,585	3,935	2,893	2	16,415
Auto	–	399	230	–	629
Secured wealth products	5,268	6,973	212	1,657	14,110
Other	2,349	2,409	696	4	5,458
Net loans and advances to customers	120,974	79,561	28,306	22,668	251,509
Net loans and advances to banks	30,002	12,408	4,593	15,290	62,293

	31.12.17 (IAS 39)				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,855	6,097	3,303	6,289	18,544
Manufacturing	10,919	6,685	3,221	1,906	22,731
Financing, insurance and non-banking	8,213	6,421	1,308	29,042	44,984
Transport, telecom and utilities	6,456	3,965	4,707	1,036	16,164
Food and household products	2,174	4,126	2,577	1,179	10,056
Commercial real estate	8,429	5,169	1,479	62	15,139
Mining and quarrying	2,079	2,903	1,089	570	6,641
Consumer durables	4,432	2,544	1,300	790	9,066
Construction	989	1,118	1,358	238	3,703
Trading companies and distributors	1,192	573	432	128	2,325
Government	4,864	6,728	1,430	1,398	14,420
Other	1,839	2,174	1,075	583	5,671
Retail Products:					
Mortgages	54,609	20,105	2,279	1,785	78,778
CCPL and other unsecured lending	10,175	4,336	3,022	2	17,535
Auto	–	399	234	–	633
Secured wealth products	5,278	7,005	213	1,658	14,154
Other	2,365	2,410	696	3	5,474
	126,868	82,758	29,723	46,669	286,018
Portfolio impairment provision	(129)	(179)	(121)	(36)	(465)
Net loans and advances to customers	126,739	82,579	29,602	46,633	285,553
Net loans and advances to banks	33,226	16,523	7,428	24,148	81,325

IFRS 9 methodology

Approach for determining expected credit losses

Credit loss terminology

Component	Definition
Probability of default (PD)	The probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The PD is estimated at a point in time that means it will fluctuate in line with the economic cycle. The term structure of the PD is based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.
Loss given default (LGD)	The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive. The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.
Exposure at default (EAD)	The expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

To determine the expected credit loss, these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the beginning of the period x EAD at the beginning of the period) and discounted to the balance sheet date using the effective interest rate as the discount rate.

Although the IFRS 9 models leverage the existing Basel advanced IRB risk components, several significant adjustments are required to ensure the resulting outcome is in line with the IFRS 9 requirements.

Key differences between regulatory and IFRS expected credit loss models

	Basel advanced IRB Expected Loss (EL)	IFRS 9 Expected credit loss
Rating philosophy	Mix of point-in-time, through-the-cycle or hybrid	Point-in-time, forward looking
Parameters calibration	Often conservative, due to regulatory floors and downturn calibration	Unbiased estimate, based on conditions known at the balance sheet date
– PD		Inclusion of forward-looking information and removal of conservatism and bias
– LGD		Removal of regulatory floors, exclusion of non-direct costs
– EAD	Floored at outstanding amount	Recognises ability to have a reduction in exposure from the balance sheet date to the default date
Time frame	12-month period	Up to 12 months and lifetime
Discounting applied	Discounting at the weighted average cost of capital to the time of default	Discounting at the effective interest rate (EIR) to the balance sheet reporting date

Global IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses. Given the global nature of these portfolios; these models are global in nature at the base level. However, for some of the most material countries, country-specific models have been developed for the Corporate & Institutional Banking and Commercial Banking clients.

The calibration of forward-looking information is assessed at a country or region level to take into account local macroeconomic conditions.

Retail banking expected credit loss models are country and product specific given the local nature of the Retail Banking business.

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

- For medium-sized Retail Banking portfolios, a roll rate model is applied, which uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons
- For smaller Retail Banking portfolios, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances

Application of lifetime

Expected credit loss is estimated based on the shorter of the expected life and the maximum contractual period for which the Group is exposed to credit risk. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities, however the Group does not typically enforce the contractual period. As a result, for these instruments, the lifetime of the exposure is based on the period the Group is exposed to credit risk. This period has been determined by reference to the extent to which credit risk management actions curtail the period of exposure. For credit cards, this has resulted in an average life of between 3 and 10 years across our footprint markets. Overdraft facilities have a 22-month lifetime.

Key assumptions and judgements in determining expected credit loss

Incorporation of forward-looking information and the impact of non-linearity

The evolving economic environment is a key determinant of the ability of a bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today, but should also take account of changes to the economic environment in the future. For example, if a bank expected a sharp slowdown in the world economy was likely over the coming year, it should hold more provisions today to ensure that it was able to absorb credit losses that would be likely to occur in the near future.

To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients. For example, economic variables specific to individual countries include economic growth, interest rates, unemployment rates, property prices, and prices of assets that trade on global markets such as oil, industrial metals and other commodities. Less sophisticated approaches, such as loss rate models, do not directly incorporate forward-looking information.

The starting point for the projections of economic variables and asset prices is based on management's view, which underlies the plan to deliver the Group's strategy and ensure that has sufficient capital over the medium term.

Management's view covers a core set of economic variables and asset prices required to set the strategic plan. To reach the full set of economic variables and asset prices required to compute expected credit loss for all the Group's clients in all the Group's footprint markets, management's view is augmented with projections from the Group's in-house research team and outputs from a range of models that project specific economic variables and asset prices.

Forecast of key macroeconomic variables underlying the expected credit loss calculation

The base forecast – management's view of the most likely outcome – is that the synchronised expansion of the global economy will continue over the coming years alongside a normalisation of monetary policy in the developed world and the successful rebalancing of the Chinese economy, with US-China trade tensions putting China's export sectors under some pressure.

While the most likely outcome is the basis for the Group's strategic plan, one of the key requirements of IFRS 9 is that the assessment of provisions should be based on a range of potential outcomes for the future economic environment. For example, the global economy may grow more quickly or more slowly than the most likely outcome and this would be expected to have different implications for the provisions that the Group should hold today. As the Group's clients tend to be more affected when the economic environment weakens than when it strengthens, it is possible that the range of expected credit loss outcomes resulting from a range of scenarios around the most likely scenario may be skewed to the downside. So, if the Group computes expected credit loss uniquely on the basis of the most likely outcome, it might not end up with the appropriate level of provisions. This is the concept of non-linearity in expected credit loss under IFRS 9.

To address the potential non-linearity in expected credit loss, the Group simulates a set of scenarios around the base forecast and generates 50 scenarios upon which to compute expected credit loss. These scenarios are generated by a Monte Carlo simulation, which considers the degree of uncertainty (or volatility) around economic outcomes, how these outcomes have generally tended to move together (or correlation), and how the range of reasonably possible outcomes would be defined.

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

The table on the next page sets out a representative summary of the economic variables and asset prices that the Group considers to be among the most important determinants of the Group's expected credit loss. The key data provided is the average expected outturn for each economic variable and asset price in the base forecast over the next five years (June 2018 – June 2023) in the most likely scenario and an indicator of the range of each economic variable and asset price over the same period across the multiple scenarios.

	China			Hong Kong			Korea			Singapore			India		
30.06.2018	**Base forecast**	**Low[2]**	**High[3]**	**Base forecast**	**Low[2]**	**High[3]**	**Base forecast**	**Low[2]**	**High[3]**	**Base forecast**	**Low[2]**	**High[3]**	**Base forecast**	**Low[2]**	**High[3]**
GDP growth (YoY%)	**6.1**	**4.2**	**7.6**	**3.0**	**0.1**	**5.3**	**2.9**	**0.6**	**5.4**	**2.3**	**(1.5)**	**6.4**	**7.7**	**5.5**	**10.1**
Unemployment (%)	**3.9**	**3.8**	**4.1**	**3.5**	**2.4**	**4.6**	**3.3**	**2.6**	**4.1**	**3.0**	**2.3**	**3.8**	**N/A[1]**	**N/A[1]**	**N/A[1]**
3-month interest rates (%)	**4.3**	**3.1**	**5.6**	**2.7**	**1.6**	**3.7**	**2.3**	**1.2**	**3.4**	**1.9**	**1.1**	**3.4**	**6.2**	**4.6**	**7.6**
House prices (YoY%)	**5.4**	**3.0**	**8.2**	**1.7**	**(9.3)**	**11.4**	**3.5**	**1.1**	**6.1**	**4.5**	**(1.8)**	**10.9**	**8.7**	**1.1**	**14.8**

	China			Hong Kong			Korea			Singapore			India		
01.01.2018	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]	Base forecast	Low[2]	High[3]
GDP growth (YoY%)	6.1	4.5	7.6	3.0	0.3	5.4	2.9	0.8	5.6	2.3	(2.0)	6.1	7.5	5.4	9.7
Unemployment (%)	4.0	3.8	4.2	3.6	2.4	4.8	3.3	2.5	4.6	2.8	2.2	3.5	N/A[1]	N/A[1]	N/A[1]
3-month interest rates (%)	4.2	2.9	5.6	1.7	1.0	3.7	2.3	1.4	4.3	1.7	1.2	3.9	6.2	5.3	9.0
House prices (YoY%)	5.4	3.5	8.0	2.0	(7.5)	12.3	3.5	1.4	6.0	3.8	(1.8)	9.2	8.5	1.3	15.5

	Crude Oil Brent, USD pb		
	Base forecast	**Low[2]**	**High[3]**
30.06.2018	**76.5**	**38.1**	**104.8**

	Crude Oil Brent, USD pb		
	Base forecast	Low[2]	High[3]
01.01.2018	61.0	35.0	92.0

1 Not available

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

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

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

	Including non-linearity $m	Excluding non-linearity $m	Difference %
Total expected credit loss[1]	1,227	1,198	2.4

1 Total modelled expected credit loss comprises stage 1 and stage 2 balances of $1,075 million and $152 million of modelled expected credit loss on stage 3 loans

The average expected credit loss under multiple scenarios is 2.4 per cent higher than the expected credit loss computed using only the most likely scenario. Portfolios that are more sensitive to non-linearity include those with a longer tenor, such as Project and Shipping Finance, and credit card portfolios.

Credit-impaired assets managed by Group Special Assets Management (GSAM) incorporate forward-looking economic assumptions in respect of the recovery outcomes identified and are assigned individual probability weightings. These assumptions are not based on a Monte Carlo simulation but are informed by the base case.

Significant increase in credit risk

Quantitative criteria

Significant deterioration is assessed by comparing the risk of default at the reporting date to the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business and where meaningful are consistently applied across business lines.

Assets are considered to have experienced significant credit deterioration if they have breached both relative and absolute thresholds for the change in the average annualised lifetime probability of default over the residual term of the exposure.

The absolute measure of increase in credit risk is used to capture instances where the PDs on exposures are relatively low at initial recognition as these may increase by several multiples without representing a significant increase in credit risk. Where PDs are relatively high at initial recognition, a relative measure is more appropriate in assessing whether there is a significant increase in credit risk, as the PDs increase more quickly.

For Corporate & Institutional Banking and Commercial Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50-100 basis points.

For Retail Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 100-350 basis points depending on the product. Certain counties have a higher absolute threshold reflecting the lower default rate within this portfolio compared with the Group's other personal loan portfolios.

Private Banking clients are assessed qualitatively, based on a delinquency measure relating collateral top-ups or sell-downs.

Debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities to stage 2.

Qualitative factors that indicate that there has been a significant increase in credit risk include processes linked to current risk management, such as placing loans on non-purely precautionary Early Alert, or through delinquency measures.

The SICR thresholds have been calibrated based on the following principles:

- Stability – The thresholds are set to achieve a stable stage 2 population at a portfolio level, trying to minimise the number of accounts moving back and forth between stage 1 and stage 2 in a short period of time
- Accuracy – The thresholds are set such that there is a materially higher propensity for stage 2 exposures to eventually default than is the case for stage 1 exposures
- Dependency from backstops – The thresholds are stringent enough such that a high proportion of accounts transfer to stage 2 due to movements in forward-looking PD rather than relying on backward-looking backstops such as arrears
- Relationship with business and product risk profiles – The thresholds reflect the relative risk differences between different products, and are aligned to business processes

Qualitative criteria

Qualitative factors that indicate there has been a significant increase in credit risk include processes linked to current risk management.

Backstop

Across all portfolios, accounts that are 30 or more days past due (DPD) on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

Expert credit judgement may be applied in assessing significant increase in credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events arising close to the reporting date.

Corporate & Institutional Banking and Commercial Banking clients

Quantitative criteria

Exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date as described above.

To account for the fact that the mapping between internal credit grades (used in the origination process) and PDs is non-linear (e.g. a one-notch downgrade in the investment grade universe results in a much smaller PD increase than in the sub-investment grade universe), the absolute thresholds have been differentiated by credit quality at origination, as measured by internal credit grades being investment grade or sub-investment grade.

Qualitative criteria

All assets of clients that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk.

An account is placed on non-purely precautionary Early Alert if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

All assets of clients that have been assigned a CG12 rating, equivalent to 'Higher Risk', are deemed to have experienced a significant increase in credit risk. Accounts rated CG12 are managed by the GSAM unit. All Corporate & Institutional Banking and Commercial Banking clients are placed on CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

Retail Banking clients

Quantitative criteria

Material portfolios (defined as a combination of country and product, for example Hong Kong mortgages, Taiwan credit cards) for which a statistical model has been built are assessed based on both the absolute and relative movement in the PD from origination to the reporting date as described above. For these portfolios, the original lifetime PD term structure is determined based on the original Application Score or Risk Segment of the client.

Qualitative criteria

Accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, significant increase in credit risk is primarily assessed through the 30 DPD trigger.

Private Banking clients

For Private Banking clients, significant increase in credit risk is assessed by referencing the nature and the level of collateral against which credit is extended (known as 'Classes of Risk').

Qualitative criteria

For all Private Banking Classes, in line with risk management practice, an increase in credit risk is deemed to have occurred where margining or loan-to-value covenants have been breached.

For Class I assets, if these margining requirements have not been met within 30 days of a trigger, significant credit deterioration is assumed to have occurred.

For Class I and Class III assets, a significant increase in credit risk is assumed to have occurred where the bank is unable to 'sell down' the applicable assets to meet revised collateral requirements within 5 days of a trigger.

Class II assets are typically unsecured or partially secured, or secured against illiquid collateral such as shares in private companies. Significant credit deterioration of these assets is deemed to have occurred when any Early Alert trigger has been breached.

Debt Securities

Quantitative criteria

The bank is utilising the low credit risk simplified approach. All debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities are allocated to stage 2.

Qualitative criteria

Debt securities utilise the same qualitative criteria as the Corporate & Institutional Banking and Commercial Banking client segments, including being placed on Early Alert or being classified as credit grade 12.

Assessment of credit impaired financial assets

Retail Banking clients

The core components in determining credit-impaired expected credit loss provisions are the value of gross charge off and recoveries. Gross charge off and/or loss provisions are recognised when it is established that the account is unlikely to pay through the normal process. Recovery of unsecured debt post credit-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit-impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision. If the loan is paid to current and remains in current for more than 180 days (1 year for forborne loans) the account will be transferred to stage 2.

Corporate & Institutional Banking, Commercial Banking and Private Banking Clients

Credit-impaired accounts are managed by the Group's specialist recovery unit, Group Special Assets Management (GSAM) which is independent from its main businesses. Where any amount is considered irrecoverable, a stage 3 credit-impairment provision is raised. This stage 3 provision is the difference between the loan-carrying amount and the probability weighted present value of estimated future cash flows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cash flows include realisable collateral, the values used will incorporate the impact of forward looking economic information.

The individual circumstances of each client are considered when GSAM estimates future cash flows and timing of future recoveries which involve significant judgement. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Write-offs

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

Governance and application of expert credit judgement in respect of expected credit losses

The models used in determining expected credit losses are reviewed and approved by the Group Credit Model Assessment Committee (CMAC) which is appointed by the Stress Testing Committee. CMAC has the responsibility to assess and approve the use of models and to review and approve all IFRS 9 interpretations related to models. CMAC also provides oversight on operational matters related to model development, performance monitoring and model validation activities including standards, regulatory and Group Internal Audit matters.

Prior to submission to CMAC for approval, the models have been validated by Group Model Validation (GMV), a function which is independent of the business and the model developers. GMV's analysis comprises review of model documentation, model design and methodology; data validation; review of model development and calibration process; out-of-sample performance testing; and assessment of compliance review against IFRS 9 rules and internal standards.

Key inputs into the calculation and resulting expected credit loss provisions are subject to review and approval by the IFRS 9 Impairment Committee which is appointed by the Group Risk Committee. The IFRS 9 Impairment Committee consists of senior representatives from Risk, Finance, Treasury and Group Economic Research. It meets twice every quarter, once before the models are run to approve key inputs into the calculation, and once after the models are run to approve the expected credit loss provisions and any judgmental override that may be necessary.

The IFRS 9 Impairment Committee:

- Oversees the appropriateness of all Business Model Assessment and Solely Payments of Principal and Interest (SPPI) tests
- Reviews and approves expected credit loss for financial assets classified as stages 1, 2 and 3 for each financial reporting period
- Reviews and approves stage allocation rules and thresholds
- Approves material adjustment in relation to expected credit loss for FVOCI and amortised cost financial assets
- Reviews, challenges and approves base macroeconomic forecasts (including the multiple scenario approach) that are utilised in the forward-looking expected credit loss computation

The IFRS 9 Impairment Committee is supported by an expert panel which reviews and challenges the full extended version of base case projections and multiple macroeconomic scenarios. The Expert Panel consists of members of Enterprise Risk Management (which includes the Scenario Design team), Finance, Group Economic Research and country representatives of major jurisdictions.

Country risk (unaudited)

Country risk is defined as the potential for default or losses due to political or economic events in a country. A key component of Country risk is country cross-border risk, which is the risk that the Group will be unable to obtain payment from counterparties on their contractual obligations as a result of actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The profile of the Group's country cross-border exposures as at 30 June 2018 remained consistent with its strategic focus on core franchise countries, and with the scale of the larger markets in which it operates.

Country cross-border exposure to China remains predominantly short-term (88 per cent of exposure had a tenor of less than one year). During the first half of 2018, the Group's cross-border exposure to China decreased, with approximately half of the reduction attributed to a reduction in trade finance activities.

Country cross-border risk exposure to Hong Kong increased during the first half of 2018. Factors contributing to the increase included a rise in medium-term corporate loans and growth in interbank placements.

Singapore's cross-border exposure reduced during the first half of 2018 due to a reduction in outstandings to financial institutions and maturing short-term trade finance facilities.

The decrease in cross-border exposure to South Korea reflects a reduction in marketable securities held during the first half of 2018. South Korea's export-driven economy has been affected by external conditions, such as increased trade tensions between the US and China and tightening US monetary policy.

The overall size of cross-border exposure to India reflects the size of the Group's franchise in the country, as well as the role the Group plays in providing support in overseas investment and trade flows that are supported by parent companies in India. The decrease in cross-border exposure to India in the first half of 2018 is driven by paydown across some of the Group's key clients, lower utilisation across trade limits, and successful closure of syndications which resulted in exposure being brought down to agreed hold levels.

The lower United Arab Emirates cross-border exposures in the first half of 2018 is a result of a reduction in trade and lending activity which has evolved in line with the economic slowdown and downturn in business sentiment.

The increase in Saudi Arabia's cross-border exposure in the first half of 2018 reflects rising sovereign and sovereign-related entity exposures.

Cross-border exposure to developed countries in which the Group does not have a major presence, predominantly relates to treasury and liquidity management activities, which can change significantly from period to period. Exposure to such markets also represents global corporate business for clients with interests in our footprint.

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

	30.06.18			31.12.17		
	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[1]	37,472	4,998	42,470	38,677	6,204	44,881
Hong Kong[1]	13,860	7,637	21,497	11,685	7,964	19,649
United States	9,807	9,153	18,960	10,068	9,524	19,592
Singapore	12,410	4,875	17,285	13,555	5,955	19,510
South Korea	12,847	4,347	17,194	14,513	4,331	18,844
India	10,512	5,568	16,080	11,687	5,819	17,506
United Arab Emirates	7,817	7,607	15,424	7,932	8,341	16,273
Germany	3,065	5,960	9,025	3,022	4,505	7,527
Saudi Arabia	2,689	4,956	7,645	1,820	2,967	4,787
Australia	2,988	4,299	7,287	1,916	4,045	5,961

1 Cross-border exposures for 31.12.17 (IAS 39) relating to China and Hong Kong have been restated to reflect methodology amendments:

China – Less than 1 year bucket restated from $40,351 million to $38,677 million. Consequently the Total is restated from $46,455 million to $44,881 million.

Hong Kong – More than 1 year bucket restated from $7,867 million to $7,964 million. Consequently the Total is restated from $19,552 million to $19,649 million.

Market risk

Highlights

Daily VaR – trading and non-trading

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

- **Trading book:** the Group provides clients access to financial markets, facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking
- **Non-trading book:**
  - The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to structural foreign exchange risk which is reflected in reserves
  - The primary categories of market risk for the Group are:
- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Foreign exchange rate risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options
- Commodity risk: arising from changes in commodity prices and implied volatilities on commodity options covering energy, precious metals, base metals and agriculture
- Equity risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options
- Credit spread risk: arising from changes in the credit spread of the Group's derivative counterparties through CVA accounting

Market risk changes

The average level of total trading and non-trading VaR in the first half of 2018 was 22 per cent lower than in the first half of 2017 and 19 per cent lower than in the second half of 2017. The actual level of total trading and non-trading VaR at the end of the first half of 2018 was lower than at the end of the first half of 2017 by 23 per cent and lower than at the end of the second half of 2017 by 12 per cent. The reduction in VaR over the periods is primarily driven by the non-trading business reducing the duration of its portfolio.

For the trading book, the average level of VaR in the first half of 2018 was lower than in the first half of 2017 by 22 per cent and lower than in the second half of 2017 by 11 per cent. Trading activities have remained relatively unchanged and client-driven. The marginal reduction is primarily due to a decrease in the Group's bond inventory.

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

	6 months ended 30.06.18				6 months ended 31.12.17				6 months ended 30.06.17			
Trading and non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3]	**19.1**	**22.8**	**16.9**	**17.7**	22.1	25.5	18.1	18.7	23.0	28.5	19.7	23.4
Foreign exchange risk	**4.9**	**8.6**	**3.1**	**3.9**	5.5	12.3	3.0	6.0	5.5	11.0	3.2	4.7
Commodity risk	**1.2**	**1.8**	**0.9**	**1.8**	1.2	2.0	0.6	1.0	1.2	1.7	0.9	1.0
Equity risk	**6.2**	**6.8**	**4.1**	**4.7**	7.7	8.1	6.4	6.7	7.7	8.4	7.2	7.6
Total[4]	**20.4**	**24.4**	**17.5**	**19.6**	25.1	29.3	20.3	22.3	26.3	32.4	23.5	25.6

	6 months ended 30.06.18				6 months ended 31.12.17				6 months ended 30.06.17[6]			
Trading[5]	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3]	**8.6**	**11.7**	**6.4**	**6.8**	9.8	13.1	7.7	8.5	10.5	12.9	8.8	9.9
Foreign exchange risk	**4.9**	**8.6**	**3.1**	**3.9**	5.5	12.3	3.0	6.0	5.5	11.0	3.2	4.7
Commodity risk	**1.2**	**1.8**	**0.9**	**1.8**	1.2	2.0	0.6	1.1	1.2	1.7	0.9	1.0
Equity risk	**0.1**	**0.1**	**–**	**0.1**	0.2	0.4	0.1	0.1	0.1	0.2	0.1	0.2
Total[4]	**10.4**	**13.8**	**7.5**	**8.1**	11.7	15.5	9.4	12.1	13.3	17.2	11.0	12.1

	6 months ended 30.06.18				6 months ended 31.12.17				6 months ended 30.06.17			
Non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3]	**15.8**	**17.7**	**14.1**	**15.1**	19.3	23.1	14.4	14.4	19.7	22.8	17.7	21.9
Equity risk	**6.2**	**6.8**	**4.1**	**4.6**	7.6	8.0	6.2	6.6	7.6	8.1	7.2	7.5
Total[4]	**16.6**	**18.8**	**15.3**	**16.0**	20.9	23.8	16.3	16.3	22.4	27.6	19.6	21.6

1 Highest and lowest 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 accounted as fair value through profit or loss ('FVPL') or as fair value through other comprehensive income ('FVOCI')

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 (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book

6 The total trading VaR for 6 months ended 30.06.2017 has been restated from (Average: 12.6, High: 15.7, Low: 9.8, Actual: 11.7) to reflect the impact of XVA

Risks not in VaR (unaudited)

In the first half of 2018, the main market risk not reflected in VaR was the currency risk where the exchange rate is currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden de-pegging. The other material market risk not reflected in VaR was associated with basis risks where historical market price data for VaR is sometimes more limited, and therefore proxied, generating a potential basis risk. Additional capital is set aside to cover such 'risks not in VaR'. For further details on market risk capital see the market risk section of the Standard Chartered PLC Pillar 3 Disclosures for 30 June 2018.

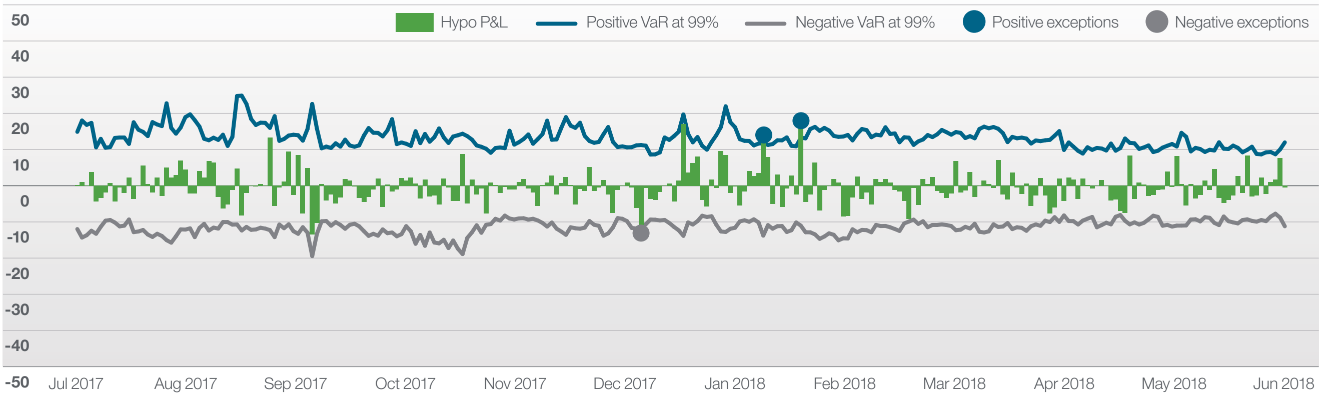
Backtesting (unaudited)

Regulatory backtesting is applied at both Group and Solo levels. In the 12 months to 30 June 2018, there has been one negative exception at Group level.

This exception occurred on 18 December 2017 due to yield curve moves in Nigeria. The Central Bank of Nigeria restarted its liquidity management open market operations unexpectedly, filling Nigerian treasury bill auctions below the lowest bid yields. This move caused the market to sell off and Nigerian Naira yields to rise sharply. One exception in a year due to market events is within the 'green zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision: 'Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements', January 1996).

The graph below illustrates the performance of the VaR model used in capital calculations. It compares the 99 percentile loss confidence level given by the VaR model with the Hypothetical profit & loss (P&L) of each day given the actual market movement without taking into account any intra-day trading activity.

Half year 2018 Backtesting chart
Internal model approach regulatory trading book at Group level
Hypothetical profit and loss (P&L) versus VaR (99 per cent, one day)



Average daily income earned from market risk related activities[1]	**6 months ended 30.06.18 $million**	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Trading			
Interest rate risk	**4.3**	3.0	4.0
Foreign exchange risk	**3.8**	3.7	3.7
Commodity risk	**0.8**	0.6	0.6
Equity risk	**–**	–	–
Total	**8.9**	7.3	8.3
Non-trading			
Interest rate risk	**2.9**	1.7	3.1
Equity risk	**(0.3)**	0.6	–
Total	**2.6**	2.3	3.1

1 Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from market risk related activities. XVA income is included under interest rate risk

Liquidity and funding risk

Liquidity and funding risk is the potential that the Group does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

The Group's liquidity and funding risk framework requires each country to ensure that it operates within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

The Group achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

For further information on the Group's liquidity and funding risk framework, refer to the Risk Management Approach in the 2017 Annual Report.

Liquidity and funding risk metrics

The Group monitors key liquidity metrics regularly, both on a country basis and in aggregate across the Group.

The following liquidity and funding board risk appetite metrics define the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy: liquidity coverage ratio (LCR), liquidity stress survival horizons, external wholesale borrowing and advances-to-deposits ratio.

Liquidity coverage ratio (LCR) (unaudited)

The LCR is a regulatory requirement set to ensure that the Group has sufficient unencumbered high quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

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

At the reporting date, the Group LCR was 151 per cent (2017: 146 per cent) with a prudent surplus to both Board-approved risk appetite and regulatory requirements. The ratio increased 5 per cent in the first half of 2018 largely due to an increase in the overall size of our liquidity buffer as we focused on growing the quality of our funding base.

Liquidity coverage ratio

	30.06.18 $million	31.12.17 $million
Liquidity buffer	**147,575**	132,251
Total net cash outflows	**97,886**	90,691
Liquidity coverage ratio	**151%**	146%

Stressed coverage (unaudited)

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all presence countries and currencies, such that it can withstand a severe but plausible liquidity stress.

The Group's internal liquidity stress testing framework covers the following stress scenarios:

Standard Chartered-specific – This scenario captures the liquidity impact from an idiosyncratic event affecting Standard Chartered only, i.e. the rest of the market is assumed to operate normally.

Market-wide – This scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally.

Combined – This scenario assumes both Standard Chartered-specific and market-wide events affecting the Group simultaneously and hence is the most severe scenario.

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off-balance sheet funding risk, cross currency funding risk, intraday risk, franchise risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 30 June 2018 i.e. the respective countries included were able to survive for a period of time as defined under each scenario. The combined scenario at 30 June 2018 showed the Group maintaining liquidity resources to survive greater than 60 days, as per its risk appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

External wholesale borrowing

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Limits are applied to all branches and operating subsidiaries in the Group and as at the reporting date the Group remained within the Board-approved risk appetite.

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer accounts. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers.

The advances-to-deposits ratio decreased to 68.2 per cent over the first half of 2018 (2017: 69.4 per cent).

Loans and advances to customers have increased 4 per cent since the end of 2017 to $297 billion. This growth was largely due to higher Corporate Finance balances in Hong Kong, an increase in Transaction Banking overdrafts and growth in the Group's repo business as it continued to benefit from its deep client franchise and balance sheet strength. This increase was partly offset by a reduction in retail lending primarily due to unfavourable foreign exchange movements in Singapore, Korea and India.

Customer accounts have also increased 6 per cent from the end of 2017 to $435 billion. The Group has focused on high quality liquidity with an emphasis on time deposits given their high liquidity and regulatory value. The Group's secured borrowing also grew significantly over the period. This increase was partially offset by a reduction in Transaction Banking current and savings account balances.

Advances-to-deposits ratio

	30.06.18 $million	31.12.17 $million
Loans and advances to customers[1,2]	296,719	285,553
Customer accounts[3]	435,014	411,724
Advances-to-deposits ratio	68.2%	69.4%

1 See note 12 of the financial statements

2 Includes reverse repurchase agreements and other similar secured lending of $37,909 million

3 Includes repurchase agreements and other similar secured borrowing of $46,675 million

Net stable funding ratio (NSFR) (unaudited)

On 23 November 2016 the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (Net Stable Funding Ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295).

Pending implementation of the final rules, the Group continues to monitor NSFR in line with BCBS295. At the last reporting date, the Group NSFR remained above 100 per cent.

Liquidity pool (unaudited)

The liquidity value of the Group's LCR eligible liquidity pool at the reporting date was $148 billion. The figures in the below table account for haircuts, currency convertibility and portability constraints, and therefore are not directly comparable with the consolidated balance sheet. The pool is held to offset stress outflows as defined in European Commission Delegated Regulation 2015/61 covering both Pillar 1 and Pillar 2 risks along with internal Board approved risk appetitie.

LCR eligible securities, as defined under LCR Delegated Act rules, fall into three categories: Level 1, Level 2A, and Level 2B liquid assets. Level 1 liquid assets, which are of the highest quality and deemed the most liquid, are subject to no or little discount (or haircuts) to their market value and may be largely used without limit in the liquidity buffer, with the exception of Level 1 covered bonds.

Level 2A and 2B securities are recognised as being relatively stable and reliable sources of liquidity, but not to the same extent as Level 1 assets. LCR rules therefore set a 40 per cent composition cap on the combined amount of Level 2A and Level 2B that firms may hold in their total eligible liquidity buffer. Level 2B liquid assets, which are considered less liquid and more volatile than Level 2A liquid assets, are subject to large and varying haircuts and may not exceed 15 per cent of the total eligible HQLA.

The pool increased $15 billion in the first half of 2018, reflecting overall balance sheet growth with surplus liquidity deployed primarily in Level 1 and Level 2A securities held in Europe & Americas and Greater China & North Asia. The majority of the Group's liquidity pool is held in Level 1 assets (92 per cent) in the form of unencumbered central bank reserves and high quality Level 1 securities. The remainder is made up of Level 2A (7 per cent) and Level 2B (1 per cent) securities.

	30.06.18				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	**12,679**	**2,318**	**1,376**	**33,580**	**49,953**
Central banks, governments and public sector entities	**32,370**	**10,775**	**991**	**29,266**	**73,402**
Multilateral development banks and international organisations	**2,359**	**676**	**184**	**7,288**	**10,507**
Other	**–**	**–**	**–**	**1,745**	**1,745**
Total Level 1 securities	**47,408**	**13,769**	**2,551**	**71,879**	**135,607**
Level 2A securities	**2,592**	**1,051**	**105**	**6,043**	**9,791**
Level 2B securities	**–**	**383**	**–**	**1,794**	**2,177**
Total LCR eligible assets	**50,000**	**15,203**	**2,656**	**79,716**	**147,575**

	31.12.17				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	13,779	2,400	1,708	33,191	51,078
Central banks, governments and public sector entities	28,187	12,265	1,064	24,464	65,980
Multilateral development banks and international organisations	–	563	159	8,568	9,290
Other	–	–	–	130	130
Total Level 1 securities	41,966	15,228	2,931	66,353	126,478
Level 2A securities	2,234	825	113	1,147	4,319
Level 2B securities	–	246	3	1,206	1,455
Total LCR eligible assets	44,200	16,299	3,047	68,706	132,252

Encumbrance (unaudited)

Encumbered assets

Encumbered assets represent on-balance sheet assets pledged or subject to any form of arrangement to secure, collateralise or credit enhance a transaction from which it cannot be freely withdrawn. Cash collateral pledged against derivatives and Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation, are included within Other assets.

Unencumbered – readily available for encumbrance

Unencumbered assets that are considered by the Group to be readily available in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, are not subject to any restrictions on their use for these purposes.

Unencumbered – other assets capable of being encumbered

Unencumbered assets that, in their current form, are not considered by the Group to be readily realisable in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, are not subject to any restrictions on their use for these purposes. Included within this category are loans and advances which would be suitable for use in secured funding structures such as securitisations.

Unencumbered – cannot be encumbered

Unencumbered assets that have not been pledged and the Group has assessed cannot be used to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements.

Derivatives, reverse repurchase agreements and stock lending

These assets are shown separately as these on-balance sheet amounts cannot be pledged. However, these assets can give rise to off-balance sheet collateral which can be used to raise secured funding or meet additional funding requirements.

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

	30.06.18									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	58,213	–	–	–	9,495	48,718	–	–	–	58,213
Derivative financial instruments	51,780	–	–	–	–	–	–	51,780	–	51,780
Loans and advances to banks[1]	85,359	–	–	–	–	42,583	7,407	26,512	8,857	85,359
Loans and advances to customers[1]	296,719	9	–	9	–	–	238,597	37,909	20,204	296,710
Investment securities[1]	144,356	–	14,148	14,148	291	86,791	32,558	–	10,568	130,208
Other assets	39,068	–	15,706	15,706	–	–	13,019	–	10,343	23,362
Current tax assets	366	–	–	–	–	–	–	–	366	366
Prepayments and accrued income	2,418	–	–	–	–	–	1,252	–	1,166	2,418
Interests in associates and joint ventures	2,345	–	–	–	–	–	–	–	2,345	2,345
Goodwill and intangible assets	4,974	–	–	–	–	–	35	–	4,939	4,974
Property, plant and equipment	7,326	–	–	–	–	–	882	–	6,444	7,326
Deferred tax assets	1,290	–	–	–	–	–	–	–	1,290	1,290
Assets classified as held for sale	660	–	–	–	–	–	–	–	660	660
Total	694,874	9	29,854	29,863	9,786	178,092	293,750	116,201	67,182	665,011

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

		31.12.17(IAS 39)								
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	58,864	–	–	–	9,761	49,103	–	–	–	58,864
Derivative financial instruments	47,031	–	–	–	–	–	–	47,031	–	47,031
Loans and advances to banks[1]	81,325	–	–	–	–	47,380	5,333	21,260	7,352	81,325
Loans and advances to customers[1]	285,553	11	–	11	–	–	232,328	33,928	19,286	285,542
Investment securities[1]	138,187	–	8,213	8,213	178	91,928	29,967	–	7,901	129,974
Other assets	33,490	–	14,930	14,930	–	–	11,604	–	6,956	18,560
Current tax assets	491	–	–	–	–	–	–	–	491	491
Prepayments and accrued income	2,307	–	–	–	–	–	1,503	–	804	2,307
Interests in associates and joint ventures	2,307	–	–	–	–	–	–	–	2,307	2,307
Goodwill and intangible assets	5,013	–	–	–	–	–	352	–	4,661	5,013
Property, plant and equipment	7,211	–	–	–	–	–	1,148	–	6,063	7,211
Deferred tax assets	1,177	–	–	–	–	–	–	–	1,177	1,177
Assets classified as held for sale	545	–	–	–	–	–	–	–	545	545
Total	663,501	11	23,143	23,154	9,939	188,411	282,235	102,219	57,543	640,347

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

The Group received $81,367 million (2017: $72,982 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold or repledged $42,028 million (2017: $34,018 million) under repurchase agreements.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

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

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

As at the reporting date, assets remain predominantly short-dated, with 61 per cent maturing in under one year. The Group's less-than-three-month cumulative net funding gap increased from the previous period, largely due to an increase in customer accounts as the Group focused on improving the quality of its deposit base. In practice, these deposits are recognised as stable and have behavioural profiles that extend beyond their contractual maturities.

	30.06.18								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	48,718	–	–	–	–	–	–	9,495	58,213
Derivative financial instruments	8,465	8,125	5,249	4,554	3,334	5,093	8,151	8,809	51,780
Loans and advances to banks[1,2]	39,890	22,424	10,618	4,590	4,260	1,766	1,457	354	85,359
Loans and advances to customers[1,2]	79,015	39,057	15,878	8,659	10,678	19,551	37,237	86,644	296,719
Investment securities	12,011	19,976	16,101	12,663	12,848	24,297	30,132	16,328	144,356
Other assets	25,946	5,454	2,347	88	329	40	140	24,103	58,447
Total assets	214,045	95,036	50,193	30,554	31,449	50,747	77,117	145,733	694,874
Liabilities									
Deposits by banks[1,3]	32,275	2,177	960	785	492	353	305	52	37,399
Customer accounts[1,4]	328,121	52,370	25,043	10,602	11,165	3,470	1,512	2,731	435,014
Derivative financial instruments	9,114	8,138	5,470	4,713	3,559	5,511	8,480	7,977	52,962
Senior debt	–	75	1,904	1,301	2,300	4,843	1,584	6,470	18,477
Other debt securities in issue[1]	5,975	9,772	9,322	1,447	991	1,551	687	4,273	34,018
Other liabilities	27,583	5,922	3,474	696	643	646	775	10,730	50,469
Subordinated liabilities and other borrowed funds	24	17	–	–	–	755	3,283	10,968	15,047
Total liabilities	403,092	78,471	46,173	19,544	19,150	17,129	16,626	43,201	643,386
Net liquidity gap	(189,047)	16,565	4,020	11,010	12,299	33,618	60,491	102,532	51,488

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 12 (pages 101 to 124)

2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $64.4 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $6.2 billion

4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $46.7 billion

	31.12.17								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	49,103	–	–	–	–	–	–	9,761	58,864
Derivative financial instruments	6,284	7,706	5,930	3,537	2,601	5,427	7,111	8,435	47,031
Loans and advances to banks[1,2]	36,548	21,238	12,042	4,299	3,612	1,588	1,386	612	81,325
Loans and advances to customers[1,2]	87,794	32,618	17,459	11,357	8,545	17,500	37,237	73,043	285,553
Investment securities	14,185	18,208	13,692	11,213	9,145	22,369	31,660	17,715	138,187
Other assets	19,349	4,466	2,521	105	247	138	127	25,588	52,541
Total assets	213,263	84,236	51,644	30,511	24,150	47,022	77,521	135,154	663,501
Liabilities									
Deposits by banks[1,3]	29,365	2,484	1,437	530	730	154	135	651	35,486
Customer accounts[1,4]	327,434	37,178	19,716	10,775	9,321	3,115	1,746	2,439	411,724
Derivative financial instruments	8,018	8,035	6,068	3,544	2,685	5,057	7,794	6,900	48,101
Senior debt	67	273	1,801	53	1,937	5,053	4,747	5,585	19,516
Other debt securities in issue[1]	4,139	10,616	9,954	2,005	779	1,091	794	4,508	33,886
Other liabilities	20,428	5,988	3,672	671	303	696	897	13,150	45,805
Subordinated liabilities and other borrowed funds	–	116	1,382	–	–	–	3,887	11,791	17,176
Total liabilities	389,451	64,690	44,030	17,578	15,755	15,166	20,000	45,024	611,694
Net liquidity gap	(176,188)	19,546	7,614	12,933	8,395	31,856	57,521	90,130	51,807

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 12 (pages 101 to 124)

2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $55.2 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $3.8 billion

4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $36.0 billion

Behavioural maturity of financial assets and liabilities

The cash flows presented in the previous section 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 assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

Maturity of financial liabilities on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. Derivatives not treated as hedging derivatives are included in the "On demand" time bucket and not by contractual maturity.

Within the 'More than five years and undated' maturity band are undated financial liabilities, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

	30.06.18								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	32,424	2,200	983	799	501	378	322	54	37,661
Customer accounts	328,393	52,643	26,110	10,765	11,344	3,546	1,644	3,273	437,718
Derivative financial instruments[1]	52,320	61	90	3	1	1	95	391	52,962
Debt securities in issue	5,987	9,845	11,395	2,765	3,552	6,722	2,856	12,244	55,366
Subordinated liabilities and other borrowed funds	91	133	341	81	504	1,761	11,832	32,632	47,375
Other liabilities	25,885	5,931	3,491	706	642	862	769	11,283	49,569
Total liabilities	445,100	70,813	42,410	15,119	16,544	13,270	17,518	59,877	680,651

	31.12.17 (IAS 39)								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	29,427	2,497	1,460	545	743	160	150	697	35,679
Customer accounts	327,501	37,353	20,720	10,901	9,463	3,178	1,840	2,919	413,875
Derivative financial instruments[1]	47,267	–	3	–	153	166	246	266	48,101
Debt securities in issue	4,287	10,888	11,878	2,141	2,876	6,550	6,163	11,769	56,552
Subordinated liabilities and other borrowed funds	126	207	1,490	210	166	657	3,726	19,356	25,938
Other liabilities	20,800	6,052	3,676	681	324	720	929	11,241	44,423
Total liabilities	429,408	56,997	39,227	14,478	13,725	11,431	13,054	46,248	624,568

1 Derivatives are on a discounted basis

Interest Rate Risk in the Banking Book (unaudited)

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

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

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

	30.06.18			
	USD bloc $million	**HKD, SGD & KRW bloc $million**	**Other currency bloc $million**	**Total $million**
+ 50 basis points	**90**	**130**	**80**	**300**
- 50 basis points	**(80)**	**(100)**	**(80)**	**(260)**

Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:

	31.12.17			
	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	70	120	140	330
- 50 basis points	(50)	(100)	(140)	(290)

As at 30 June 2018, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points to be an earnings benefit of $300 million. The corresponding impact from a parallel decrease of 50 basis points would result in an earnings reduction of $260 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets re-pricing faster and to a greater extent than deposits. The current estimate for USD sensitivity has reduced on an underlying basis since December 2017 on rising deposit sensitivity to changes in interest rates.

The reported USD sensitivity has increased due to short term currency management, with an offsetting reduction in the sensitivity for other currencies.

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

Operational risk (unaudited)

Operational risks arise from the broad scope of activities carried out across the Group. Risks associated with these activities are mapped into a Group Process Universe where a standardised operational risk management approach is applied to mitigate the risks. We benchmark practices against industry standards and regulatory requirements.

Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk at a given point in time, covering all applicable operational risk sub-types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which, at an aggregate level, includes the consideration of top risks and emerging risks.

Other principal risks (unaudited)

Losses arising from our other principal risks (compliance, conduct, reputational, information and cyber security and financial crime) would be captured under operational losses.

Capital review

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

Capital summary

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

Capital, leverage and RWA	30.06.18	31.12.17
CET1 capital %	**14.2**	13.6
Tier 1 capital %	**16.6**	16.0
Total capital %	**21.3**	21.0
UK leverage %	**5.8**	6.0
RWA ($million)	**271,867**	279,748

The Group's Common Equity Tier 1 (CET1) capital and Tier 1 leverage position were ahead of both the current requirements and the expected end-state requirements for 2019. For further detail see the half year 2018 Standard Chartered PLC Pillar 3 Disclosures section on Capital.

The Group's current Pillar 2A requirement is 3.1 per cent of RWA of which at least 1.7 per cent must be held in CET1. This requirement is expected to vary over time.

Based on the Group's current Pillar 2A requirement, the Group's minimum requirement for own funds and eligible liabilities (MREL) is expected to be 16.0 per cent of RWA in 2019 rising to 19.1 per cent of RWA in 2020 and 22.2 per cent of RWA from 1 January 2022. The Group's combined buffer (comprising the capital conservation, global systemically important institution (G-SII) and countercyclical buffers) sits above its MREL requirement, resulting in a total loss-absorbing capacity requirement of 26.0 per cent of RWA from 1 January 2022 based on the Group's CRD IV capital buffers that are currently known. The Group estimates that its MREL position was around 26.4 per cent of RWA and around 9.6 per cent of leverage exposure at 30 June 2018.

The Group continued its programme of MREL issuance from its holding company in the first half of 2018, issuing $1.9 billion of MREL eligible securities across Tier 2 and senior debt during the period including the Group's inaugural issuance of US dollar callable senior notes. As part of its proactive approach to capital management, the Group successfully conducted a liability management exercise in respect of a number of its GBP denominated subordinated and senior securities.

Regulatory update

The European Commission is proposing amendments to the Capital Requirements Regulation, CRD IV, the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation. Any proposed reforms remain subject to change and until the proposals are in final form it is uncertain how they will affect the Group.

In February 2018, the Group implemented changes to the loss given default (LGD) models for certain corporate and institutional exposures. These changes reflect the PRA's guidance on LGD estimates for low default portfolios and include the application of various LGD floors based on the Foundation IRB approach. These changes did not materially impact the Group's CET1 ratio.

The Group continues to engage on a proactive basis with the PRA in the review of its risk models, including further LGD changes to product specific models. These changes are not currently expected to materially impact the CET1 ratio, however the timing and exact impact will depend on the final outcome of the discussions and is subject to PRA approval.

The Group remains a G-SII, with a 1.0 per cent G-SII CET1 buffer which phases in at a rate of 0.25 per cent per year and will be fully implemented by 1 January 2019. The Standard Chartered PLC 2017 G-SII disclosure is published at: http://investors.sc.com/fullyearresults

In line with previous guidance, the decrease in the CET1 capital ratio on adoption of the IFRS 9 accounting standard was around 15 basis points after considering the offset against existing regulatory expected losses. Under transitional rules, the day one impact on the CET1 ratio was negligible.

Capital ratios (unaudited)

	30.06.18	31.12.17
CET1	**14.2%**	13.6%
Tier 1 capital	**16.6%**	16.0%
Total capital	**21.3%**	21.0%

CRD IV Capital base

	30.06.18 $million	31.12.17 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	**5,607**	5,603
Of which: share premium accounts	**3,957**	3,957
Retained earnings	**25,849**	25,316
Accumulated other comprehensive income (and other reserves)	**11,989**	12,766
Non-controlling interests (amount allowed in consolidated CET1)	**695**	850
Independently reviewed interim and year-end profits	**1,557**	1,227
Foreseeable dividends net of scrip	**(453)**	(399)
CET1 capital before regulatory adjustments[1]	**45,244**	45,363
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	**(496)**	(574)
Intangible assets (net of related tax liability)	**(4,991)**	(5,112)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(129)**	(125)
Fair value reserves related to net losses on cash flow hedges	**(1)**	45
Deduction of amounts resulting from the calculation of excess expected loss	**(683)**	(1,142)
Net gains on liabilities at fair value resulting from changes in own credit risk	**(188)**	(53)
Defined-benefit pension fund assets	**(39)**	(40)
Fair value gains arising from the institution's own credit risk related to derivative liabilities	**(83)**	(59)
Exposure amounts which could qualify for risk weighting of 1,250%	**(122)**	(141)
Total regulatory adjustments to CET1	**(6,732)**	(7,201)
CET1 capital	**38,512**	38,162
Additional Tier 1 capital (AT1) instruments	**6,712**	6,719
AT1 regulatory adjustments	**(20)**	(20)
Tier 1 capital	**45,204**	44,861
Tier 2 capital instruments	**12,845**	13,927
Tier 2 regulatory adjustments	**(30)**	(30)
Tier 2 capital	**12,815**	13,897
Total capital	**58,019**	58,758
Total risk-weighted assets (unaudited)	**271,867**	279,748

1 CET1 capital before regulatory adjustments is prepared on the regulatory scope of consolidation

Movement in total capital

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million
CET1 at 1 January/1 July	**38,162**	37,781
Ordinary shares issued in the period and share premium	**4**	2
Profit for the period	**1,557**	37
Foreseeable dividends net of scrip deducted from CET1	**(453)**	(399)
Difference between dividends paid and foreseeable dividends	**(165)**	292
Movement in goodwill and other intangible assets	**121**	(9)
Foreign currency translation differences	**(781)**	583
Non-controlling interests	**(155)**	17
Movement in eligible other comprehensive income	**135**	1
Deferred tax assets that rely on future profitability	**(4)**	99
Decrease in excess expected loss[1]	**459**	(98)
Additional value adjustments (prudential valuation adjustment)	**78**	(17)
Own credit gains	**(24)**	(60)
Exposure amounts which could qualify for risk weighting	**19**	11
Other[1]	**(441)**	(78)
CET1 at 30 June/31 December	**38,512**	38,162
AT1 at 1 January/1 July	**6,699**	6,688
Foreign currency translation difference	**(7)**	11
AT1 at 30 June/31 December	**6,692**	6,699
Tier 2 capital at 1 January/1 July	**13,897**	13,866
Regulatory amortisation	**627**	1,342
Issuances net of redemptions	**(1,713)**	(1,752)
Foreign currency translation difference	**(122)**	283
Tier 2 ineligible minority interest	**115**	155
Other	**11**	3
Tier 2 capital at 30 June/31 December	**12,815**	13,897
Total capital at 30 June/31 December	**58,019**	58,758

1 Includes day one transitional impact on the adoption of IFRS 9 accounting standards

The main movements in capital in the period were:

- The CET1 ratio increased to 14.2 per cent due to a $0.4 billion increase in CET1 and a $7.9 billion decrease in RWA
- CET1 capital increased by $0.4 billion, as profit after tax was offset in part by distributions and FX translation
- AT1 remained at $6.7 billion during the period
- Tier 2 capital reduced by $1.1 billion to $12.8 billion as redemptions and the impact of the liability management exercise more than offset the new issuance of $0.5 billion of Tier 2 in the period.

Risk-weighted assets by business (unaudited)

	30.06.18 Credit risk $million	30.06.18 Operational risk $million	30.06.18 Market risk $million	30.06.18 Total risk $million
Corporate & Institutional Banking	**105,190**	**13,029**	**20,516**	**138,735**
Retail Banking	**35,361**	**7,358**	**–**	**42,719**
Commercial Banking	**30,491**	**2,770**	**–**	**33,261**
Private Banking	**5,510**	**758**	**–**	**6,268**
Central & other items	**46,646**	**4,135**	**103**	**50,884**
Total risk-weighted assets	**223,198**	**28,050**	**20,619**	**271,867**

	31.12.17 Credit risk $million	31.12.17 Operational risk $million	31.12.17 Market risk $million	31.12.17 Total risk $million
Corporate & Institutional Banking	109,368	14,740	22,994	147,102
Retail Banking	36,345	7,761	–	44,106
Commercial Banking	29,712	3,356	–	33,068
Private Banking	5,134	809	–	5,943
Central & other items	45,671	3,812	46	49,529
Total risk-weighted assets	226,230	30,478	23,040	279,748

Risk-weighted assets by geographic region (unaudited)

	30.06.18 $million	31.12.17 $million
Greater China & North Asia	**83,422**	84,593
ASEAN & South Asia	**95,719**	96,733
Africa & Middle East	**53,755**	56,437
Europe & Americas	**41,193**	44,735
Central & other items	**(2,222)**	(2,750)
Total risk-weighted assets	**271,867**	279,748

Movement in risk-weighted assets (unaudited)

	Credit risk								
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million	Operational risk $million	Market risk $million	Total risk $million
At 1 January 2017	106,834	33,210	27,553	5,129	41,149	213,875	33,693	21,877	269,445
Assets (decline)/growth	(78)	1,053	1,228	(123)	1,819	3,899	–	–	3,899
Net credit migration	1,630	(48)	(205)	–	157	1,534	–	–	1,534
Risk-weighted assets efficiencies	(1,661)	–	–	–	–	(1,661)	–	–	(1,661)
Model, methodology and policy changes	–	–	–	–	–	–	–	80	80
Disposals	–	–	–	–	–	–	–	–	–
Foreign currency translation	1,268	959	393	73	381	3,074	–	–	3,074
Other non-credit risk movements	–	–	–	–	–	–	(3,215)	1,007	(2,208)
At 30 June 2017	107,993	35,174	28,969	5,079	43,506	220,721	30,478	22,964	274,163
Assets (decline)/growth	(6,285)	1,296	745	568	454	(3,222)	–	–	(3,222)
Net credit migration	2,405	122	(260)	–	(148)	2,119	–	–	2,119
Risk-weighted assets efficiencies	(634)	–	–	–	–	(634)	–	–	(634)
Model, methodology and policy changes	4,990	(368)	–	(575)	2,372	6,419	–	(2,258)	4,161
Disposals	–	(710)	–	–	(443)	(1,153)	–	–	(1,153)
Foreign currency translation	899	831	258	62	(70)	1,980	–	–	1,980
Other non-credit risk movements	–	–	–	–	–	–	–	2,334	2,334
At 31 December 2017	109,368	36,345	29,712	5,134	45,671	226,230	30,478	23,040	279,748
Assets growth	**1,473**	**557**	**1,019**	**426**	**2,573**	**6,048**	**–**	**–**	**6,048**
Net credit migration	**(2,317)**	**(191)**	**321**	**–**	**244**	**(1,943)**	**–**	**–**	**(1,943)**
Risk-weighted assets efficiencies	**(325)**	**–**	**–**	**–**	**–**	**(325)**	**–**	**–**	**(325)**
Model, methodology and policy changes	**(1,769)**	**(591)**	**6**	**–**	**76**	**(2,278)**	**–**	**(1,138)**	**(3,416)**
Disposals	**–**	**–**	**–**	**–**	**(626)**	**(626)**	**–**	**–**	**(626)**
Foreign currency translation	**(1,240)**	**(759)**	**(567)**	**(50)**	**(1,292)**	**(3,908)**	**–**	**–**	**(3,908)**
Other non-credit risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**(2,428)**	**(1,283)**	**(3,711)**
At 30 June 2018	**105,190**	**35,361**	**30,491**	**5,510**	**46,646**	**223,198**	**28,050**	**20,619**	**271,867**

Movements in risk-weighted assets

RWA decreased by $7.9 billion, or 2.8 per cent from 31 December 2017 to $271.9 billion. This was due to a decrease in credit risk RWA of $3.0 billion and $2.4 billion reduction in both market and operational risk RWA respectively.

Corporate & Institutional Banking

Credit risk RWA decreased by $4.2 billion to $105.2 billion mainly due to:

- $2.3 billion decrease due to net credit migration in ASA and AME
- $1.8 billion decrease in model, methodology and policy changes, due to PRA approved IRB model changes relating to LGD parameters
- $1.2 billion decrease from foreign currency translation due to depreciation of currencies in India, Europe and South Africa
- $0.3 billion decrease due to efficiencies in financial markets through novation, trade compressions and process enhancement in collateral recognition
- $1.5 billion RWA increase from corporate finance and financial markets.

Retail Banking

Credit risk RWA decreased by $1.0 billion to $35.4 billion mainly due to:

- $0.8 billion decrease from foreign currency translation due to depreciation of currencies in Korea, India and Singapore
- $0.6 billion RWA save due to model changes in mortgages partially offset by credit cards in ASA
- $0.2 billion decrease due to net credit migration in GCNA
- $0.6 billion RWA increase from mortgages and personal loans in GCNA and ASA.

Commercial Banking

Credit risk RWA increased by $0.8 billion to $30.5 billion mainly due to:

- $1.0 billion RWA increase from lending and transaction banking
- $0.3 billion increase due to net credit migration in GCNA
- $0.6 billion decrease from foreign currency translation due to depreciation of currencies in India, Pakistan and Korea.

Private Banking

Credit risk RWA increased by $0.4 billion to $5.5 billion principally due to asset balance growth in wealth management products.

Central & other items

Credit risk RWA increased by $1.0 billion to $46.6 billion mainly due to:

- $2.6 billion increase in credit risk RWA mainly due to treasury activities, and higher RWA balances for investments in joint ventures
- $0.2 billion increase due to net credit migration
- $0.1 billion increase in model, methodology and policy changes, due to PRA IRB model changes relating to LGD parameters
- $1.3 billion decrease from foreign currency translation due to depreciation of currencies in Indonesia and Pakistan
- $0.6 billion saving from the disposal of an investment in ASA.

Market risk

Total market risk RWA (MRWA) decreased by $2.4 billion, or 10.5 per cent from 31 December 2017 to $20.6 billion. This change was primarily due to:

- $1.1 billion reduction in standard rules MRWA for foreign exchange and interest rate risk structured products, following their full recognition in internal models approach (IMA) MRWA from March 2018
- Reduction in trading book debt security holdings $1.1 billion.

Operational risk

Operational risk RWA reduced by $2.4 billion to $28.0 billion, due to a decrease in the average income over a rolling three-year time horizon, as lower 2017 income replaced higher 2014 income. This represents a 7.9 per cent year-on-year reduction in operational risk RWA.

UK leverage ratio (unaudited)

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 5.8 per cent, which is above the current minimum requirement of 3.6 per cent.

The lower UK leverage ratio in the period was a result of an increased exposure measure partly offset by a small increase in Tier 1 capital (end point).

UK leverage ratio (unaudited)

	30.06.18 $million	31.12.17 $million
Tier 1 capital (transitional)	**45,204**	44,861
Additional Tier 1 capital subject to phase out	**(1,752)**	(1,758)
Tier 1 capital (end point)	**43,452**	43,103
Derivative financial instruments	**51,780**	47,031
Derivative cash collateral	**10,002**	9,513
Securities financing transactions (SFTs)	**64,421**	55,187
Loans and advances and other assets	**568,671**	551,770
Total on-balance sheet assets	**694,874**	663,501
Regulatory consolidation adjustments[1]	**(45,538)**	(31,712)
Derivatives adjustments		
Derivatives netting	**(35,847)**	(29,830)
Adjustments to cash collateral	**(21,311)**	(18,411)
Net written credit protection	**1,358**	1,360
Potential future exposure on derivatives	**32,225**	30,027
Total derivatives adjustments	**(23,575)**	(16,854)
Counterparty risk leverage exposure measure for SFTs	**14,309**	13,238
Off-balance sheet items	**109,943**	96,260
Regulatory deductions from Tier 1 capital	**(6,461)**	(7,089)
UK leverage exposure (end point)	**743,552**	717,344
UK leverage ratio (end point)	**5.8%**	6.0%
UK leverage exposure quarterly average	**736,599**	723,508
UK leverage ratio quarterly average	**5.9%**	6.0%
Countercyclical leverage ratio buffer	**0.1%**	0.1%
G-SII additional leverage ratio buffer	**0.3%**	0.2%

1 Includes adjustment for qualifying central bank claims

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

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

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2018 and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2018 that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could have materially affected the financial position or performance of the entity during that period

By order of the Board

Andy Halford
Group Chief Financial Officer

31 July 2018

Independent review report

to Standard Chartered PLC

Conclusion

We have been engaged by Standard Chartered PLC including its subsidiaries (the Group) to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 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.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Michelle Hinchliffe
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London E14 5GL
31 July 2018

Condensed consolidated interim income statement

For the six months ended 30 June 2018

	Notes	**6 months ended 30.06.18 $million**	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Interest income		**8,227**	7,650	6,785
Interest expense		**(3,866)**	(3,435)	(2,819)
Net interest income		**4,361**	4,215	3,966
Fees and commission income		**2,114**	1,961	1,981
Fees and commission expense		**(245)**	(182)	(248)
Net fee and commission income	3	**1,869**	1,779	1,733
Net trading income	4	**966**	554	973
Other operating income	5	**431**	656	549
Operating income		**7,627**	7,204	7,221
Staff costs		**(3,578)**	(3,495)	(3,263)
Premises costs		**(373)**	(437)	(386)
General administrative expenses		**(808)**	(1,171)	(836)
Depreciation and amortisation		**(426)**	(444)	(385)
Operating expenses	6	**(5,185)**	(5,547)	(4,870)
Operating profit before impairment losses and taxation		**2,442**	1,657	2,351
Credit impairment	7	**(214)**	(707)	(655)
Other impairment	8			
Goodwill		**–**	(320)	–
Other		**(50)**	(86)	(93)
Profit from associates and joint ventures		**168**	117	151
Profit before taxation		**2,346**	661	1,754
Taxation	9	**(753)**	(599)	(548)
Profit for the period		**1,593**	62	1,206
Profit attributable to:				
Non-controlling interests		**33**	39	10
Parent company shareholders		**1,560**	23	1,196
Profit for the period		**1,593**	62	1,206
		cents	cents	cents
Earnings per share:				
Basic earnings/(loss) per ordinary share	11	**40.7**	(6.0)	29.5
Diluted earnings/(loss) per ordinary share	11	**40.2**	(6.0)	29.2

The notes on pages 85 to 139 form an integral part of these financial statements.

Condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2018

	Notes	**6 months ended 30.06.18 $million**	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Profit for the period		**1,593**	62	1,206
Other comprehensive income/(loss)				
Items that will not be reclassified to Income statement:		**253**	103	(341)
Own credit gains/(losses) on financial liabilities designated at fair value through profit or loss		**136**	61	(310)
Equity instruments at fair value through other comprehensive income		**19**	–	–
Actuarial gains/(losses) on retirement benefit obligations	22	**105**	61	(29)
Taxation relating to components of other comprehensive income		**(7)**	(19)	(2)
Items that may be reclassified subsequently to Income statement:		**(826)**	529	1,003
Exchange differences on translation of foreign operations:				
Net (losses)/gains taken to equity		**(1,008)**	745	892
Net gains/(losses) on net investment hedges		**216**	(177)	(111)
Share of other comprehensive income/(loss) from associates and joint ventures		**16**	14	(15)
Debt instruments at fair value through other comprehensive income/available for sale investments:				
Net valuation (losses)/gains taken to equity		**(119)**	54	315
Reclassified to income statement		**13**	(131)	(102)
Net impact of expected credit losses		**(8)**	–	–
Cash flow hedges:				
Net gains taken to equity		**49**	3	32
Reclassified to income statement		**5**	11	–
Taxation relating to components of other comprehensive income		**10**	10	(8)
Other comprehensive (loss)/income for the period, net of taxation		**(573)**	632	662
Total comprehensive income for the period		**1,020**	694	1,868
Total comprehensive income attributable to:				
Non-controlling interests		**25**	37	13
Parent company shareholders		**995**	657	1,855
		1,020	694	1,868

Condensed consolidated interim balance sheet

As at 30 June 2018

	Notes	30.06.18 $million	31.12.17[1] $million
Assets			
Cash and balances at central banks	12	**58,213**	58,864
Financial assets held at fair value through profit or loss	12	**79,869**	27,564
Derivative financial instruments	12,13	**51,780**	47,031
Loans and advances to banks	12	**55,603**	57,494
Loans and advances to customers	12	**255,100**	248,707
Reverse repurchase agreements and other similar secured lending	12,14	**12,781**	54,275
Investment securities	12	**123,081**	117,025
Other assets	16	**39,068**	33,490
Current tax assets		**366**	491
Prepayments and accrued income		**2,418**	2,307
Interests in associates and joint ventures		**2,345**	2,307
Goodwill and intangible assets	15	**4,974**	5,013
Property, plant and equipment		**7,326**	7,211
Deferred tax assets		**1,290**	1,177
Assets classified as held for sale	16	**660**	545
Total assets		**694,874**	663,501
Liabilities			
Deposits by banks	12	**30,816**	30,945
Customer accounts	12	**382,107**	370,509
Repurchase agreements and other similar secured borrowing	12,14	**5,863**	39,783
Financial liabilities held at fair value through profit or loss	12	**63,274**	16,633
Derivative financial instruments	12,13	**52,962**	48,101
Debt securities in issue	12	**46,196**	46,379
Other liabilities	17	**40,544**	35,257
Current tax liabilities		**622**	376
Accruals and deferred income		**4,752**	5,493
Subordinated liabilities and other borrowed funds	12,20	**15,047**	17,176
Deferred tax liabilities		**455**	404
Provisions for liabilities and charges		**400**	183
Retirement benefit obligations	22	**348**	455
Total liabilities		**643,386**	611,694
Equity			
Share capital and share premium account	21	**7,101**	7,097
Other reserves		**11,989**	12,767
Retained earnings		**27,106**	26,641
Total parent company shareholders' equity		**46,196**	46,505
Other equity instruments	21	**4,961**	4,961
Total equity excluding non-controlling interests		**51,157**	51,466
Non-controlling interests		**331**	341
Total equity		**51,488**	51,807
Total equity and liabilities		**694,874**	663,501

1 Prepared and disclosed on an IAS 39 basis. Refer to Note 1 Accounting policies

The notes on pages 85 to 139 form an integral part of these financial statements.

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2018

	Share capital and share premium account $million	Capital and merger reserves[1] $million	Own credit adjustment reserve $million	Available -for-sale reserve $million	Fair value through other comprehensive income reserve – debt $million	Fair value through other comprehensive income reserve – equity $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 31 December 2017	7,097	17,129	54	83	–	–	(45)	(4,454)	26,641	46,505	4,961	341	51,807
IFRS 9 Reclassifications[2]	–	–	–	(83)	(131)	45	–	–	169	–	–	–	–
IFRS 9 Re-measurements[2]	–	–	–	–	–	4	–	–	31	35	–	–	35
Expected credit loss, net	–	–	–	–	65	–	–	–	(1,074)[3]	(1,009)	–	(8)	(1,017)
Tax impact	–	–	–	–	(11)	5	–	–	179	173	–	–	173
Impact of IFRS 9 on share of joint ventures and associates, net of tax	–	–	–	–	–	(1)	–	–	(51)	(52)	–	–	(52)
IFRS 9 transition adjustments	–	–	–	(83)	(77)	53	–	–	(746)	(853)	–	(8)	(861)
As at 1 January 2018	**7,097**	**17,129**	**54**	**–**	**(77)**	**53**	**(45)**	**(4,454)**	**25,895**	**45,652**	**4,961**	**333**	**50,946**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,560**	**1,560**	**–**	**33**	**1,593**
Other comprehensive income/(loss)	**–**	**–**	**132**	**–**	**(103)**	**37**	**46**	**(783)**	**106[4]**	**(565)**	**–**	**(8)**	**(573)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27)**	**(27)**
Shares issued, net of expenses	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**7**	**–**	**–**	**7**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**97**	**97**	**–**	**–**	**97**
Dividends net of scrip[5]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(564)**	**(564)**	**–**	**–**	**(564)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**	**–**	**–**	**5**
As at 30 June 2018	**7,101**	**17,129**	**186**	**–**	**(180)**	**90**	**1**	**(5,237)**	**27,106**	**46,196**	**4,961**	**331**	**51,488**

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

2 As per Note 27 Transition to IFRS 9 Financial Instruments

3 The Group's initial estimate of credit impairment provisions on adoption of IFRS 9 was $6,720 million. Following refinement of the Group's expected loss models, the estimate of the opening credit impairment provisions has been revised down by $222 million to $6,498 million, and the net expected credit loss of $(1,296) million adjusted against retained earnings has similarly decreased by $222 million to $1,074 million

4 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures $106 million ($96 million for the six months ended 31 December 2017 and $(46) million for the six months ended 30 June 2017)

5 Comprises dividends paid net of scrip $347 million (2017: $nil) and dividends on preference shares classified as equity and Additional Tier 1 securities $217 million ($220 million for the six months ended 31 December 2017 and $225 million for the six months ended 30 June 2017)

Condensed consolidated interim statement of changes in equity continued

	Share capital and share premium account $million	Capital and merger reserves[1] $million	Own credit adjustment reserve $million	Available -for-sale reserve $million	Fair value through other comprehensive income reserve – debt $million	Fair value through other comprehensive income reserve – equity $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
At 1 January 2017	7,091	17,129	289	(4)	–	–	(85)	(5,805)	25,753	44,368	3,969	321	48,658
Profit for the period	–	–	–	–	–	–	–	–	1,196	1,196	–	10	1,206
Other comprehensive (loss)/income	–	–	(296)	192	–	–	28	781	(46)[2]	659	–	3	662
Distributions	–	–	–	–	–	–	–	–	–	–	–	(52)	(52)
Shares issued, net of expenses	4	–	–	–	–	–	–	–	–	4	–	–	4
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	992	–	992
Net own shares adjustment	–	–	–	–	–	–	–	–	8	8	–	–	8
Share option expense, net of taxation	–	–	–	–	–	–	–	–	68	68	–	–	68
Dividends[3]	–	–	–	–	–	–	–	–	(225)	(225)	–	–	(225)
Other movements[4]	–	–	–	–	–	–	–	–	17	17	–	24	41
At 30 June 2017	7,095	17,129	(7)	188	–	–	(57)	(5,024)	26,771	46,095	4,961	306	51,362
Profit for the period	–	–	–	–	–	–	–	–	23	23	–	39	62
Other comprehensive income/(loss)	–	–	61	(105)	–	–	12	570	96[2]	634	–	(2)	632
Distributions	–	–	–	–	–	–	–	–	–	–	–	1	1
Shares issued, net of expenses	2	–	–	–	–	–	–	–	–	2	–	–	2
Net own shares adjustment	–	–	–	–	–	–	–	–	2	2	–	–	2
Share option expense, net of taxation	–	–	–	–	–	–	–	–	57	57	–	–	57
Dividends[3]	–	–	–	–	–	–	–	–	(220)	(220)	–	–	(220)
Other movements[5]	–	–	–	–	–	–	–	–	(88)	(88)	–	(3)	(91)
As at 31 December 2017	7,097	17,129	54	83	–	–	(45)	(4,454)	26,641	46,505	4,961	341	51,807

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

2 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures of $96 million for the six months ended 31 December 2017 and $(46) million for the six months ended 30 June 2017

3 Comprises dividends on preference shares classified as equity and Additional Tier 1 securities $220 million for the six months ended 31 December 2017 and $225 million for the six months ended 30 June 2017

4 Mainly due to additional share capital issued including the premium by Nepal to its non-controlling interests of $32 million and $9 million with respect to an acquisition

5 Mainly due to other equity adjustments of $90 million

Note 21 includes a description of each reserve.

The notes on pages 85 to 139 form an integral part of these financial statements.

Condensed consolidated interim cash flow statement

For the six months ended 30 June 2018

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Cash flows from operating activities:			
Profit before taxation	**2,346**	661	1,754
Adjustments for non-cash items and other adjustments included within income statement	**1,183**	2,207	1,034
Change in operating assets	**(28,843)**	(6,674)	(6,951)
Change in operating liabilities	**39,994**	3,404	2,415
Contributions to defined benefit schemes	**(38)**	(93)	(50)
UK and overseas taxes paid	**(330)**	(456)	(459)
Net cash from/(used in) operating activities	**14,312**	(951)	(2,257)
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(64)**	(108)	(57)
Disposal of property, plant and equipment	**3**	2	27
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	**–**	–	(44)
Dividends received from subsidiaries, associates and joint ventures	**3**	1	1
Disposal of subsidiaries	**–**	(24)	24
Purchase of investment securities	**(143,903)**	(131,854)	(133,332)
Disposal and maturity of investment securities	**134,847**	126,269	135,047
Net cash (used in)/from investing activities	**(9,114)**	(5,714)	1,666
Cash flows from financing activities:			
Issue of ordinary and preference share capital, net of expenses	**4**	2	4
Exercise of share options	**7**	2	8
Issue of Additional Tier 1 capital, net of expenses	**–**	–	992
Gross proceeds from issue of subordinated liabilities	**500**	–	–
Interest paid on subordinated liabilities	**(242)**	(486)	(257)
Repayment of subordinated liabilities	**(2,242)**	(2,984)	–
Proceeds from issue of senior debts	**1,921**	2,031	261
Repayment of senior debts	**(2,464)**	(2,977)	(1,185)
Interest paid on senior debts	**(222)**	(548)	(348)
(Repayment to)/investment from non-controlling interests	**–**	(3)	24
Dividends paid to non-controlling interests and preference shareholders	**(243)**	(219)	(277)
Dividends paid to ordinary shareholders	**(348)**	–	–
Net cash used in financing activities	**(3,329)**	(5,182)	(778)
Net increase/(decrease) in cash and cash equivalents	**1,869**	(11,847)	(1,369)
Cash and cash equivalents at beginning of the period	**87,231**	98,596	96,977
Effect of exchange rate movements on cash and cash equivalents	**(785)**	482	2,988
Cash and cash equivalents at end of the period	**88,315**	87,231	98,596

Contents –
Notes to the financial statements

Notes to the financial statements

1. Accounting policies

Statement of compliance

The Group's condensed consolidated interim financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. These interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). They should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2017, 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 2018, there was no difference between IFRS endorsed by the EU and the IFRS issued by the IASB in terms of their application to the Group.

The following form part of these interim financial statements:

a) Risk review: from the start of Credit risk review on (page 26) to the end of the Other principal risks on (page 69), excluding:

- Credit quality by geographic region (page 37)
- Credit quality by industry (page 39)
- Credit impaired (stage 3) loans by geographic region (page 46)
- Industry and Retail products analysis by geographic region (page 51)
- Country risk (page 58)
- Market risk changes – risks not in VaR (page 60)
- Market risk changes – backtesting (page 60)
- Liquidity coverage ratio (LCR) (page 61)
- Stressed coverage (page 61)
- Net stable funding ratio (NSFR) (page 62)
- Liquidity pool (page 62)
- Encumbrance (page 63)
- Interest Rate Risk in the Banking Book (page 69)
- Operational risk (page 69)
- Other principal risks (page 69)

b) Capital review: from the start of Capital Requirements Directive (CRD) IV capital base on (page 71) to the end of Movement in total capital on (page 72), excluding capital ratios and risk-weighted assets (RWA)

Accounting policies

The accounting policies applied by the Group in the Interim Financial Information are the same as those applied by the Group in the 2017 annual consolidated financial statements, except that the classification, measurement and impairment of financial instruments are accounted for under IFRS 9 Financial Instruments, and the recognition of revenue from contracts with customers is accounted for under IFRS 15. Both standards are effective from 1 January 2018. The Interim Financial Information has been prepared in accordance with the "Recognition and measurement" requirements of IAS 34.

Significant accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied to the consolidated financial statements as at, and for, the year ended 31 December 2017, except for the treatment of financial instruments under IFRS 9 as explained above. Summaries of the Group's significant accounting policies are included throughout the 2017 Annual Report.

IFRS and Hong Kong accounting requirements

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

Comparatives

Prior period comparatives are presented on an IAS 39 basis. Certain comparatives have been changed to align with current year disclosures. The main changes are in respect of IFRS 9 (see below) and the Risk review – Daily value at risk (page 59).

New accounting standards adopted by the Group

IFRS 9 Financial Instruments

On 1 January 2018, the Group adopted IFRS 9 Financial Instruments. IFRS 9 has been endorsed by the EU, and replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for: the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and provides for a simplified approach to hedge accounting.

The Group has further chosen:

- To continue to apply IAS 39 hedging requirements rather than those of IFRS 9
- Not to restate comparative periods on the basis that it is not possible to do so without the use of hindsight

The new IFRS 9 accounting policies are stated in the Risk review, Note 7 Credit impairment and Note 12 Financial instruments.

Information of the transition from IAS 39 to IFRS 9 is stated in Note 27.

The Group's initial estimate of credit impairment provisions on adoption of IFRS 9 was $6,720 million. Following refinement of the Group's expected loss models, the estimate of the opening credit impairment provisions has been revised down by $222 million to $6,498 million, and the net expected credit loss of $(1,296) million adjusted against retained earnings has similarly decreased by $222 million to $(1,074) million. The relevant IFRS 9 disclosures in the Risk Review and in Note 27 Transition to IFRS 9 Financial Instruments have been re-presented accordingly.

1. Accounting policies continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective from 1 January 2018 and has been endorsed by the EU, and replaces IAS 18 Revenue. IFRS 15 is conceptually similar to IAS 18, but includes more granular guidance on how to recognise and measure revenue, and also introduces additional disclosure requirements. The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transitional impact to retained earnings.

Going concern

These interim financial statements were approved by the Board of directors on 31 July 2018. The directors made an assessment of the Group's ability to continue as a going concern and confirm they are satisfied that the Group has adequate resources to continue in business for a period of at least 12 months from the date of approval of these interim financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

New accounting standards in issue but not yet effective

IFRS 16 Leases

The effective date of IFRS 16 is 1 January 2019 and the standard was endorsed by the EU in November 2017. 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 work to assess the impact of the standard is ongoing and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. The Group will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16.

2. Segmental information

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

The following should also be noted:

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

Basis of preparation

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

Restructuring items excluded from underlying results

Income, costs and impairment relating to identifiable business units, products or portfolios from the date that they have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced on 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios.

2. Segmental information continued

A reconciliation between underlying and statutory results is set out in the table below:

	6 months ended 30.06.18					
	Underlying $million	**Restructuring $million**	**Net gain on businesses disposed/ held for sale $million**	**Goodwill impairment $million**	**Gains arising on repurchase of senior and subordinated liabilities $million**	**Statutory $million**
Operating income	**7,649**	**(91)**	**–**	**–**	**69**	**7,627**
Operating expenses	**(5,117)**	**(68)**	**–**	**–**	**–**	**(5,185)**
Operating profit/(loss) before impairment losses and taxation	**2,532**	**(159)**	**–**	**–**	**69**	**2,442**
Credit impairment	**(293)**	**79**	**–**	**–**	**–**	**(214)**
Other impairment	**(51)**	**1**	**–**	**–**	**–**	**(50)**
Profit from associates and joint ventures	**168**	**–**	**–**	**–**	**–**	**168**
Profit/(loss) before taxation	**2,356**	**(79)**	**–**	**–**	**69**	**2,346**

	6 months ended 31.12.17					
	Underlying $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Gains arising on repurchase of senior and subordinated liabilities $million	Statutory $million
Operating income	7,067	59	78	–	–	7,204
Operating expenses	(5,351)	(196)	–	–	–	(5,547)
Operating profit/(loss) before impairment losses and taxation	1,716	(137)	78	–	–	1,657
Credit impairment	(617)	(90)	–	–	–	(707)
Other impairment	(85)	(1)	–	(320)	–	(406)
Profit from associates and joint ventures	77	40	–	–	–	117
Profit/(loss) before taxation	1,091	(188)	78	(320)	–	661

	6 months ended 30.06.17					
	Underlying $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Gains arising on repurchase of senior and subordinated liabilities $million	Statutory $million
Operating income	7,222	(1)	–	–	–	7,221
Operating expenses	(4,769)	(101)	–	–	–	(4,870)
Operating profit/(loss) before impairment losses and taxation	2,453	(102)	–	–	–	2,351
Credit impairment	(583)	(72)	–	–	–	(655)
Other impairment	(84)	(9)	–	–	–	(93)
Profit from associates and joint ventures	133	18	–	–	–	151
Profit/(loss) before taxation	1,919	(165)	–	–	–	1,754

2. Segmental information continued

Underlying performance by client segment

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

	6 months ended 31.12.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,278	2,438	673	258	420	7,067
Operating expenses	(2,286)	(1,862)	(454)	(257)	(492)	(5,351)
Operating profit/(loss) before impairment losses and taxation	992	576	219	1	(72)	1,716
Credit impairment	(289)	(203)	(125)	(1)	1	(617)
Other impairment	(90)	(1)	–	–	6	(85)
Profit from associates and joint ventures	–	–	–	–	77	77
Underlying profit before taxation	613	372	94	–	12	1,091
Restructuring	(99)	(23)	(7)	(14)	(45)	(188)
Net gains on businesses disposed/held for sale	–	–	–	–	78	78
Goodwill impairment	–	–	–	–	(320)	(320)
Statutory profit/(loss) before taxation	514	349	87	(14)	(275)	661
Total assets	293,334	105,178	31,650	13,469	219,870	663,501
Of which: loans and advances to customers	131,738	103,013	28,108	13,351	9,343	285,553
Total liabilities	353,582	132,819	36,385	22,203	66,705	611,694
Of which: customer accounts	222,714	129,536	33,880	22,222	3,372	411,724

2. Segmental information continued

Underlying performance by client segment continued

	6 months ended 30.06.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,218	2,396	660	242	706	7,222
Operating expenses	(2,123)	(1,723)	(427)	(243)	(253)	(4,769)
Operating profit/(loss) before impairment losses and taxation	1,095	673	233	(1)	453	2,453
Credit impairment	(369)	(172)	(42)	–	–	(583)
Other impairment	(78)	–	(3)	–	(3)	(84)
Profit from associates and joint ventures	–	–	–	–	133	133
Underlying profit/(loss) before taxation	648	501	188	(1)	583	1,919
Restructuring	(176)	4	(6)	(1)	14	(165)
Statutory profit/(loss) before taxation	472	505	182	(2)	597	1,754
Total assets	284,613	101,633	30,141	12,916	228,335	657,638
Of which: loans and advances to customers	125,542	98,491	26,798	12,800	5,267	268,898
Total liabilities	351,367	127,461	34,651	22,073	70,724	606,276
Of which: customer accounts	217,044	123,776	32,086	21,991	3,441	398,338

Underlying performance by region

	6 months ended 30.06.18					
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Central & other items $million**	**Total $million**
Operating income	**3,097**	**2,073**	**1,376**	**870**	**233**	**7,649**
Operating expenses	**(1,903)**	**(1,360)**	**(919)**	**(736)**	**(199)**	**(5,117)**
Operating profit before impairment losses and taxation	**1,194**	**713**	**457**	**134**	**34**	**2,532**
Credit impairment	**(17)**	**(138)**	**(70)**	**(68)**	**–**	**(293)**
Other impairment	**(44)**	**7**	**–**	**17**	**(31)**	**(51)**
Profit from associates and joint ventures	**156**	**7**	**–**	**3**	**2**	**168**
Underlying profit before taxation	**1,289**	**589**	**387**	**86**	**5**	**2,356**
Restructuring	**(26)**	**88**	**(41)**	**(5)**	**(95)**	**(79)**
Gains arising on repurchase of senior and subordinated liabilities	**–**	**–**	**–**	**3**	**66**	**69**
Statutory profit/(loss) before taxation	**1,263**	**677**	**346**	**84**	**(24)**	**2,346**
Net interest margin	**1.5%**	**2.0%**	**3.1%**	**0.4%**		**1.6%**
Total assets	**268,294**	**147,017**	**58,343**	**208,599**	**12,621**	**694,874**
Of which: loans and advances to customers	**132,679**	**82,078**	**30,967**	**50,995**	**–**	**296,719**
Total liabilities	**235,214**	**126,815**	**38,493**	**210,002**	**32,862**	**643,386**
Of which: customer accounts	**190,305**	**95,228**	**31,540**	**117,941**	**–**	**435,014**

2. Segmental information continued

Underlying performance by region continued

	6 months ended 31.12.17					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,825	1,869	1,377	792	204	7,067
Operating expenses	(1,922)	(1,404)	(932)	(727)	(366)	(5,351)
Operating profit/(loss) before impairment losses and taxation	903	465	445	65	(162)	1,716
Credit impairment	(65)	(338)	(171)	(44)	1	(617)
Other impairment	(27)	(9)	(1)	(16)	(32)	(85)
Profit/(loss) from associates and joint ventures	106	(26)	–	–	(3)	77
Underlying profit/(loss) before taxation	917	92	273	5	(196)	1,091
Restructuring	45	(114)	(26)	(10)	(83)	(188)
Net gains on businesses disposed/held for sale	–	19	–	–	59	78
Goodwill impairment	–	–	–	–	(320)	(320)
Statutory profit/(loss) before taxation	962	(3)	247	(5)	(540)	661
Net interest margins	1.4%	1.9%	3.3%	0.5%		1.6%
Total assets	257,692	148,467	59,166	185,345	12,831	663,501
Of which: loans and advances to customers	126,739	82,579	29,602	46,633	–	285,553
Total liabilities	228,093	128,165	39,413	177,525	38,498	611,694
Of which: customer accounts	186,517	95,310	31,797	98,100	–	411,724

	6 months ended 30.06.17					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	2,791	1,964	1,387	809	271	7,222
Operating expenses	(1,759)	(1,250)	(887)	(680)	(193)	(4,769)
Operating profit before impairment losses and taxation	1,032	714	500	129	78	2,453
Credit impairment	(76)	(315)	(129)	(63)	–	(583)
Other impairment	(54)	(3)	(2)	–	(25)	(84)
Profit from associates and joint ventures	123	4	–	–	6	133
Underlying profit before taxation	1,025	400	369	66	59	1,919
Restructuring	(10)	(47)	(7)	(15)	(86)	(165)
Statutory profit/(loss) before taxation	1,015	353	362	51	(27)	1,754
Net interest margins	1.3%	1.9%	3.4%	0.5%		1.6%
Total assets	249,672	149,173	56,296	191,220	11,277	657,638
Of which: loans and advances to customers	120,458	77,645	29,402	41,393	–	268,898
Total liabilities	214,036	129,710	37,820	181,851	42,859	606,276
Of which: customer accounts	173,866	93,189	30,944	100,339	–	398,338

2. Segmental information continued

Additional segmental information (statutory)

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

	6 months ended 31.12.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	1,657	1,511	416	154	477	4,215
Net fees and commission income	755	836	139	90	(41)	1,779
Other income	929	118	116	14	33	1,210
Operating income	3,341	2,465	671	258	469	7,204

	6 months ended 30.06.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	1,568	1,495	386	132	385	3,966
Net fees and commission income	716	790	146	92	(11)	1,733
Other income	898	153	126	18	327	1,522
Operating income	3,182	2,438	658	242	701	7,221

	6 months ended 30.06.18					
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Central & other items $million**	**Total $million**
Net interest income	**1,677**	**1,275**	**767**	**311**	**331**	**4,361**
Other income	**1,418**	**811**	**610**	**562**	**(135)**	**3,266**
Operating income	**3,095**	**2,086**	**1,377**	**873**	**196**	**7,627**

	6 months ended 31.12.17					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	1,555	1,246	811	376	227	4,215
Other income	1,268	640	567	414	100	2,989
Operating income	2,823	1,886	1,378	790	327	7,204

	6 months ended 30.06.17					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	1,395	1,156	808	316	291	3,966
Other income	1,395	828	578	490	(36)	3,255
Operating income	2,790	1,984	1,386	806	255	7,221

2. Segmental information continued

Additional segmental information (statutory) continued

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

	6 months ended 31.12.17							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	831	315	295	535	283	194	248	93
Other income	886	147	69	167	153	162	96	240
Operating income	1,717	462	364	702	436	356	344	333

	6 months ended 30.06.17							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	733	310	245	430	294	200	180	65
Other income	937	193	94	303	253	177	218	277
Operating income	1,670	503	339	733	547	377	398	342

3. Net fees and commission

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Fees and commissions income	**2,114**	1,961	1,981
Fees and commissions expense	**(245)**	(182)	(248)
Net fees and commission	**1,869**	1,779	1,733

Total fee income arising from financial instruments that are not fair valued through profit or loss is $699 million (31 December 2017: $538 million and 30 June 2017: $529 million) and arising from trust and other fiduciary activities of $78 million (31 December 2017: $63 million and 30 June 2017: $67 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $55 million (31 December 2017: $41 million and 30 June 2017: $33 million) and arising from trust and other fiduciary activities of $14 million (31 December 2017: $11 million and 30 June 2017: $11 million).

3. Net fees and commission continued

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Transaction Banking	**555**	**6**	**118**	**–**	**–**	**679**
Trade	**236**	**6**	**86**	**–**	**–**	**328**
Cash Management and Custody	**319**	**–**	**32**	**–**	**–**	**351**
Financial Markets	**101**	**–**	**13**	**–**	**–**	**114**
Corporate Finance	**78**	**–**	**11**	**–**	**–**	**89**
Lending and Portfolio Management	**23**	**–**	**8**	**–**	**–**	**31**
Principal Finance	**6**	**–**	**–**	**–**	**–**	**6**
Wealth Management	**–**	**652**	**1**	**109**	**–**	**762**
Retail Products	**–**	**229**	**–**	**1**	**–**	**230**
Treasury	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Others[1]	**–**	**(3)**	**–**	**–**	**(27)**	**(30)**
Net fees and commission	**763**	**884**	**151**	**110**	**(39)**	**1,869**

1 Others include GSAM

	6 months ended 31.12.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	534	6	110	–	–	650
Trade	233	6	79	–	–	318
Cash Management and Custody	301	–	31	–	–	332
Financial Markets	185	–	24	–	–	209
Corporate Finance	(43)	–	(4)	–	–	(47)
Lending and Portfolio Management	70	–	7	–	–	77
Principal Finance	9	–	–	–	–	9
Wealth Management	–	606	2	89	–	697
Retail Products	–	222	–	1	–	223
Treasury	–	–	–	–	(12)	(12)
Others	–	2	–	–	(29)	(27)
Net fees and commission	755	836	139	90	(41)	1,779

	6 months ended 30.06.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	510	6	111	–	–	627
Trade	217	6	81	–	–	304
Cash Management and Custody	293	–	30	–	–	323
Financial Markets	(18)	–	2	–	–	(16)
Corporate Finance	250	–	23	–	–	273
Lending and Portfolio Management	(34)	–	8	–	–	(26)
Principal Finance	8	–	–	–	–	8
Wealth Management	–	565	2	91	–	658
Retail Products	–	219	–	1	–	220
Treasury	–	–	–	–	(8)	(8)
Others	–	–	–	–	(3)	(3)
Net fees and commission	716	790	146	92	(11)	1,733

4. Net trading income

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Net trading income	**966**	554	973
Significant items within net trading income include:			
Gains on instruments held for trading	**944**	636	1,080
Losses on financial assets mandatorily at fair value through profit or loss	**(77)**	–	–
(Losses)/gains on financial assets designated at fair value through profit or loss	**(13)**	126	41
Gains/(losses) on financial liabilities designated at fair value through profit or loss	**165**	(33)	(169)

5. Other operating income

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Other operating income includes:			
Rental income from operating lease assets	**288**	384	286
Gains less losses on disposal of available-for-sale financial instruments	**(13)**	134	101
Net gain on sale of businesses	**–**	14	14
Net gain on derecognition of investment in associate	**–**	64	–
Dividend income	**9**	8	38
Gains arising on repurchase of senior and subordinated liabilities[1]	**69**	–	–
Other	**78**	52	110
	431	656	549

1 On the 14 June 2018, Standard Chartered PLC repurchased in part, £245.7 million of its £750 million 4.375 per cent senior debt 2038 and £372.5 million of its £900 million 5.125 per cent subordinated debt 2034. On the same date, Standard Chartered Bank repurchased in part, £95.1 million of its £200 million 7.75 per cent subordinated notes (callable 2022). This activity resulted in an overall gain of £69 million for the Group. Please refer to note 20

6. Operating expenses

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Staff costs:			
Wages and salaries	**2,745**	2,570	2,477
Social security costs	**96**	76	83
Other pension costs (note 22)	**187**	201	156
Share-based payment costs	**104**	72	80
Other staff costs	**446**	576	467
	3,578	3,495	3,263
Premises and equipment expenses:			
Rental of premises	**186**	190	189
Other premises and equipment costs	**177**	239	188
Rental of computers and equipment	**10**	8	9
	373	437	386
General administrative expenses:			
UK bank levy	**–**	220	–
Other general administrative expenses	**808**	951	836
	808	1,171	836

6. Operating expenses continued

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Depreciation and amortisation:			
Property, plant and equipment:			
Premises	**44**	44	41
Equipment	**47**	45	40
Operating lease assets	**148**	170	158
	239	259	239
Intangibles:			
Software	**182**	180	140
Acquired on business combinations	**5**	5	6
	426	444	385

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet excluding Tier 1 capital, insured or guaranteed retail deposits, repo secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2018 is the blended rate of 0.16 per cent (31 December 2017: 0.17 per cent) for chargeable short-term liabilities, with a lower rate of 0.08 per cent (31 December 2017: 0.085 per cent) applied to chargeable equity and long-term liabilities.

7. Credit impairment

Accounting policy

Significant accounting estimates and judgements

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Measurement

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. Further details on the components of PD, LGD and EAD are disclosed in the Credit risk section (page 53). For less material Retail Banking loan portfolios, the Group has adopted simplified approaches based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

7. Credit impairment continued

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

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for POCI instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instruments	Location of expected credit loss provisions
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value[1]
Financial assets held at FVOCI – Debt instruments	Other comprehensive income (FVOCI expected credit loss Reserve)[2]
Loan commitments	Provisions for liabilities and charges[3]
Financial guarantees	Provisions for liabilities and charges[3]

1 Purchased or originated credit impaired assets do not attract an expected credit loss provision on initial recognition. An expected credit loss provision will be recognised only if there is an increase in expected credit losses from that considered at initial recognition

2 Debt and treasury securities classified as FVOCI are held at fair value on the face of the balance sheet. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised

3 Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit lossis recognised as a liability provision

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

7. Credit impairment continued

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions (page 44);
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

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

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment. The Group's definition of default is aligned with the regulatory definition of default as set out in European Capital Requirements Regulation (CRR178) and related guidelines.

Expert credit judgement

For Corporate & Institutional, Commercial and Private Banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as non-performing loans, i.e. Stage 3 or credit impaired exposures.

For individually significant financial assets within Stage 3, Group Special Asset Management (GSAM) will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options. The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail Banking clients are considered credit impaired where they are more 90 days past due. Retail Banking products are also considered credit impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit impaired, the account may be also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in the income statement within a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

7. Credit impairment continued

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement – Modifications) is recognised in the profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount. The modified loan is disclosed as 'Loans subject to forbearance – credit impaired'.

Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Loss provisions on purchased or originated credit impaired instruments (POCI)

The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative change as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and as impairment loss where the expected credit losses are greater).

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

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 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Net credit impairment against profit on loans and advances to banks and customers	**194**	684	681
Net credit impairment against profit or loss during the period relating to debt securities	**(4)**	20	–
Net credit impairment relating to financial guarantees and loan commitments	**24**	3	(26)
Credit impairment[1]	**214**	707	655

1 No material POCI assets

8. Other impairment

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Impairment of goodwill (note 15)	–	320	–
Other impairment			
Impairment of fixed assets	47	66	71
Impairment losses on fair value through other comprehensive income/available-for-sale financial assets:			
Equity shares	–	1	15
Impairment of other intangible assets	21	21	2
Other	(18)	(2)	5
	50	86	93
	50	406	93

9. Taxation

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

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
The charge for taxation based upon the profit for the period comprises:			
Current tax:			
United Kingdom corporation tax at 19 per cent (31 December 2017 and 30 June 2017: 19.25 per cent):			
Current tax charge on income for the period	3	–	–
Adjustments in respect of prior periods (including double tax relief)	46	–	1
Foreign tax:			
Current tax charge on income for the period	718	370	607
Adjustments in respect of prior periods	(88)	(27)	14
	679	343	622
Deferred tax:			
Origination/reversal of temporary differences	(20)	229	(73)
Adjustments in respect of prior periods	94	27	(1)
	74	256	(74)
Tax on profits on ordinary activities	753	599	548
Effective tax rate	32.1%	nm[1]	31.2%
Tax on profits on ordinary activities excluding the impact of US Tax Reform	753	379	548
Effective tax rate excluding the impact of US Tax Reform	32.1%	nm[1]	31.2%

1 Not meaningful

The US Tax Cuts and Jobs Act of 2017, effective from 1 January 2018, reduced the US corporate tax rate from 35 per cent to 21 per cent and introduced a Base Erosion and Anti Abuse Tax. The combined impact of these changes in tax rates reduced the US deferred tax asset, increasing the deferred taxation charge for the period ended 31 December 2017 by $220 million.

The tax charge for the period of $753 million (31 December 2017: $599 million and 30 June 2017: $548 million) on a profit before tax of $2,346 million (31 December 2017: $661 million and 30 June 2017: $1,754 million) reflects the impact of non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

Foreign tax includes current tax on Hong Kong profits of $103 million (31 December 2017: $87 million and 30 June 2017: $80 million) on the profits assessable in Hong Kong.

Deferred tax includes origination or reversal of temporary differences in Hong Kong profits of $(3) million (31 December 2017: $6 million and 30 June 2017: $(1) million) provided at a rate of 16.5 per cent (31 December 2017: 16.5 per cent and 30 June 2017: 16.5 per cent) on the profits assessable to Hong Kong.

10. Dividends

The Board considers a number of factors which include the rate of recovery in the Group's financial performance, the macroeconomic environment, and opportunities to further invest in our business and grow profitably in our markets.

Ordinary equity shares

	30.06.18		31.12.17		30.06.17	
	Cents per share	**$million**	Cents per share	$million	Cents per share	$million
2017/2016 final dividend declared and paid during the year[1]	**11.00**	**363**	–	–	–	–

1 The amounts are gross of scrip adjustments

Preference shares and Additional Tier 1 securities

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

		30.06.18 $million	31.12.17 $million	30.06.17 $million
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each	**26**	26	27
	6.409 per cent preference shares of $5 each	**12**	15	24
		38	41	51
Additional Tier 1 securities: $5 billion fixed rate resetting perpetual subordinated contingent convertible securities		**179**	179	174
		217	220	225
Dividends on these preference shares are treated as interest expense and accrued accordingly.				
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each	**5**	5	5
	8 1/4 per cent preference shares of £1 each	**5**	6	5
		10	11	10

Dividends

The 2017 final dividend of 11 cents per ordinary share $363 million was paid to eligible shareholders on 17 May 2018, and is recognised in these interim accounts.

Interim dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders.

Accordingly, the final ordinary equity share dividends as stated above relate to the prior year. No interim dividend was declared in 2017.

2018 recommended interim dividend

The 2018 interim dividend of 6 cents per share ($198 million) will be paid in pounds sterling, Hong Kong dollars or US dollars on 22 October 2018 to shareholders on the UK register of members at the close of business in the UK on 10 August 2018. The 2018 interim dividend will be paid in Indian rupees on 22 October 2018 to Indian Depository Receipt holders on the Indian register at the close of business in India on 10 August 2018.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the interim cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 31 August 2018. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

11. Earnings per ordinary share

The table below provides the basis of underlying earnings.

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Profit for the period attributable to equity holders	**1,593**	62	1,206
Non-controlling interest	**(33)**	(39)	(10)
Dividend payable on preference shares and AT1 classified as equity	**(217)**	(220)	(225)
Profit/(loss) for the period attributable to ordinary shareholders	**1,343**	(197)	971
Items normalised:			
Restructuring	**79**	188	165
Gains arising on repurchase of subordinated liabilities	**(69)**	–	–
Goodwill impairment (note 8)	**–**	320	–
Net loss on business disposed and available-for-sale financial instruments (included within note 5)	**–**	(78)	–
Impact of US Tax Reform (note 9)	**–**	220	–
Tax on normalised items[1]	**131**	(31)	(5)
Underlying profit	**1,484**	422	1,131
Basic – Weighted average number of shares (millions)	**3,303**	3,296	3,290
Diluted – Weighted average number of shares (millions)	**3,337**	3,322	3,327
Basic earnings/(loss) per ordinary share (cents)	**40.7**	(6.0)	29.5
Diluted earnings/(loss) per ordinary share (cents)	**40.2**	(6.0)[2]	29.2
Underlying basic earnings per ordinary share (cents)	**44.9**	12.8	34.4
Underlying diluted earnings per ordinary share (cents)	**44.5**	12.7	34.0

1 No tax is included in respect of the impairment of goodwill as no tax relief is available

2 The impact of any diluted options has been excluded from this amount as required by IAS 33 Earnings per share

12. Financial instruments

Classification and measurement

Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Financial assets held at amortised cost and fair value through other comprehensive income

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

12. Financial instruments continued

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group's management;
- How managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- The risks that affect the performance of the business model and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

The Group's business model assessment is as follows:

Business model	Business objective	Characteristics	Businesses	Products
Hold to collect	Intent is to originate financial assets and hold them to maturity, collecting the contractual cash flows over the term of the instrument	→ Providing financing and originating assets to earn interest income as primary income stream → Performing credit risk management activities → Costs include funding costs, transaction costs and impairment losses	→ Corporate Lending → Corporate Finance → Transaction Banking → Retail Lending → Treasury Markets (Loans and Borrowings) → Financial Markets (selected)	→ Loans and advances → Debt securities
Hold to collect and sell	Business objective met through both hold to collect and by selling financial assets	→ Portfolios held for liquidity needs; or where a certain interest yield profile is maintained; or that are normally rebalanced to achieve matching of duration of assets and liabilities → Income streams come from interest income, fair value changes and impairment losses	→ Treasury Markets	→ Derivatives → Debt securities
Fair value through profit or loss	All other business objectives, including trading and managing financial assets on a fair value basis	→ Assets held for trading → Assets that are originated, purchased, and sold for profit taking or underwriting activity → Performance of the portfolio is evaluated on a fair value basis → Income streams are from fair value changes or trading gains or losses	→ All other business lines	→ Derivatives → Trading portfolios → Financial Markets reverse repos

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows (hold to collect) are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (Hold to collect and sell) are classified as held at FVOCI.

Both a hold to collect business model and a hold to collect and sell business model involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model, by contrast, are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument by instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

12. Financial instruments continued

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

Trading, including:
- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term; and
- Derivatives.

Non-trading mandatorily at fair value through profit or loss, including:
- Instruments in a business which has a fair value business model (see the Group's business model assessment) which are not trading or derivatives;
- Hybrid financial assets that contain one or more embedded derivatives;
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- Equity instruments that have not been designated as held at FVOCI; and
- Financial liabilities that constitute contingent consideration in a business combination.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (accounting mismatch).

Interest rate swaps have been acquired by the Group with the intention of significantly reducing interest rate risk on certain debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these debt securities have been designated at fair value through profit or loss.

Similarly, to reduce accounting mismatches, the Group has designated certain financial liabilities at fair value through profit or loss where the liabilities either:

- Have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered with the intention of significantly reducing interest rate risk; or
- Are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- Have been acquired to fund trading asset portfolios or assets.

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

12. Financial instruments continued

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see Interest income and expense). Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in expected credit losses are recognised in the profit or loss and are accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

Financial assets and liabilities held at fair value through profit or loss

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

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in profit or loss.

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in other income except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income, which are never recycled to the profit or loss.

12. Financial instruments continued

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors.

Where derecognition of financial assets is appropriate (see Derecognition), the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment (see credit impairment policy). Modification gains and losses arising for non-credit reasons are recognised either as part of credit impairment or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income. The movements in the applicable expected credit loss loan positions are disclosed in further detail in Risk review (page 42).

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

12. Financial instruments continued

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

IFRS 9

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Non-trading mandatorily at fair value through profit or loss $million	Designated at fair value through profit or loss $million	Fair value through other comprehensive income $million	Total financial assets at fair value $million	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	58,213	58,213
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		175	–	3,069	–	–	3,244	–	3,244
Loans and advances to customers[1]		1,572	–	2,138	–	–	3,710	–	3,710
Reverse repurchase agreements and other similar secured lending	14	–	–	51,640	–	–	51,640	–	51,640
Debt securities and other eligible bills		18,785	–	386	367	–	19,538	–	19,538
Equity shares		740	–	514	483	–	1,737	–	1,737
		21,272	–	57,747	850	–	79,869	–	79,869
Derivative financial instruments	13	51,017	763	–	–	–	51,780	–	51,780
Loans and advances to banks[1]		–	–	–	–	–	–	55,603	55,603
Loans and advances to customers[1]		–	–	–	–	–	–	255,100	255,100
Reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	12,781	12,781
Investment securities									
Debt securities and other eligible bills		–	–	–	–	115,965	115,965	6,866	122,831
Equity shares		–	–	–	–	250	250	–	250
		–	–	–	–	116,215	116,215	6,866	123,081
Other assets	16	–	–	–	–	–	–	34,441	34,441
Assets held for sale	16	–	–	–	511	–	511	2	513
Total at 30 June 2018		72,289	763	57,747	1,361	116,215	248,375	423,006	671,381

1 Further analysed in Risk review and Capital review (pages 24 to 75)

12. Financial instruments continued

IFRS 9

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Non-trading mandatorily at fair value through profit or loss $million	Designated at fair value through profit or loss $million	Fair value through other comprehensive income $million	Total financial assets at fair value $million	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	58,864	58,864
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		320	–	2,545	–	–	2,865	–	2,865
Loans and advances to customers[1]		1,689	–	2,179	39	–	3,907	–	3,907
Reverse repurchase agreements and other similar secured lending	14	–	–	45,518	–	–	45,518	–	45,518
Debt securities and other eligible bills		19,318	–	504	393	–	20,215	–	20,215
Equity shares		718	–	684	733	–	2,135	–	2,135
		22,045	–	51,430	1,165	–	74,640	–	74,640
Derivative financial instruments	13	46,333	698	–	–	–	47,031	–	47,031
Loans and advances to banks[1]		–	–	–	–	–	–	57,194	57,194
Loans and advances to customers[1]		–	–	–	–	–	–	246,941	246,941
Reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	–	9,667	9,667
Investment securities									
Debt securities and other eligible bills		–	–	–	–	108,411	108,411	7,188	115,599
Equity shares		–	–	–	–	214	214	–	214
		–	–	–	–	108,625	108,625	7,188	115,813
Other assets	16	–	–	–	–	–	–	29,922	29,922
Assets held for sale	16	–	–	–	466	–	466	62	528
Total at 1 January 2018		68,378	698	51,430	1,631	108,625	230,762	409,838	640,600

1 Further analysed in Risk review and Capital review (pages 24 to 75)

The table above is the representation as at 1 January 2018 of the balances after the implementation of IFRS 9.

12. Financial instruments continued

IAS 39

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Total financial assets at fair value $million	Assets at amortised cost: Loans and receivables $million	Held-to-maturity $million	Total $million
Cash and balances at central banks		–	–	–	–	–	58,864	–	58,864
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		320	–	2,252	–	2,572	–	–	2,572
Loans and advances to customers[1]		1,689	–	1,229	–	2,918	–	–	2,918
Reverse repurchase agreements and other similar secured lending	14	454	–	458	–	912	–	–	912
Debt securities and other eligible bills		19,318	–	393	–	19,711	–	–	19,711
Equity shares		718	–	733	–	1,451	–	–	1,451
		22,499	–	5,065	–	27,564	–	–	27,564
Derivative financial instruments	13	46,333	698	–	–	47,031	–	–	47,031
Loans and advances to banks[1]		–	–	–	–	–	57,494	–	57,494
Loans and advances to customers[1]		–	–	–	–	–	248,707	–	248,707
Reverse repurchase agreements and other similar secured lending	14	–	–	–	–	–	54,275	–	54,275
Investment securities									
Debt securities and other eligible bills		–	–	–	109,161	109,161	2,630	4,340	116,131
Equity shares		–	–	–	894	894	–	–	894
		–	–	–	110,055	110,055	2,630	4,340	117,025
Other assets	16	–	–	–	–	–	29,922	–	29,922
Assets held for sale	16	–	–	466	–	466	62	–	528
Total at 31 December 2017		68,832	698	5,531	110,055	185,116	451,954	4,340	641,410

1 Further analysed in Risk review and Capital review (pages 24 to 75)

IFRS 9

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	387	387	–	387
Customer accounts		–	–	6,232	6,232	–	6,232
Repurchase agreements and other similar secured borrowing	14	–	–	47,008	47,008	–	47,008
Debt securities in issue		–	–	6,299	6,299	–	6,299
Short positions		3,348	–	–	3,348	–	3,348
		3,348	–	59,926	63,274	–	63,274
Derivative financial instruments	13	51,618	1,344	–	52,962	–	52,962
Deposits by banks		–	–	–	–	30,816	30,816
Customer accounts	14	–	–	–	–	382,107	382,107
Repurchase agreements and other similar secured borrowing		–	–	–	–	5,863	5,863
Debt securities in issue		–	–	–	–	46,196	46,196
Other liabilities	17	–	–	–	–	40,071	40,071
Subordinated liabilities and other borrowed funds	20	–	–	–	–	15,047	15,047
Total at 30 June 2018		54,966	1,344	59,926	116,236	520,100	636,336

12. Financial instruments continued

IFRS 9

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	Liabilities at fair value: Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	737	737	–	737
Customer accounts		–	–	5,236	5,236	–	5,236
Repurchase agreements and other similar secured borrowing	14	–	–	38,140	38,140	–	38,140
Debt securities in issue		–	–	7,023	7,023	–	7,023
Short positions		3,637	–	–	3,637	–	3,637
		3,637	–	51,136	54,773	–	54,773
Derivative financial instruments	13	46,558	1,543	–	48,101	–	48,101
Deposits by banks		–	–	–	–	30,945	30,945
Customer accounts		–	–	–	–	370,509	370,509
Repurchase agreements and other similar secured borrowing	14	–	–	–	–	1,639	1,639
Debt securities in issue		–	–	–	–	46,379	46,379
Other liabilities	17	–	–	–	–	34,982	34,982
Subordinated liabilities and other borrowed funds	20	–	–	–	–	17,176	17,176
Total at 1 January 2018		50,195	1,543	51,136	102,874	501,630	604,504

The table above is the representation as at 1 January 2018 of the balances after the implementation of IFRS 9.

IAS 39

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	Liabilities at fair value: Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	737	737	–	737
Customer accounts		–	–	5,236	5,236	–	5,236
Debt securities in issue		–	–	7,023	7,023	–	7,023
Short positions		3,637	–	–	3,637	–	3,637
		3,637	–	12,996	16,633	–	16,633
Derivative financial instruments	13	46,558	1,543	–	48,101	–	48,101
Deposits by banks		–	–	–	–	30,945	30,945
Customer accounts		–	–	–	–	370,509	370,509
Repurchase agreements and other similar secured borrowing	14	–	–	–	–	39,783	39,783
Debt securities in issue		–	–	–	–	46,379	46,379
Other liabilities	17	–	–	–	–	34,982	34,982
Subordinated liabilities and other borrowed funds	20	–	–	–	–	17,176	17,176
Total at 31 December 2017		50,195	1,543	12,996	64,734	539,774	604,508

Loans and advances designated at fair value through profit or loss

The maximum exposure to credit risk for loans and advances to banks and customers and reverse repurchase and other similar secured lending designated at fair value through profit or loss was $nil million (1 January 2018: $39 million and 31 December 2017: $3,939 million). The net fair value gain on loans and advances to banks and customers and reverse repurchase and other similar secured lending designated at fair value through profit or loss was $nil million (1 January 2018: $nil and 31 December 2017: $23 million). Of this, $nil million (1 January 2018: $nil and 31 December 2017: $1 million) relates to changes in credit risk. The cumulative fair value loss attributable to changes in credit risk was $nil million (1 January 2018: $nil and 31 December 2017: $1 million). Further details of the Group's valuation technique is described in this note (page 111).

12. Financial instruments continued

Financial liabilities designated at fair value through profit or loss

	30.06.18 (IFRS 9) $million	01.01.18 (IFRS 9) $million	31.12.17 (IAS 39) $million
Carrying balance aggregate fair value	**59,926**	51,136	12,996
Amount contractually obliged to repay at maturity	**60,141**	51,192	13,052
Difference between aggregate fair value and contractually obliged to repay at maturity	**(215)**	(56)	(56)
Cumulative change in fair value accredited to credit risk difference	**219**	82	82

The net fair value gain on financial liabilities designated at fair value through profit or loss was $165 million for the period (31 December 2017: net loss of $202 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this note.

Valuation of financial instruments

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

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

The Valuation Control function is responsible for independent price verification, oversight of fair value and prudent value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business meet monthly to discuss and approve the valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations. The business cluster valuation committees fall under the Valuation Benchmarks Committee as part the of the valuation governance structure.

Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments are determined using valuation techniques (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value (page 112)
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments (page 113)
- Where the measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

12. Financial instruments continued

Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 113)

→ Financial instruments held at fair value

- **Debt securities – asset backed securities:** Asset backed securities are priced based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third-party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type and credit ratings. Therefore, once external pricing has been verified, an assessment is made of whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of high credit rating and is traded in a liquid sector, it will be classified as Level 2, otherwise it will be classified as Level 3
- **Debt securities in issue:** These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources, these positions are classified as Level 2. Where such liquid external prices are not available, valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets
- **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed
- **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternative valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- **Loans and advances:** These primarily include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets and loans and advances including reverse repurchase that do not have SPPI cash flows or are managed on a fair value basis. These loans are generally bilateral in nature and, where available, their valuation is based on market observable credit spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
- **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets

12. Financial instruments continued

→ Financial instruments held at amortised cost

The following sets out the Group's basis for establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

- **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
- **Debt securities in issue, subordinated liabilities and other borrowed funds:** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity
- **Deposits and borrowings:** The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity
- **Investment securities:** For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using input proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or input proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity. The Group's loans and advances to the customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and credit risk. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical
- **Other assets:** Other assets comprise primarilycash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short term in nature or re-price to current market rates frequently

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

	30.06.18 $million	31.12.17 $million
Bid-offer valuation adjustment	78	82
CVA	191	229
DVA	(93)	(66)
Model valuation adjustment	11	6
FVA	61	79
Others (including day one)	120	148
Total	**368**	478

12. Financial instruments continued

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid-market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems
- **Credit valuation adjustment (CVA):** The Group makes CVA 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 transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by applying the probability of default (PD) on the potential estimated future positive exposure of the counterparty using market-implied PD. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty and the Group has implemented a model to capture this impact for certain key wrong-way exposures. The Group continues to include 'wrong-way risk' in its unaudited Prudential Valuation Adjustments
- **Day one profit and loss:** In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on bond spreads associated with the Group's issuances and market standard recovery levels. The expected exposure is modelled based on a simulation methodology and is generated through the simulation of underlying risk factors over the life of the deals booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. In December 2017, the Group refined its methodology used to calculate DVA to better align with current industry practice. This change in calculation methodology is treated as a change in estimate and resulted in an increase in the DVA balance of $66 million
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group's OCA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior unsecured credit spreads. The OCA is $219 million (2017: $82 million).

Fair value hierarchy – financial instruments held at fair value

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

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

12. Financial instruments continued

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

IFRS 9

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	3,244	–	3,244
Loans and advances to customers	–	2,880	830	3,710
Reverse repurchase agreements and other similar secured lending	–	51,585	55	51,640
Debt securities and other eligible bills	6,777	12,394	367	19,538
Of which:				
Government bonds and treasury bills	6,083	5,974	–	12,057
Issued by corporates other than financial institutions	29	4,468	367	4,864
Issued by financial institutions	665	1,952	–	2,617
Equity shares	900	23	814	1,737
Derivative financial instruments	704	51,033	43	51,780
Of which:				
Foreign exchange	87	38,873	29	38,989
Interest rate	3	11,343	8	11,354
Commodity	614	456	3	1,073
Credit	–	304	–	304
Equity and stock index	–	57	3	60
Investment securities				
Debt securities and other eligible bills	66,943	48,461	561	115,965
Of which:				
Government bonds and treasury bills	54,247	19,278	400	73,925
Issued by corporates other than financial institutions	3,032	10,585	161	13,778
Issued by financial institutions	9,664	18,598	–	28,262
Equity shares	36	4	210	250
Total financial instruments at 30 June 2018	75,360	169,624	2,880	247,864
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	383	4	387
Customer accounts	–	6,232	–	6,232
Repurchase agreements and other similar secured borrowing	–	47,008	–	47,008
Debt securities in issue	–	5,971	328	6,299
Short positions	1,821	1,527	–	3,348
Derivative financial instruments	986	51,946	30	52,962
Of which:				
Foreign exchange	296	38,471	4	38,771
Interest rate	22	11,606	20	11,648
Commodity	668	772	–	1,440
Credit	–	1,064	–	1,064
Equity and stock index	–	33	6	39
Total financial instruments at 30 June 2018	2,807	113,067	362	116,236

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

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

12. Financial instruments continued

IFRS 9

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	–	2,794	71	2,865
Loans and advances to customers	–	3,190	717	3,907
Reverse repurchase agreements and other similar secured lending	–	45,518	–	45,518
Debt securities and other eligible bills	5,860	13,924	431	20,215
Of which:				
Government bonds and treasury bills	4,988	5,529	–	10,517
Issued by corporates other than financial institutions	171	4,115	280	4,566
Issued by financial institutions	701	4,280	151	5,132
Equity shares	1,035	–	1,100	2,135
Derivative financial instruments	402	46,589	40	47,031
Of which:				
Foreign exchange	97	35,641	17	35,755
Interest rate	2	10,065	7	10,074
Commodity	303	609	2	914
Credit	–	249	–	249
Equity and stock index	–	25	14	39
Investment securities				
Debt securities and other eligible bills	61,083	47,010	318	108,411
Of which:				
Government bonds and treasury bills	51,095	21,417	318	72,830
Issued by corporates other than financial institutions	5,647	7,061	–	12,708
Issued by financial institutions	4,341	18,532	–	22,873
Equity shares	59	5	150	214
Total financial instruments at 1 January 2018	68,439	159,030	2,827	230,296
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	668	69	737
Customer accounts	–	5,236	–	5,236
Repurchase agreements and other similar secured borrowing	–	38,140	–	38,140
Debt securities in issue	–	6,581	442	7,023
Short positions	1,495	2,142	–	3,637
Derivative financial instruments	470	47,606	25	48,101
Of which:				
Foreign exchange	90	36,149	–	36,239
Interest rate	9	9,851	18	9,878
Commodity	371	590	–	961
Credit	–	871	2	873
Equity and stock index	–	145	5	150
Total financial instruments at 1 January 2018	1,965	100,373	536	102,874

The table above is the representation as at 1 January 2018 of the balances after the implementation of IFRS 9.

12. Financial instruments continued

IAS 39

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	–	2,501	71	2,572
Loans and advances to customers	–	2,792	126	2,918
Reverse repurchase agreements and other similar secured lending	–	912	–	912
Debt securities and other eligible bills	5,860	13,800	51	19,711
Of which:				
Government bonds and treasury bills	4,988	5,531	–	10,519
Issued by corporates other than financial institutions	171	4,017	48	4,236
Issued by financial institutions	701	4,252	3	4,956
Equity shares	725	–	726	1,451
Derivative financial instruments	402	46,589	40	47,031
Of which:				
Foreign exchange	97	35,641	17	35,755
Interest rate	2	10,065	7	10,074
Commodity	303	609	2	914
Credit	–	249	–	249
Equity and stock index	–	25	14	39
Investment securities				
Debt securities and other eligible bills	61,246	47,511	404	109,161
Of which:				
Government bonds and treasury bills	51,257	21,364	318	72,939
Issued by corporates other than financial institutions	5,648	7,590	86	13,324
Issued by financial institutions	4,341	18,557	–	22,898
Equity shares	369	5	520	894
Total financial instruments at 31 December 2017	68,602	114,110	1,938	184,650
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	668	69	737
Customer accounts	–	5,236	–	5,236
Debt securities in issue	–	6,581	442	7,023
Short positions	1,495	2,142	–	3,637
Derivative financial instruments	470	47,606	25	48,101
Of which:				
Foreign exchange	90	36,149	–	36,239
Interest rate	9	9,851	18	9,878
Commodity	371	590	–	961
Credit	–	871	2	873
Equity and stock index	–	145	5	150
Total financial instruments at 31 December 2017	1,965	62,233	536	64,734

There were no significant changes to valuation or levelling approaches in 2017.

There were no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during 2017.

12. Financial instruments continued

Fair value hierarchy – financial instruments measured at amortised cost

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

IFRS 9

	Carrying value $million	Fair value Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	**58,213**	**–**	**58,213**	**–**	**58,213**
Loans and advances to banks	**55,603**	**–**	**55,202**	**301**	**55,503**
Loans and advances to customers	**255,100**	**–**	**12,884**	**242,876**	**255,760**
Reverse repurchase agreements and other similar secured lending	**12,781**	**–**	**9,652**	**3,147**	**12,799**
Investment securities	**6,866**	**–**	**6,796**	**8**	**6,804**
Other assets[1]	**34,441**	**–**	**34,443**	**–**	**34,443**
Assets held for sale	**2**	**–**	**2**	**–**	**2**
At 30 June 2018	**423,006**	**–**	**177,192**	**246,332**	**423,524**
Liabilities					
Deposits by banks	**30,816**	**–**	**30,818**	**–**	**30,818**
Customer accounts	**382,107**	**–**	**382,143**	**–**	**382,143**
Repurchase agreements and other similar secured borrowing	**5,863**	**–**	**5,758**	**105**	**5,863**
Debt securities in issue	**46,196**	**15,623**	**30,574**	**–**	**46,197**
Subordinated liabilities and other borrowed funds	**15,047**	**14,924**	**–**	**–**	**14,924**
Other liabilities[1]	**40,071**	**–**	**40,071**	**–**	**40,071**
At 30 June 2018	**520,100**	**30,547**	**489,364**	**105**	**520,016**

IFRS 9

	Carrying value $million	Fair value Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	58,864	–	58,864	–	58,864
Loans and advances to banks	57,194	–	57,166	4	57,170
Loans and advances to customers	246,941	–	15,285	232,394	247,679
Reverse repurchase agreements and other similar secured lending	9,667	–	7,506	2,174	9,680
Investment securities	7,188	–	7,133	86	7,219
Other assets[1]	29,922	–	29,911	–	29,911
Assets held for sale	62	–	62	–	62
At 1 January 2018	409,838	–	175,927	234,658	410,585
Liabilities					
Deposits by banks	30,945	–	30,939	–	30,939
Customer accounts	370,509	–	370,489	–	370,489
Repurchase agreements and other similar secured borrowing	1,639	–	1,639	–	1,639
Debt securities in issue	46,379	15,264	30,158	–	45,422
Subordinated liabilities and other borrowed funds	17,176	17,456	161	–	17,617
Other liabilities[1]	34,982	–	34,982	–	34,982
At 1 January 2018	501,630	32,720	468,368	–	501,088

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

The table above is the representation as at 1 January 2018 of the balances after the implementation of IFRS 9.

12. Financial instruments continued

IAS 39

	Carrying value $million	Fair value Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	58,864	–	58,864	–	58,864
Loans and advances to banks	57,494	–	57,388	4	57,392
Loans and advances to customers	248,707	–	14,644	234,812	249,456
Reverse repurchase agreements and other similar secured lending	54,275	–	23,068	31,218	54,286
Investment securities	6,970	–	6,955	36	6,991
Other assets[1]	29,922	–	29,922	–	29,922
Assets held for sale	62	–	62	–	62
At 31 December 2017	456,294	–	190,903	266,070	456,973
Liabilities					
Deposits by banks	30,945	–	30,939	–	30,939
Customer accounts	370,509	–	370,489	–	370,489
Repurchase agreements and other similar secured borrowing	39,783	–	39,783	–	39,783
Debt securities in issue	46,379	15,264	30,158	–	45,422
Subordinated liabilities and other borrowed funds	17,176	17,456	161	–	17,617
Other liabilities[1]	34,982	–	34,982	–	34,982
At 31 December 2017	539,774	32,720	506,512	–	539,232

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

12. Financial instruments continued

Level 3 Summary and significant unobservable inputs

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

	Value at 30 June 2018					
Instrument	**Assets $million**	**Liabilities $million**	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Reverse repurchase agreements and other similar secured lending	**55**	**–**	Discounted cash flows	Repo rate	0.0% to 11.0%	2.7%
Loans and advances to customers	**830**	**–**	Comparable pricing/yield	Price/yield	4.8%	4.8%
			Discounted cash flows	Recovery rates	24.3% to 100.0%	93.9%
Debt securities	**212**	**–**	Comparable pricing/yield	Price/yield	N/A	N/A
Asset backed securities	**316**	**–**	Discounted cash flows	Price/yield	1.0% to 5.8%	4.0%
Deposits by banks	**–**	**4**	Discounted cash flows	Credit spreads	1.0%	1.0%
Debt securities in issue	**–**	**328**	Discounted cash flows	Credit spreads	0.3% to 4%	1.5%
Government bonds and treasury bills	**400**	**–**	Discounted cash flows	Price/yield	2.8% to 32.7%	10.6%
Derivative financial instruments of which:						
Foreign exchange	**29**	**4**	Option pricing model	Foreign exchange option implied volatility	5.0% to 7.5%	5.8%
			Discounted cash flows	Foreign exchange curves	3.9% to 5.0%	4.2%
Interest rate	**8**	**20**	Discounted cash flows	Interest rate curves	3.5% to 19.2%	11.7%
Commodities	**3**	**–**	Internal pricing model	Commodities correlation	90.0% to 93.8%	93.1%
Equity	**3**	**6**	Internal pricing model	Equity correlation	7.0% to 88.0%	N/A
				Equity-FX correlation	-85.0% to 85.0%	N/A
Equity shares (includes private equity investments)[3]	**1,024**	**–**	Comparable pricing/yield	EV/EBITDA multiples	5.5x to 17.2x	10.1x
				P/E multiples	13.0x to 15.1x	14.2x
				P/B multiples	1.3x	1.3x
				P/S multiples	2.3x	2.3x
				Liquidity discount	10.0% to 20.0%	17.3%
			Discounted cash flows	Discount rates	8.6% to 14.0%	11.6%
Total	**2,880**	**362**				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 30 June 2018. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value based on the shares' initial offering price. The shares will continue to be valued at the initial offering price until such time as a reliable means of valuing the cash flows and underlying assets is possible or additional sales are observable

12. Financial instruments continued

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

- **Commodities correlation:** This refers to the correlation between two commodity underlyings over a specified time
- **Comparable price/yield** is a valuation methodology in which the price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset
- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument
- **Discount rate** refers to the rate of return used to convert expected cash flows into present value
- **EV/EBITDA ratio multiples:** This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point in time
- **Liquidity discounts in the valuation of unlisted investments:** 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
- **Price-Book (P/B) multiple:** This is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples:** This is the ratio of the market value of equity to the net income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple:** This is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **Recovery rates** are the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be

12. Financial instruments continued

Level 3 movement tables – financial assets

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

Assets	Held at fair value through profit or loss: Loans and advances to banks $million	Loans and advances to customers $million	Reverse repurchase agreements and other similar secured lending	Debt securities and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 31 December 2017 – IAS 39	71	126	–	51	726	40	404	520	1,938
Transfer due to IFRS 9[1]	–	591	–	380	374	–	(86)	(370)	889
At 1 January 2018 – IFRS 9	71	717	–	431	1,100	40	318	150	2,827
Total (losses)/gains recognised in income statement	–	(50)	–	(5)	(35)	(1)	10	–	(81)
Net interest income	–	–	–	–	–	–	10	–	10
Net trading income	–	(50)	–	(5)	(35)	(1)	–	–	(91)
Other operating income	–	–	–	–	–	–	–	–	–
Impairment charge	–	–	–	–	–	–	–	–	–
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	–	(7)	29	22
Fair value through OCI reserve	–	–	–	–	–	–	–	30	30
Exchange difference	–	–	–	–	–	–	(7)	(1)	(8)
Purchases	–	188	55	76	119	29	341	23	831
Sales	–	(19)	–	(110)	(144)	(11)	–	–	(284)
Settlements	(71)	(54)	–	–	–	(11)	(101)	–	(237)
Transfers out[2]	–	–	–	(25)	(226)	(3)	–	–	(254)
Transfers in[3]	–	48	–	–	–	–	–	8	56
At 30 June 2018	–	830	55	367	814	43	561	210	2,880
Total unrealised gainsrecognised in the income statement, within net interest income, relating to change in fair value of assets held at 30 June 2018	–	–	–	–	–	–	–	30	30
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 30 June 2018	–	(38)	–	(2)	(28)	1	–	–	(67)

1 The increase in level three instruments is a result of loans and debt securities that failed SPPI, with unobservable valuation inputs. Further, level three equity shares which were classified as available-for-sale equity under IAS 39 are now classified as fair value through profit or loss under IFRS 9

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

3 Transfers in primarily relate to loans and advances and equity shares where the valuation parameters became unobservable during the period

12. Financial instruments continued

Level 3 movement tables – financial assets

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

	Held at fair value through profit or loss					Investment securities		
Assets	Loans and advances to banks $million	Loans and advances to customers $million	Debt securities and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2017	–	179	4	995	360	199	549	2,286
Total (losses)/gains recognised in income statement	(1)	(11)	(2)	121	(4)	(15)	(9)	79
Net interest income	–	–	–	–	–	(15)	–	(15)
Net trading income	(1)	(11)	(2)	121	(4)	–	(1)	102
Other operating income	–	–	–	–	–	–	9	9
Impairment charge	–	–	–	–	–	–	(17)	(17)
Total gains recognised in other comprehensive income	–	–	–	–	–	7	54	61
Available-for-sale reserve	–	–	–	–	–	–	41	41
Exchange difference	–	–	–	–	–	7	13	20
Purchases	–	–	94	111[3]	6	399	22	632
Sales	–	–	(20)	(254)	(13)	(1)	(91)	(379)
Settlements	–	–	–	–	(250)	(169)	–	(419)
Transfers out[1]	–	(72)	(25)	(247)[3]	(61)	(16)	(5)	(426)
Transfers in[2]	72	30	–	–	2	–	–	104
At 31 December 2017	71	126	51	726	40	404	520	1,938
Total unrealised losses recognised in the income statement, within net interest income, relating to change in fair value of assets held at 31 December 2017	–	–	–	–	–	(15)	–	(15)
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2017	(1)	(5)	(2)	65	(7)	–	(1)	49
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2017	–	–	–	–	–	–	(17)	(17)

1 Transfers out include debt securities, equity shares and derivative financial instruments where the valuation parameters became observable during the year, and were transferred to Level 1 and Level 2. Transfers out further relate to equity shares and debt securities held at fair value through profit or loss which are now presented under held for sale

2 Transfers in during the year primarily relate to loans and advances and derivative financial instruments where the valuation parameters become unobservable during the year

3 When an entity is consolidated through a step up in ownership, the additional equity shares acquired are disclosed in the purchases line. Subsequently, these shares are eliminated on consolidation and disclosed in the transfer out line. Any underlying Level 3 financial instruments which are recognised as a result of the consolidation are disclosed in the transfer in line

12. Financial instruments continued

Level 3 movement tables – financial liabilities

	30.06.18			
	Deposits by banks $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2018	69	442	25	536
Total losses/(gains) recognised in income statement – net trading income	2	(16)	(9)	(23)
Issues	–	1	14	15
Settlements	(67)	(99)	(3)	(169)
Transfers in[1]	–	–	3	3
At 30 June 2018	4	328	30	362
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 30 June 2018	–	(13)	(5)	(18)

1 Transfers in primarily relate to derivative financial instruments where the valuation parameters became unobservable during the period

	31.12.17			
	Deposits by banks $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2017	–	530	316	846
Total gains recognised in income statement – net trading income	–	(9)	(24)	(33)
Issues	79	274	1	354
Settlements	(10)	(353)	(266)	(629)
Transfers out[1]	–	–	(2)	(2)
At 31 December 2017	69	442	25	536
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2017	–	–	(17)	(17)

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

12. Financial instruments continued

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

Sensitivity analysis is performed on products with significant unobservable inputs. The Group applies a 10 per cent increase or decrease on the values of these unobservable inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Fair value through OCI/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						
Reverse repurchase agreements and other similar secured lending	**55**	**55**	**55**	**–**	**–**	**–**
Debt securities and other eligible bills	**367**	**377**	**357**	**561**	**580**	**542**
Equity shares	**814**	**895**	**733**	**210**	**231**	**189**
Loans and advances	**830**	**854**	**804**	**–**	**–**	**–**
Derivative financial instruments	**13**	**19**	**6**	**–**	**–**	**–**
Deposits by banks	**(4)**	**(3)**	**(5)**	**–**	**–**	**–**
Debt securities in issue	**(328)**	**(309)**	**(347)**	**–**	**–**	**–**
At 30 June 2018	**1,747**	**1,888**	**1,603**	**771**	**811**	**731**
Financial instruments held at fair value						
Debt securities and other eligible bills	51	56	46	404	415	393
Equity shares	726	799	653	520	572	468
Loans and advances	197	201	194	–	–	–
Derivative financial instruments	15	17	12	–	–	–
Deposits by banks	(69)	(68)	(70)	–	–	–
Debt securities in issue	(442)	(434)	(450)	–	–	–
At 31 December 2017	478	571	385	924	987	861

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

Financial instruments	Fair value changes	**30.06.2018 $million**	31.12.2017 $million
Held at fair value through profit or loss	Possible increase	**141**	93
	Possible decrease	**(144)**	(93)
Fair value through OCI/available-for-sale	Possible increase	**40**	63
	Possible decrease	**(40)**	(63)

13. Derivative financial instruments

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

Derivatives	30.06.18 Notional principal amounts $million	30.06.18 Assets $million	30.06.18 Liabilities $million	31.12.17 Notional principal amounts $million	31.12.17 Assets $million	31.12.17 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**2,261,144**	**21,235**	**20,947**	1,825,488	18,905	19,702
Currency swaps and options	**891,237**	**17,754**	**17,824**	724,021[1]	16,850	16,537
Exchange traded futures and options	**100**	**–**	**–**	100	–	–
	3,152,481	**38,989**	**38,771**	2,549,609	35,755	36,239
Interest rate derivative contracts:						
Swaps	**3,508,901**	**9,914**	**10,139**	2,831,025	8,603	8,414
Forward rate agreements and options	**532,182**	**1,259**	**1,341**	153,697	1,351	1,364
Exchange traded futures and options	**956,396**	**181**	**168**	637,883	120	100
	4,997,479	**11,354**	**11,648**	3,622,605	10,074	9,878
Credit derivative contracts	**37,891**	**304**	**1,064**	34,772	249	873
Equity and stock index options	**2,424**	**60**	**39**	2,520	39	150
Commodity derivative contracts	**119,425**	**1,073**	**1,440**	74,133	914	961
Total derivatives	**8,309,700**	**51,780**	**52,962**	6,283,639	47,031	48,101

1 Currency swaps and options were previously reported on a gross basis. In line with industry practice, these are now reported on a single leg basis. Prior year comparatives have been re-presented accordingly

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

Derivatives held for hedging

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

	30.06.18 Notional principal amounts $million	30.06.18 Assets $million	30.06.18 Liabilities $million	31.12.17 Notional principal amounts $million	31.12.17 Assets $million	31.12.17 Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	**51,954**	**334**	**482**	45,420	456	272
Currency swaps	**9,521**	**79**	**721**	14,395[1]	174	899
	61,475	**413**	**1,203**	59,815	630	1,171
Derivatives designated as cash flow hedges:						
Interest rate swaps	**10,949**	**81**	**80**	13,348	43	48
Forward foreign exchange contracts	**205**	**–**	**18**	356	2	29
Currency swaps	**2,413**	**36**	**43**	2,987	23	107
	13,567	**117**	**141**	16,691	68	184
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	**5,514**	**233**	**–**	3,470	–	188
Total derivatives held for hedging	**80,556**	**763**	**1,344**	79,976	698	1,543

1 Currency swaps were previously reported on a gross basis. In line with industry practice, these are now reported on a single leg basis. Prior year comparatives have been re-presented accordingly

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

Accounting policy

The Group purchases securities (a reverse repurchase agreement – 'reverse repo') typically with financial institutions subject to a commitment to resell or return the securities at a predetermined price. These securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership, however are recorded off balance sheet as collateral received. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost, unless it is managed on a fair value basis or it is designated at fair value through profit or loss.

The Group also sells securities (a repurchase agreement – 'repo') subject to a commitment to repurchase or redeem the securities at a predetermined price. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership and these securities are disclosed as pledged collateral. Consideration received (or cash collateral received) is accounted for as a financial liability at amortised cost, unless it is either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. The Group is obliged to return equivalent securities.

Repo and reverse repo transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos, either by way of a Global Master Repurchase Agreement (GMRA), or through a securities sale and Total Return Swap (TRS) continue to be recognised on the balance sheet as the Group retains substantially the associated risks and rewards of the securities (the TRS is not recognised). The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding.

Reverse repurchase agreements and other similar secured lending

	30.06.18 $million	01.01.18 $million	31.12.17 $million
Banks	**26,512**	21,257	21,259
Customers	**37,909**	33,928	33,928
	64,421	55,185	55,187
Of which:			
Fair value through profit or loss	**51,640**	45,518	912
Banks	**17,962**	16,157	565
Customers	**33,678**	29,361	347
Held at amortised cost	**12,781**	9,667	54,275
Banks	**8,550**	5,099	20,694
Customers	**4,231**	4,568	33,581

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	30.06.18 $million	01.01.18 $million	31.12.17 $million
Securities and collateral received (at fair value)	**85,855**	75,088	75,088
Securities and collateral which can be repledged or sold (at fair value)	**81,367**	72,982	72,982
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	**42,028**	34,018	34,018

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

Repurchase agreements and other similar secured borrowing

	30.06.18 $million	01.01.18 $million	31.12.17 $million
Banks	6,196	3,804	3,804
Customers	46,675	35,975	35,979
	52,871	39,779	39,783
Of which:			
Fair value through profit or loss	47,008	38,140	–
Banks	3,320	3,352	–
Customers	43,688	34,788	–
Held at amortised cost	5,863	1,639	39,783
Banks	2,876	451	3,804
Customers	2,987	1,188	35,979

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

	30.06.18			
Collateral pledged against repurchase agreements	**Fair value through profit or loss $million**	**Fair value through other comprehensive income $million**	**Amortised cost $million**	**Total $million**
On-balance sheet				
Debt securities and other eligible bills	3,434	7,327	516	11,277
Off-balance sheet				
Repledged collateral received	–	–	42,028	42,028
At 30 June 2018	3,434	7,327	42,544	53,305

	01.01.18			
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Fair value through other comprehensive income $million	Amortised cost $million	Total $million
On-balance sheet				
Debt securities and other eligible bills	2,178	3,618	–	5,796
Off-balance sheet				
Repledged collateral received	–	–	34,018	34,018
At 1 January 2018	2,178	3,618	34,018	39,814

	31.12.17			
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Available for sale $million	Loans and receivables $million	Total $million
On-balance sheet				
Debt securities and other eligible bills	2,178	3,618	–	5,796
Off-balance sheet				
Repledged collateral received	–	–	34,018	34,018
At 31 December 2017	2,178	3,618	34,018	39,814

15. Goodwill and intangible assets

	30.06.18				31.12.17			
	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost	**3,187**	**559**	**2,616**	**6,362**	3,252	578	2,529	6,359
Provision for amortisation	**–**	**461**	**927**	**1,388**	–	470	876	1,346
Net book value	**3,187**	**98**	**1,689**	**4,974**	3,252	108	1,653	5,013

	30.06.17			
	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost	3,552	576	2,128	6,256
Provision for amortisation	–	455	767	1,222
Net book value	3,552	121	1,361	5,034

At 30 June 2018, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $2,801 million (31 December 2017: $2,801 million), of which nil was recognised in 2018 (31 December 2017: $320 million).

Outcome of impairment assessment

At 30 June 2018, 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. The results of this review indicated that there is no goodwill impairment to be recognised.

It continues to be possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate would potentially result in the carrying amount of goodwill exceeding the recoverable amount in the future. Refer to note 18, Goodwill and intangible assets, in the 2017 Annual Report.

16. Other assets

	30.06.18 $million	31.12.17 $million
Financial assets held at amortised cost (note 12):		
Hong Kong SAR Government certificates of indebtedness (note 17)[1]	**5,704**	5,417
Cash collateral	**10,002**	9,513
Acceptances and endorsements	**5,138**	5,096
Unsettled trades and other financial assets	**13,597**	9,896
	34,441	29,922
Non-financial assets:		
Commodities[2]	**4,312**	3,263
Other assets	**315**	305
	39,068	33,490

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

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

16. Other assets continued

Assets held for sale

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

a) Their carrying amounts will be recovered principally through sale

b) They are available-for-sale in their present condition

c) Their sale is highly probable

Immediately before the initial classification as held for sale, the carrying amounts of the assets are measured in accordance with the applicable accounting policies related to the asset or liability before reclassification as held for sale.

The assets below have been presented as held for sale following the approval of Group management and the transactions are expected to complete in 2018.

Assets held for sale	**30.06.18 $million**	31.12.17 $million
Non-current assets		
Loans and advances to customers	**2**	2
Financial assets held at fair value through profit or loss	**511**	466
Debt securities held at amortised cost	**–**	60
Property, plant and equipment	**145**	13
Others	**2**	4
	660	545

Assets held for sale include:

- Principal Finance assets of $511 million, classified as financial assets held at fair value through profit or loss comprising debt securities ($84 million) and equity shares ($427 million), expected to be disposed of by the end of 2018
- Two aircraft classified as held for sale by Pembroke Air Leasing Finance for $136 million included within property, plant and equipment

The assets reported above are classified under Level 3.

17. Other liabilities

	30.06.18 $million	31.12.17 $million
Financial liabilities held at amortised cost (note 12)		
Notes in circulation[1]	**5,704**	5,417
Acceptances and endorsements	**5,138**	5,096
Cash collateral	**10,631**	9,825
Unsettled trades and other financial liabilities	**18,598**	14,644
	40,071	34,982
Non-financial liabilities		
Cash-settled share-based payments	**35**	39
Other liabilities	**438**	236
	40,544	35,257

1 Hong Kong currency notes in circulation of $5,704 million (2017: $5,417 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 16)

18. Contingent liabilities and commitments

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

	30.06.18 $million	31.12.17 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**37,422**	37,311
Other contingent liabilities	**5,116**	6,210
	42,538	43,521
Commitments		
Documentary credits and short-term trade-related transactions	**4,021**	3,880
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	**47,604**	43,730
Less than one year	**20,618**	20,160
Unconditionally cancellable	**115,168**	113,584
	187,411	181,354
Capital commitments		
Contracted capital expenditure approved by the directors but not provided for in these accounts	**252**	468

The Group's share of contingent liabilities and commitments relating to joint ventures is $0.2 billion (31 December 2017: $0.2 billion).

The Group has commitments totalling $243 million to purchase aircraft for delivery in 2018 (31 December 2017: $458 million).

As set out in note 19, the Group has contingent liabilities in respect of certain legal and regulatory matters for which it is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

19. Legal and regulatory matters

Claims and other proceedings

The Group receives legal claims against it in a number of jurisdictions and is subject to regulatory investigations and proceedings arising in the normal course of business.

Apart from the matters described below, the Group currently considers none of these claims, investigations or proceedings to be material.

2012 Settlements with certain US authorities

In 2012, the Group reached settlements with certain 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' and together the foregoing authorities, the 'US authorities'). 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 (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 and the Group is engaged with all relevant authorities to implement these programmes and meet the Group's obligations under the Settlements.

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, resulting in the subsequent retention of the Monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme. On 9 November 2017, the Group announced extension of the DPAs until 28 July 2018 and on 27 July 2018, the Group announced the further extension of the DPAs until 31 December 2018.

The November 2017 and July 2018 DPA extension agreements noted that the Group had taken a number of steps and made significant progress to comply with the requirements of the DPA and enhance its sanctions compliance programme, but that the programme had not at the time reached the standard required by the DPA. The Group is committed to ongoing cooperation with the authorities and to continuing to implement a comprehensive programme of improvements to its financial crime controls.

19. Legal and regulatory matters continued

2014 Settlement with NYDFS

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 (which, on 21 April 2017, was further extended to operate until 31 December 2018)

(iv) A 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. These temporary remediation measures include a restriction on opening, without prior approval of the NYDFS, a US dollar demand deposit account for any client that does not already have such an account with the Branch, a restriction on US dollar-clearing services for certain clients in Hong Kong and enhanced monitoring of certain high-risk clients in the UAE.

The remit of the SRP covers the management of these obligations.

Other ongoing investigations and reviews

The Group continues to cooperate with an investigation by the US authorities relating to 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.

The Group is engaged in ongoing discussions with the relevant US authorities regarding the resolution of this investigation, and such resolution may involve a range of civil and criminal penalties for sanctions compliance violations including substantial monetary penalties combined with other compliance measures such as remediation requirements and/or business restrictions.

It is not practicable to estimate the financial impact of these matters as there are many factors that may affect the range of possible outcomes; however, the resulting financial impact could be substantial.

Standard Chartered Bank is also engaged with the Financial Conduct Authority (FCA) to resolve the FCA investigation concerning Standard Chartered Bank's financial crime controls. The investigation has been focused on the effectiveness and governance of those controls from 2009 through 2014 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. Standard Chartered Bank has accepted that there were weaknesses in certain aspects of its relevant financial crime controls during the relevant period of the investigation and is engaging with the FCA on terms of the resolution of the investigation. Resolution of the investigation could involve a substantial monetary penalty and other civil measures available to the FCA.

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 continues to respond to inquiries and investigations by relevant authorities and is facing regulatory investigations and proceedings in various jurisdictions related to foreign exchange trading. There may be penalties or other financial consequences to the Group as a result.

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 China Forestry Holdings Limited, which was listed on the Hong Kong Stock Exchange in 2009. The SFC is pursuing disciplinary action against SCSHK, and there may be financial consequences for SCSHK in connection with this action.

20. Subordinated liabilities and other borrowed funds

	30.06.18				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	**9,828**	**1,472**	**3,033**	**525**	**14,858**
Floating rate subordinated debt	**161**	**16**	**–**	**12**	**189**
Total	**9,989**	**1,488**	**3,033**	**537**	**15,047**

	31.12.17				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	9,497	3,297	3,136	1,057	16,987
Floating rate subordinated debt	161	16	–	12	189
Total	9,658	3,313	3,136	1,069	17,176

Redemptions and repurchases during the period

On 19 March 2018, Standard Chartered Bank Korea Limited redeemed KRW90 billion 6.05 per cent subordinated debt 2018 on its maturity.

On 3 April 2018, Standard Chartered Bank redeemed £700m 7.75 per cent subordinated notes 2018 on its maturity.

On 10 April 2018, Standard Chartered Bank exercised its right to redeem SGD450 million 5.25 per cent subordinated notes 2023 (callable 2018).

On 18 April 2018, Standard Chartered Bank exercised its right to redeem JPY10 billion 3.35 per cent subordinated notes 2023 (callable 2018).

On 14 June 2018, Standard Chartered Bank repurchased in part, £95.1 million of its £200 million 7.75 per cent subordinated notes (callable 2022).

On 14 June 2018, Standard Chartered PLC repurchased in part, £372.5 million of its £900 million 5.125 per cent subordinated debt 2034.

Issuances during the period

On 15 March 2018, Standard Chartered PLC issued $500 million 4.866 per cent subordinated debt 2033 (callable 2028).

21. Share capital, other equity and reserves

Group and Company

	Number of ordinary shares millions	Ordinary share capital[1] $million	Share premium[2] $million	Total share capital & share premium $million	Other equity instruments $million
At 1 January 2017	3,284	1,642	5,449	7,091	3,969
Shares issued	7	4	–	4	992
At 30 June 2017	3,291	1,646	5,449	7,095	4,961
Shares issued	5	2	–	2	–
At 31 December 2017	**3,296**	**1,648**	**5,449**	**7,097**	**4,961**
Capitalised on scrip dividend	**2**	**1**	**–**	**1**	**–**
Shares issued	**6**	**3**	**–**	**3**	**–**
At 30 June 2018	**3,304**	**1,652**	**5,449**	**7,101**	**4,961**

1 Issued and fully paid ordinary shares of 50 cents each

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

21. Share capital, other equity 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.

On 17 May 2018, the Company issued 1,354,700 new ordinary shares instead of the 2017 final dividend.

During the period, 6,203,572 shares were issued under employee share plans at prices between nil and 620 pence.

Preference share capital

At 30 June 2018, the Company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the Company and are classified in equity.

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

Other equity instruments

On 2 April 2015, Standard Chartered PLC issued $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs. On 18 August 2016, Standard Chartered PLC issued a further $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued a further $1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $992 million after issue costs. All the issuances were made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

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

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

21. Share capital, other equity and reserves continued

Reserves

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- Merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015, for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Following the Group's decision to early apply this IFRS 9 requirement the cumulative OCA component of financial liabilities designated at fair value through profit or loss has been transferred from opening retained earnings to the OCA reserve. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings
- Fair value through OCI debt reserve represents the unrealised fair value gains and losses in respect of financial assets classified as fair value through OCI, net of expected credit losses and taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired. Fair value through OCI equity reserve represents unrealised fair value gains and losses in respect of financial assets classified as fair value through OCI, net of taxation. Gains and losses are recorded in this reserve and never recycled to the income statement
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur
- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions 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.

As at 30 June 2018, the distributable reserves of Standard Chartered PLC (the Company) were $15.1 billion (31 December 2017: $15.1 billion). These comprised retained earnings and $12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

Own shares

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

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

	1995 Trust			2004 Trust			Total		
Number of shares	**30.06.18**	31.12.17	30.06.17	**30.06.18**	31.12.17	30.06.17	**30.06.18**	31.12.17	30.06.17
Shares purchased during the period	**–**	–	–	**–**	–	–	**–**	–	–
Market price of shares purchased ($million)	**–**	–	–	**–**	–	–	**–**	–	–
Shares held at the end of the period	**1,336,879**	3,769,011	3,769,011	**16,755**	18,004	34,262	**1,353,634**	3,787,015	3,803,273
Maximum number of shares held during the period							**3,787,015**	3,803,273	6,182,467

22. Retirement benefit obligations

Retirement benefit obligations comprise:

	30.06.18 $million	31.12.17 $million	30.06.17 $million
Total market value of assets	**2,506**	2,592	2,391
Present value of the plans' liabilities	**(2,838)**	(3,035)	(2,919)
Defined benefit plans obligation	**(332)**	(443)	(528)
Defined contribution plans obligation	**(16)**	(12)	(26)
Net obligation	**(348)**	(455)	(554)

Retirement benefit charge comprises:

	6 months ended 30.06.18 $million	6 months ended 31.12.17 $million	6 months ended 30.06.17 $million
Defined benefit plans	**41**	63	35
Defined contribution plans	**146**	138	121
Charge against profit (note 6)	**187**	201	156
The pension cost for defined benefit plans was:			
Current service cost	**35**	37	36
Past service cost and curtailments	**–**	6	(9)
Gain on settlements	**–**	7	–
Interest income on pension plan assets	**(35)**	(34)	(32)
Interest on pension plan liabilities	**41**	47	40
Total charge to profit before deduction of tax	**41**	63	35
Losses/(returns) on plan assets excluding interest income	**31**	(80)	(33)
(Gains)/losses on liabilities	**(136)**	19	62
Total (gains)/losses recognised directly in statement of comprehensive income before tax	**(105)**	(61)	29
Deferred taxation	**6**	19	16
Total losses after tax	**(99)**	(42)	45

23. Related party transactions

Directors, connected persons or officers

As at 30 June 2018, Standard Chartered Bank had in place a charge over $73 million (31 December 2017: $75 million, 30 June 2017: $72 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

There were no changes in the related party transactions descibed in the Annual Report 2017 that have had a material effect on the financial position or performance of the Group in the period ended 30 June 2018. All related party transactions that have taken place in the period ended 30 June 2018 were similar in nature to those disclosed in the Annual Report 2017.

Associate and joint ventures

	30.06.18			31.12.17		
	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million
Assets						
Loans and advances	–	–	61	–	50	95
Debt securities	–	27	–	–	27	–
Derivative assets	2	–	–	1	–	–
Total assets	2	27	61	1	77	95
Liabilities						
Deposits	576	–	73	219	–	29
Debt securities issued	15	–	–	15	–	–
Total liabilities	591	–	73	234	–	29
Loan commitments and other guarantees	–	50	–	–	–	–
Total net income	3	–	2	5	–	6

24. Post balance sheet events

An interim dividend for half year 2018 of 6 cents per ordinary share was declared by the directors on 31 July 2018.

25. Corporate governance

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

As previously announced, since 31 December 2017, there has been one change to a position on the Board. Christine Hodgson, Chairman of the Remuneration Committee and member of the Audit, Governance and Nomination, Brand, Values and Conduct and Board Financial Crime Risk Committees, took over from Naguib Kheraj as Senior Independent Director on 1 February 2018. Naguib Kheraj remains as Deputy Chairman, Chairman of the Audit Committee and member of the Board Risk, Board Financial Crime Risk, Remuneration and Governance and Nomination Committees. Biographies for each of the directors and a list of the committees' membership can be found at sc.com.

In compliance with Rule 13.51B(1) of the Hong Kong Listing Rules, the Company confirms that Dr Ngozi Okonjo-Iweala, Independent Non-Executive Director, was appointed to the Board of Twitter, Inc. as an independent director with effect from 19 July 2018.

26. 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 31 July 2018. The statutory accounts for the year ended 31 December 2017 have been audited by the Company's auditors and delivered to the Registrar of Companies in England and Wales. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 of the Companies Act 2006.

27. Transition to IFRS 9 Financial Instruments

Balance sheet

	IAS 39 31 December 2017 $million	Classification & measurement $million	Expected credit losses $million	Other impacts $million	IFRS 9 1 January 2018 $million
Cash and balances at central banks	58,864	–	–	–	58,864
Financial assets held at fair value through profit or loss	27,564	47,076	–	–	74,640
Derivative financial instruments	47,031	–	–	–	47,031
Loans and advances to banks	57,494	(293)	(7)	–	57,194
Loans and advances to customers[1]	248,707	(951)	(815)	–	246,941
Reverse repurchase agreements and other similar secured lending	54,275	(44,608)	–	–	9,667
Investment securities	117,025	(1,193)	(19)	–	115,813
Other assets	33,490	–	–	–	33,490
Current tax assets	491	–	–	1	492
Prepayments and accrued income	2,307	–	–	–	2,307
Interests in associates and joint ventures	2,307	–	–	(52)	2,255
Goodwill and intangible assets	5,013	–	–	–	5,013
Property, plant and equipment	7,211	–	–	–	7,211
Deferred tax assets	1,177	–	–	125	1,302
Assets classified as held for sale	545	–	–	–	545
Total assets	663,501	31	(841)	74	662,765
Deposits by banks	30,945	–	–	–	30,945
Customer accounts	370,509	–	–	–	370,509
Repurchase agreements and other similar secured borrowing	39,783	(38,144)	–	–	1,639
Financial liabilities held through profit or loss	16,633	38,140	–	–	54,773
Derivative financial instruments	48,101	–	–	–	48,101
Debt securities in issue	46,379	–	–	–	46,379
Other liabilities	35,257	–	–	–	35,257
Current tax liabilities	376	–	–	(10)	366
Accruals and deferred income	5,493	–	–	–	5,493
Subordinated liabilities and other borrowed funds	17,176	–	–	–	17,176
Deferred tax liabilities	404	–	–	(37)	367
Provisions for liabilities and charge[1]	183	–	176	–	359
Retirement benefit obligations	455	–	–	–	455
Total liabilities	611,694	(4)	176	(47)	611,819
Share capital and share premium account	7,097	–	–	–	7,097
Other reserves	12,767	(165)	65	(7)	12,660
Retained earnings[1]	26,641	200	(1,074)	128	25,895
Total parent company shareholders' equity	46,505	35	(1,009)	121	45,652
Other equity instruments	4,961	–	–	–	4,961
Total equity excluding non-controlling interests	51,466	35	(1,009)	121	50,613
Non-controlling interests	341	–	(8)	–	333
Total equity	51,807	35	(1,017)	121	50,946
Total equity and liabilities	663,501	31	(841)	74	662,765

1 The Group's initial estimate of credit impairment provisions on adoption of IFRS 9 was $6,720 million. Following refinement of the Group's expected loss models, the estimate of the opening credit impairment provisions has been revised down by $222 million to $6,498 million, and the net expected credit loss of $(1,296) million adjusted against retained earnings has similarly decreased by $222 million to $(1,074) million

27. Transition to IFRS 9 Financial Instruments continued

Statement of changes in equity

	Share capital and share premium account $million	Capital and merger reserves $million	Own credit adjustment reserve $million	Available-for-sale reserve $million	Fair value through OCI reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 31 December 2017	7,097	17,129	54	83	–	(45)	(4,454)	26,641	46,505	4,961	341	51,807
Net impact of:	–	–	–	(83)	(82)	–	–	200	35	–	–	35
IFRS 9 reclassifications[1]	–	–	–	(83)	(86)	–	–	169	–	–	–	–
IFRS 9 re-measurements[2]	–	–	–	–	4	–	–	31	35	–	–	35
Expected credit loss, net[3]	–	–	–	–	65	–	–	(1,074)	(1,009)	–	(8)	(1,017)
Tax impact[4]	–	–	–	–	(6)	–	–	179	173	–	–	173
Impact of IFRS 9 on share of joint ventures and associates, net of tax	–	–	–	–	(1)	–	–	(51)	(52)	–	–	(52)
Estimated IFRS 9 transition adjustments	–	–	–	(83)	(24)	–	–	(746)	(853)	–	(8)	(861)
As at 1 January 2018	7,097	17,129	54	–	(24)	(45)	(4,454)	25,895	45,652	4,961	333	50,946

1 Available-for-sale category has been removed under IFRS 9. Unrealised gains and losses have been transferred to fair value through other comprehensive income (FVOCI) reserves, or retained earnings where the instruments are held as FVTPL. The FVOCI reserve includes a $187 million loss in respect of equity securities designated as FVOCI, partly offset by $18 million gain on debt securities designated as FVOCI

2 The remeasurement impact of financial assets that are now measured at fair value under IFRS 9 (page 137)

3 Impact from adopting expected credit losses. Gross impact is estimated at $1,082 million (comprising $1,074 million in retained earnings and $8 million in non-controlling interests). As FVOCI debt instruments are held at fair value on the balance sheet, the expected credit loss charged to retained earnings is recognised as a credit to the FVOCI reserve. The net FVOCI reserve relating to FVOCI debt instruments will be recycled to the income statement on disposal of the instruments

4 Tax of $173 million has been credited to reserves as a result of transition to IFRS 9. Of this, deferred tax of $142 million has been credited to retained earnings, and is provided on additional deductible temporary differences that have arisen from loss provisions due to initial adoption of the expected credit loss approach

Impact of moving from an incurred loss approach to an expected credit loss approach

	1 January 2018							
	Loss allowances per IAS 39			Expected credit loss per IFRS 9				
	Portfolio impairment provisions $million	Individual impairment provisions $million	Total $million	Stage 1 $million	Stage 2 $million	Stage 3 $million	Total $million	Increase/ (decrease) $million
Corporate & Institutional Banking	156	3,466	3,622	105	394	3,433	3,932	310
Retail Banking	208	275	483	382	178	389	949	466
Commercial Banking	99	1,431	1,530	39	93	1,369	1,501	(29)
Private Banking	2	67	69	8	1	91	100	31
Central & other items	–	–	–	4	–	–	4	4
Total loans and advances to customers[1]	465	5,239	5,704	538	666	5,282	6,486	782
Loans and advances to banks	1	4	5	6	2	4	12	7
Financial guarantees	–	77	77	6	16	77	99	22
Debt securities and other eligible bills – amortised cost	–	114	114	3	16	213	232	118
Debt securities and other eligible bills – FVOCI	–	–	–	23	42	–	65	65
Total	466	5,434	5,900	576	742	5,576	6,894	994

1 Includes both drawn and undrawn commitments

27. Transition to IFRS 9 Financial Instruments continued

Movement in loss provisions

	Debt securities $ million	FVOCI debt securities $ million	Loans to banks $ million	Loans to customers $ million	Provisions for liabilities and charges: Undrawn commitments $ million	Provisions for liabilities and charges: Guarantees $ million	Total $ million
Total IAS 39 loss provisions	114	–	5	5,702[1]	2[1]	77	5,900
Loss provisions reclassified to FVTPL	(109)	–	–	(122)	–	–	(231)
Modification losses netted against gross exposure	–	–	–	(65)	–	–	(65)
Adjusted IAS 39 loss provisions	5	–	5	5,515	2	77	5,604
Additional expected credit loss provisions	19	65	7	815	154	22	1,082
Total IFRS 9 impairment provisions	24	65	12	6,330[2]	156[2]	99	6,686
Estimated net expected credit loss movement	*(90)*	*65*	*7*	*628*	*154*	*22*	*786*

1 Total IAS 39 loss allowances ($5,704 million) applied to loans and advances to customers as previously reported (page 138)

2 Total IFRS 9 expected credit losses ($6,486 million) applied to loans and advances to customers (page 138)

Impact on Non-performing loans to customers and banks[1]

	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross					
At 31 December 2017	5,957	489	2,026	207	8,679
Modified loans	(39)	–	(26)	–	(65)
Performing forborne (impaired)	–	329	–	–	329
Reclassified	(62)	–	(40)	–	(102)
At 1 January 2018 (stage 3)	5,856	818	1,960	207	8,841
Credit impairment provisions					
At 31 December 2017 (IAS 39 IIP)	3,468	215[2]	1,431	67	5,181
Modified loans	(39)	–	(26)	–	(65)
Performing forborne (impaired)	–	60	–	–	60
Reclassified to FVTPL	(81)	–	(40)	–	(121)
Additional expected credit loss	1	114	6	–	121
GSAM multiple scenario provisions	88	–	(2)	24	110
At 1 January 2018 (stage 3)	3,437	389[2]	1,369	91	5,286
IAS 39 PIP at 31 December 2017	157	208	99	2	466
Collateral at 31 December 2017	1,111	218	277	203	1,809
Non-performing cover ratios:					
At 31 December 2017 (IAS 39)	61%	87%	75%	33%	65%
At 31 December 2017 (IAS 39, excluding PIP)	58%	44%	71%	32%	60%
At 1 January 2018 (IFRS 9)	59%	48%	70%	44%	60%
At 31 December 2017 (IAS 39, including collateral)	77%	89%	84%	100%	81%
At 1 January 2018 (IFRS 9, including collateral)	78%	74%	84%	100%	80%
Of the above, included in the liquidation portfolio:					
Gross	1,945	–	125	156	2,226
Credit impairment provisions (IAS 39)	*1,388*	–	*123*	*62*	*1,573*
Additional provisions (IFRS 9)	*29*	–	–	*24*	*53*
At 1 January 2018 (Stage 3)	1,417	–	123	86	1,626
Non-performing cover ratios:					
At 31 December 2017 (IAS 39)	71%	–	98%	40%	71%
At 1 January 2018 (IFRS 9)	73%	–	98%	55%	73%
At 31 December 2017 (IAS 39, including collateral)	84%	–	98%	100%	86%
At 1 January 2018 (IFRS 9, including collateral)	85%	–	98%	100%	88%

1 Includes FVTPL impaired loans

2 Under IAS 39, Retail Banking non-performing loans excluded those impaired loans classified as performing

Supplementary financial information

1. Analysis of underlying performance by key country

The following tables provide information for key countries in which the Group operates. The numbers are prepared on a management view. Refer to note 2 for details.

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

	6 months ended 31.12.17							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,714	464	366	686	447	356	347	333
Operating expenses	(966)	(411)	(341)	(535)	(353)	(268)	(327)	(316)
Operating profit before impairment losses and taxation	748	53	25	151	94	88	20	17
Credit impairment	3	(58)	(9)	(117)	(108)	(61)	(49)	4
Other impairment	(27)	–	–	–	–	–	(14)	(2)
Profit from associates and joint ventures	–	–	106	–	–	–	–	–
Underlying profit/(loss) before taxation	724	(5)	122	34	(14)	27	(43)	19
Total assets employed	140,431	51,822	33,243	86,431	26,315	20,268	119,272	45,338
Of which: loans and advances to customers	67,292	34,891	12,899	45,495	16,515	11,328	34,694	10,092
Total liabilities employed	128,577	45,966	28,151	84,288	17,614	15,142	128,270	39,646
Of which: customer accounts	108,352	36,213	21,854	59,905	14,141	11,692	80,972	11,831

	6 months ended 30.06.17							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	1,670	503	341	733	561	377	400	342
Operating expenses	(906)	(366)	(311)	(481)	(305)	(256)	(285)	(325)
Operating profit before impairment losses and taxation	764	137	30	252	256	121	115	17
Credit impairment	(51)	5	(8)	(101)	(143)	(33)	(1)	(61)
Other impairment	(51)	(3)	–	–	(3)	–	–	–
Profit from associates and joint ventures	–	–	123	–	–	–	–	–
Underlying profit/(loss) before taxation	662	139	145	151	110	88	114	(44)
Total assets employed	140,865	45,754	28,977	85,902	27,835	19,906	113,672	42,455
Of which: loans and advances to customers	65,950	31,186	11,964	43,071	15,740	11,076	29,527	9,829
Total liabilities employed	126,456	39,654	25,034	84,745	18,625	14,572	110,911	62,008
Of which: customer accounts	104,577	31,142	20,011	59,807	14,064	11,207	56,809	38,109

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

Retail Banking

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

	6 months ended 31.12.17				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,349	667	403	19	2,438
Operating expenses	(954)	(571)	(324)	(13)	(1,862)
Operating profit before impairment losses and taxation	395	96	79	6	576
Credit impairment	(95)	(69)	(39)	–	(203)
Other impairment	(1)	–	–	–	(1)
Underlying profit before taxation	299	27	40	6	372
Restructuring	(8)	(1)	(14)	–	(23)
Statutory profit/(loss) before taxation	291	26	26	6	349
Loans and advances to customers	68,121	28,170	6,233	489	103,013
Customer accounts	88,850	30,544	8,950	1,192	129,536

	6 months ended 30.06.17				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,335	635	410	16	2,396
Operating expenses	(885)	(514)	(314)	(10)	(1,723)
Operating profit before impairment losses and taxation	450	121	96	6	673
Credit impairment	(55)	(77)	(40)	–	(172)
Underlying profit before taxation	395	44	56	6	501
Restructuring	(1)	3	2	–	4
Statutory profit/(loss) before taxation	394	47	58	6	505
Loans and advances to customers	65,249	26,823	6,028	391	98,491
Customer accounts	83,937	29,564	9,071	1,204	123,776

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

Commercial Banking

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

	6 months ended 31.12.17			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	263	262	148	673
Operating expenses	(193)	(160)	(101)	(454)
Operating profit before impairment losses and taxation	70	102	47	219
Credit impairment	32	(97)	(60)	(125)
Underlying profit before taxation	102	5	(13)	94
Restructuring	(1)	(3)	(3)	(7)
Statutory profit/(loss) before taxation	101	2	(16)	87
Loans and advances to customers	14,179	9,439	4,490	28,108
Customer accounts	19,879	10,959	3,042	33,880

	6 months ended 30.06.17			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	264	242	154	660
Operating expenses	(193)	(144)	(90)	(427)
Operating profit before impairment losses and taxation	71	98	64	233
Credit impairment	(20)	(13)	(9)	(42)
Other impairment	(3)	–	–	(3)
Underlying profit before taxation	48	85	55	188
Restructuring	(3)	(2)	(1)	(6)
Statutory profit/(loss) before taxation	45	83	54	182
Loans and advances to customers	13,355	9,104	4,339	26,798
Customer accounts	19,645	9,116	3,325	32,086

3. Analysis of operating income by product and segment

The following tables provide a breakdown of the Group's underlying operating income by product and client segment.

	6 months ended 30.06.18					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,430	10	400	–	–	1,840
Trade	385	10	194	–	–	589
Cash Management and Custody	1,045	–	206	–	–	1,251
Financial Markets	1,248	–	153	–	–	1,401
Foreign Exchange	439	–	91	–	–	530
Rates	281	–	17	–	–	298
Commodities	92	–	12	–	–	104
Credit and Capital Markets	187	–	6	–	–	193
Capital Structuring Distribution Group	133	–	14	–	–	147
Other Financial Markets	116	–	13	–	–	129
Corporate Finance	616	–	49	–	–	665
Lending and Portfolio Management	174	–	104	–	–	278
Wealth Management	–	820	1	170	–	991
Retail Products	–	1,793	2	101	–	1,896
CCPL and other unsecured lending	–	696	–	–	–	696
Deposits	–	739	3	83	–	825
Mortgage and Auto	–	314	–	18	–	332
Other Retail Products	–	44	(1)	–	–	43
Treasury	–	–	–	–	628	628
Other[1]	(17)	(3)	(3)	–	(27)	(50)
Total underlying operating income	3,451	2,620	706	271	601	7,649

1 Other includes GSAM

	6 months ended 31.12.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,336	10	386	–	–	1,732
Trade	401	10	193	–	–	604
Cash Management and Custody	935	–	193	–	–	1,128
Financial Markets	1,067	–	132	–	–	1,199
Foreign Exchange	367	–	79	–	–	446
Rates	232	–	14	–	–	246
Commodities	67	–	10	–	–	77
Credit and Capital Markets	168	–	7	–	–	175
Capital Structuring Distribution Group	113	–	10	–	–	123
Other Financial Markets	120	–	12	–	–	132
Corporate Finance	746	–	45	–	–	791
Lending and Portfolio Management	134	–	105	–	–	239
Wealth Management	–	728	2	155	–	885
Retail Products	–	1,701	3	103	–	1,807
CCPL and other unsecured lending	–	682	1	–	–	683
Deposits	–	622	3	85	–	710
Mortgage and Auto	–	358	–	17	–	375
Other Retail Products	–	39	(1)	1	–	39
Treasury	–	–	–	–	455	455
Other	(5)	(1)	–	–	(35)	(41)
Total underlying operating income	3,278	2,438	673	258	420	7,067

3. Analysis of operating income by product and segment continued

	6 months ended 30.06.17					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	1,228	8	361	–	–	1,597
Trade	392	8	193	–	–	593
Cash Management and Custody	836	–	168	–	–	1,004
Financial Markets	1,199	–	146	–	–	1,345
Foreign Exchange	412	–	85	–	–	497
Rates	271	–	18	–	–	289
Commodities	69	–	11	–	–	80
Credit and Capital Markets	197	–	4	–	–	201
Capital Structuring Distribution Group	141	–	15	–	–	156
Other Financial Markets	109	–	13	–	–	122
Corporate Finance	644	–	41	–	–	685
Lending and Portfolio Management	150	–	107	–	–	257
Wealth Management	–	710	2	144	–	856
Retail Products	–	1,675	3	98	–	1,776
CCPL and other unsecured lending	–	684	–	–	–	684
Deposits	–	623	3	83	–	709
Mortgage and Auto	–	334	–	15	–	349
Other Retail Products	–	34	–	–	–	34
Treasury	–	–	–	–	688	688
Other	(3)	3	–	–	18	18
Total underlying operating income	3,218	2,396	660	242	706	7,222

Convenience translation of selected financial statements into Indian Rupees

In compliance with regulation 70 read with schedule IV part B of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) regulations, 2015, as amended, the Consolidated financial statements (pages 145 to 150) are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 68.5753 as at 30 June 2018 as published by the Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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

For the six months ended 30 June 2018

	6 months ended 30.06.18 Rs. million	6 months ended 31.12.17 Rs. million	6 months ended 30.06.17 Rs. million
Interest income	**564,169**	524,601	465,283
Interest expense	**(265,112)**	(235,556)	(193,314)
Net interest income	**299,057**	289,045	271,971
Fees and commission income	**144,968**	134,476	135,848
Fees and commission expense	**(16,801)**	(12,481)	(17,007)
Net fee and commission income	**128,167**	121,995	118,841
Net trading income	**66,244**	37,991	66,724
Other operating income	**29,556**	44,985	37,648
Non-interest income			
Operating income	**523,024**	494,016	495,182
Staff costs	**(245,362)**	(239,671)	(223,761)
Premises costs	**(25,579)**	(29,967)	(26,470)
General administrative expenses	**(55,409)**	(80,302)	(57,329)
Depreciation and amortisation	**(29,213)**	(30,447)	(26,401)
Operating expenses	**(355,563)**	(380,387)	(333,961)
Operating profit before impairment losses and taxation	**167,461**	113,629	161,221
Credit impairment	**(14,675)**	(48,483)	(44,917)
Other impairment			
Goodwill	**–**	(21,944)	–
Other	**(3,429)**	(5,897)	(6,378)
Profit from associates and joint ventures	**11,521**	8,023	10,355
Profit before taxation	**160,878**	45,328	120,281
Taxation	**(51,638)**	(41,077)	(37,579)
Profit for the period	**109,240**	4,251	82,702
Profit attributable to:			
Non-controlling interests	**2,263**	2,674	686
Parent company shareholders	**106,977**	1,577	82,016
Profit for the period	**109,240**	4,251	82,702
	Rupees	Rupees	Rupees
Earnings per share:			
Basic earnings/(loss) per ordinary share	**27.9**	(4.1)	20.2
Diluted earnings/(loss) per ordinary share	**27.6**	(4.1)	20.0

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

For the six months ended 30 June 2018

	6 months ended 30.06.18 Rs. million	6 months ended 31.12.17 Rs. million	6 months ended 30.06.17 Rs. million
Profit for the period	**109,240**	4,251	82,702
Other comprehensive income/(loss)			
Items that will not be reclassified to income statement:	**17,349**	7,063	(23,384)
Own credit gains/(losses) on financial liabilities designated at fair value through profit or loss	**9,326**	4,183	(21,258)
Equity instruments at fair value through other comprehensive income	**1,303**	–	–
Actuarial gains/(losses) on retirement benefit obligations	**7,200**	4,183	(1,989)
Taxation relating to components of other comprehensive income	**(480)**	(1,303)	(137)
Items that may be reclassified subsequently to income statement:	**(56,644)**	36,276	68,781
Exchange differences on translation of foreign operations:			
Net (losses)/gains taken to equity	**(69,124)**	51,089	61,169
Net gains/(losses) on net investment hedges	**14,812**	(12,138)	(7,612)
Share of other comprehensive income/(loss) from associates and joint ventures	**1,097**	960	(1,029)
Debt instruments at fair value through other comprehensive income/			
Available for sale investments:			
Net valuation (losses)/gains taken to equity	**(8,161)**	3,703	21,601
Reclassified to income statement	**892**	(8,983)	(6,995)
Net impact of expected credit losses	**(549)**	–	–
Cash flow hedges:			
Net gains taken to equity	**3,360**	206	2,194
Reclassified to income statement	**343**	754	–
Taxation relating to components of other comprehensive income	**686**	686	(549)
Other comprehensive (loss)/income for the period, net of taxation	**(39,295)**	43,340	45,397
Total comprehensive income for the period	**69,945**	47,590	128,099
Total comprehensive income attributable to:			
Non-controlling interests	**1,714**	2,537	892
Parent company shareholders	**68,231**	45,053	127,207
	69,945	47,590	128,099

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

As at 30 June 2018

	30.06.18 Rs. million	31.12.17 Rs. million
Assets		
Cash and balances at central banks	**3,991,974**	4,036,616
Financial assets held at fair value through profit or loss	**5,477,041**	1,890,210
Derivative financial instruments	**3,550,829**	3,225,165
Loans and advances to banks	**3,812,992**	3,942,668
Loans and advances to customers	**17,493,559**	17,055,157
Reverse repurchase agreements and other similar secured lending	**876,461**	3,721,924
Investment securities	**8,440,316**	8,025,024
Other assets	**2,679,100**	2,296,587
Current tax assets	**25,099**	33,670
Prepayments and accrued income	**165,815**	158,203
Interests in associates and joint ventures	**160,809**	158,203
Goodwill and intangible assets	**341,094**	343,768
Property, plant and equipment	**502,383**	494,496
Deferred tax assets	**88,462**	80,713
Assets classified as held for sale	**45,260**	37,374
Total assets	**47,651,193**	45,499,780
Liabilities		
Deposits by banks	**2,113,216**	2,122,063
Customer accounts	**26,203,102**	25,407,766
Repurchase agreements and other similar secured borrowing	**402,057**	2,728,131
Financial liabilities held at fair value through profit or loss	**4,339,034**	1,140,613
Derivative financial instruments	**3,631,885**	3,298,541
Debt securities in issue	**3,167,905**	3,180,454
Other liabilities	**2,780,317**	2,417,759
Current tax liabilities	**42,654**	25,784
Accruals and deferred income	**325,870**	376,684
Subordinated liabilities and other borrowed funds	**1,031,853**	1,177,849
Deferred tax liabilities	**31,202**	27,704
Provisions for liabilities and charges	**27,430**	12,549
Retirement benefit obligations	**23,864**	31,202
Total liabilities	**44,120,388**	41,947,100
Equity		
Share capital and share premium account	**486,953**	486,679
Other reserves	**822,149**	875,501
Retained earnings	**1,858,802**	1,826,915
Total parent company shareholders' equity	**3,167,905**	3,189,094
Other equity instruments	**340,202**	340,202
Total equity excluding non-controlling interests	**3,508,107**	3,529,296
Non-controlling interests	**22,698**	23,384
Total equity	**3,530,805**	3,552,681
Total equity and liabilities	**47,651,193**	45,499,780

7. Condensed consolidated interim statement of changes in equity (translated to INR)

For the year ended 30 June 2018

	Share capital and share premium account Rs. million	Capital and merger reserves[1] Rs. million	Own credit adjust-ment reserve Rs. million	Available-for-sale reserve Rs. million	Fair value through other compre-hensive income reserve – debt Rs. million	Fair value through other compre-hensive income reserve – equity Rs. million	Cash flow hedge reserve Rs. million	Translation reserve Rs. million	Retained earnings Rs. million	Parent company share-holders' equity Rs. million	Other equity instru-ments Rs. million	Non-controlling interests Rs. million	Total Rs. million
As at 31 December 2017	486,679	1,174,626	3,703	5,692	–	–	(3,086)	(305,434)	1,826,915	3,189,094	340,202	23,384	3,552,681
IFRS 9 Reclassifications[2]	–	–	–	(5,692)	(8,983)	3,086	–	–	11,589	–	–	–	–
IFRS 9 Re-measurements[2]	–	–	–	–	–	274	–	–	2,126	2,400	–	–	2,400
Expected credit loss, net	–	–	–	–	4,457	–	–	–	(73,650)[3]	(69,192)	–	(549)	(69,741)
Tax impact	–	–	–	–	(754)	343	–	–	12,275	11,864	–	–	11,864
Impact of IFRS 9 on share of joint ventures and associates, net of tax	–	–	–	–	–	(69)	–	–	(3,497)	(3,566)	–	–	(3,566)
IFRS 9 Transition adjustments	–	–	–	(5,692)	(5,280)	3,634	–	–	(51,157)	(58,495)	–	(549)	(59,043)
As at 1 January 2018	486,679	1,174,626	3,703	–	(5,280)	3,634	(3,086)	(305,434)	1,775,757	3,130,600	340,202	22,836	3,493,637
Profit for the period	–	–	–	–	–	–	–	–	106,977	106,977	–	2,263	109,240
Other comprehensive income/(loss)	–	–	9,052	–	(7,063)	2,537	3,154	(53,694)	7,269[4]	(38,745)	–	(549)	(39,294)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(1,852)	(1,852)
Shares issued, net of expenses	274	–	–	–	–	–	–	–	–	274	–	–	274
Net own shares adjustment	–	–	–	–	–	–	–	–	480	480	–	–	480
Share option expense, net of taxation	–	–	–	–	–	–	–	–	6,652	6,652	–	–	6,652
Dividends net of scrip[5]	–	–	–	–	–	–	–	–	(38,676)	(38,676)	–	–	(38,676)
Other movements	–	–	–	–	–	–	–	–	343	343	–	–	343
As at 30 June 2018	486,953	1,174,626	12,755	–	(12,344)	6,172	69	(359,129)	1,858,802	3,167,905	340,202	22,698	3,530,805

1 Includes capital reserve of Rs. 343 million, capital redemption reserve of Rs. 891 million and merger reserve of Rs. 1,173,392 million

2 As per Note 27 Transition to IFRS 9 Financial Instruments

3 The Group's initial estimate of credit impairment on adoption of IFRS 9 was Rs. 460,826 million. Following refinement of the Group's expected loss models, the estimate of the opening credit impairment has been revised down by Rs. 15,224 million to Rs. 445,602 million, and the net expected credit loss of Rs. (88,874) million adjusted against retained earnings has similarly decreased by Rs. 15,224 million

4 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures Rs. 7,269 million (Rs. 6,583 million for the six months ended 31 December 2017 and Rs. (3,154) million for the six months ended 30 June 2017)

5 Comprises dividends paid net of scrip Rs. 23,796 million (2017: Rs. nil) and dividends on preferences shares classified as equity and Additional Tier 1 securities Rs. 14,881 million (Rs. 15,087 million for the six months ended 31 December 2017 and Rs. 15,429 million for the six months ended 30 June 2017)

7. Condensed consolidated interim statement of changes in equity (translated to INR) continued

	Share capital and share premium account Rs. million	Capital and merger reserves[1] Rs. million	Own credit adjust-ment reserve Rs. million	Available -for-sale reserve Rs. million	Fair value through other compre-hensive income reserve – debt Rs. million	Fair value through other compre-hensive income reserve – equity Rs. million	Cash flow hedge reserve Rs. million	Translation reserve Rs. million	Retained earnings Rs. million	Parent company share-holders' equity Rs. million	Other equity instru-ments Rs. million	Non-controlling interests Rs. million	Total Rs. million
At 1 January 2017	486,267	1,174,626	19,818	(274)	–	–	(5,829)	(398,080)	1,766,020	3,042,549	272,175	22,013	3,336,737
Profit for the period	–	–	–	–	–	–	–	–	82,016	82,016	–	686	82,702
Other comprehensive (loss)/income	–	–	(20,298)	13,166	–	–	1,920	53,557	(3,154)[2]	45,191	–	206	45,397
Distributions	–	–	–	–	–	–	–	–	–	–	–	(3,566)	(3,566)
Shares issued, net of expenses	274	–	–	–	–	–	–	–	–	274	–	–	274
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	68,027	–	68,027
Net own shares adjustment	–	–	–	–	–	–	–	–	549	549	–	–	549
Share option expense, net of taxation	–	–	–	–	–	–	–	–	4,663	4,663	–	–	4,663
Dividends[3]	–	–	–	–	–	–	–	–	(15,429)	(15,429)	–	–	(15,429)
Other movements[4]	–	–	–	–	–	–	–	–	1,166	1,166	–	1,646	2,812
At 30 June 2017	486,542	1,174,626	(480)	12,892	–	–	(3,909)	(344,522)	1,835,829	3,160,978	340,202	20,984	3,522,165
Profit for the period	–	–	–	–	–	–	–	–	1,577	1,577	–	2,674	4,252
Other comprehensive income/(loss)	–	–	4,183	(7,200)	–	–	823	39,088	6,583[2]	43,477	–	(137)	43,340
Distributions	–	–	–	–	–	–	–	–	–	–	–	69	69
Shares issued, net of expenses	137	–	–	–	–	–	–	–	–	137	–	–	137
Net own shares adjustment	–	–	–	–	–	–	–	–	137	137	–	–	137
Share option expense, net of taxation	–	–	–	–	–	–	–	–	3,909	3,909	–	–	3,909
Dividends[3]	–	–	–	–	–	–	–	–	(15,087)	(15,087)	–	–	(15,087)
Other movements[5]	–	–	–	–	–	–	–	–	(6,035)	(6,035)	–	(206)	(6,240)
As at 31 December 2017	486,679	1,174,626	3,703	5,692	–	–	(3,086)	(305,434)	1,826,915	3,189,094	340,202	23,384	3,552,681

1 Includes capital reserve of Rs. 343 million, capital redemption reserve of Rs. 891 million and merger reserve of Rs. 1,173,392 million

2 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures of Rs. 6,583 million for the six months ended 31 December 2017 and Rs. (3,154) million for the six months ended 30 June 2017

3 Comprises dividends on preference shares classified as equity and Additional Tier 1 securities Rs. 15,087 million for the six months ended 31 December 2017 and Rs. 15,429 million for the six months ended 30 June 2017

4 Mainly due to additional share capital issued including the premium by Nepal to its non-controlling interests of Rs. 2,194 million and Rs. 617 million with respect to an acquisition

5 Mainly due to other equity adjustments of Rs. 6,172 million

8. Condensed consolidated interim cash flow statement (translated to INR)

For the six months ended 30 June 2018

	6 months ended 30.06.18 Rs. million	6 months ended 31.12.17 Rs. million	6 months ended 30.06.17 Rs. million
Cash flows from operating activities:			
Profit before taxation	**160,878**	45,328	120,281
Adjustments for non-cash items and other adjustments included within income statement	**81,125**	151,346	70,907
Change in operating assets	**(1,977,917)**	(457,672)	(476,667)
Change in operating liabilities	**2,742,601**	233,430	165,609
Contributions to defined benefit schemes	**(2,606)**	(6,378)	(3,429)
UK and overseas taxes paid	**(22,630)**	(31,270)	(31,476)
Net cash from /(used in) operating activities	**981,451**	(65,215)	(154,774)
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(4,389)**	(7,406)	(3,909)
Disposal of property, plant and equipment	**206**	137	1,852
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	**–**	–	(3,017)
Dividends received from subsidiaries, associates and joint ventures	**206**	69	69
Disposal of subsidiaries	**–**	(1,646)	1,646
Purchase of investment securities	**(9,868,191)**	(9,041,928)	(9,143,282)
Disposal and maturity of investment securities	**9,247,173**	8,658,935	9,260,889
Net cash (used in)/from investing activities	**(624,995)**	(391,839)	114,246
Cash flows from financing activities:			
Issue of ordinary and preference share capital, net of expenses	**274**	137	274
Exercise of share options	**480**	137	549
Issue of Additional Tier 1 capital, net of expenses	**–**	–	68,027
Gross proceeds from issue of subordinated liabilities	**34,288**	–	–
Interest paid on subordinated liabilities	**(16,595)**	(33,328)	(17,624)
Repayment of subordinated liabilities	**(153,746)**	(204,629)	–
Proceeds from issue of senior debts	**131,733**	139,276	17,898
Repayment of senior debts	**(168,970)**	(204,149)	(81,262)
Interest paid on senior debts	**(15,224)**	(37,579)	(23,864)
(Repayment to)/investment from non-controlling interests	**–**	(206)	1,646
Dividends paid to non-controlling interests and preference shareholders	**(16,664)**	(15,018)	(18,995)
Dividends paid to ordinary shareholders	**(23,864)**	–	–
Net cash used in financing activities	**(228,288)**	(355,357)	(53,352)
Net increase/(decrease) in cash and cash equivalents	**128,167**	(812,412)	(93,880)
Cash and cash equivalents at beginning of the period	**5,981,892**	6,761,250	6,650,227
Effect of exchange rate movements on cash and cash equivalents	**(53,832)**	33,053	204,903
Cash and cash equivalents at end of the period	**6,056,227**	5,981,892	6,761,250

Summary of significant differences between Indian GAAP and IFRS

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 with comparatives as at 31 December 2017 and 30 June 2017 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union.

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

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit or loss attributable to parent company shareholders for the period ended 30 June 2018 and 31 December 2017 and 30 June 2017 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 2018. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. In addition no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

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

Changes in accounting policy

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

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

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

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

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

Functional and presentation currency

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

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

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

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

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

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

At each balance sheet date:

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

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)

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

Indian GAAP (AS 21 Consolidated Financial Statements)

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

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

Business combinations

IFRS (IFRS 3 Business Combinations)

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

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

Business combinations continued

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

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

Indian GAAP (AS 14 Accounting for Amalgamations)

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

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

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

Goodwill

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

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

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

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

Acquired and internally generated intangible assets

IFRS (IAS 38 Intangible Assets)

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

Indian GAAP (AS 26 Intangible Assets)

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

Property, plant and equipment

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

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

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

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

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

Recognition and measurement of financial instruments

IFRS 9 Financial Instruments

Classification and measurement

Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Financial assets held at amortised cost and fair value through other comprehensive income

Debt instruments held at amortised cost or held at fair value through comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

Whether financial assets are held at amortised cost or at FVOCI depends on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

Recognition and measurement of financial instruments continued

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

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

Equity instruments designated as FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition at FVOCI on an instrument-by-instrument basis. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss, even on derecognition.

Financial assets and liabilities held at fair value through profit or loss

Financial assets that are not held at amortised cost or which are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities that are mandatorily held at fair value through profit or loss include:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term
- Hybrid financial assets that contain one or more embedded derivatives
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ('accounting mismatch').

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

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

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at that date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at FVOCI are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets that are not subsequently measured at fair value through profit or loss.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in the income statement.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in expected credit losses are recognised in the profit or loss and are accumulated in a separate component of equity.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity.

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

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated fair value through profit or loss is recognised in profit or loss.

Recognition and measurement of financial instruments continued

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, the 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.

Derivatives

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

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

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

Indian GAAP

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

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

Impairment of financial assets

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

Measurement

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). For less material Retail loan portfolios, the Group has adopted simplified approaches based on historical roll rates or loss rates.

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

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition, or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instruments	Location of expected credit loss provisions
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value
Financial assets held at FVOCI – Debt instruments	Other comprehensive income (FVOCI expected credit loss reserve)
Loan commitments	Provisions for liabilities and charges
Financial guarantees	Provisions for liabilities and charges

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss significant increase in credit risk is primarily based on 30 days past due.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

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

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Recognition continued

Indian GAAP (AS 13 Investments)

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

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

In accordance with RBI regulations, in respect of available-for-sale investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for impairment no longer exist.

For loans and advances, the RBI regulations stipulate minimum provision based on days past due. Additionally, RBI regulations require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial instruments – IFRS 9

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in Other income except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

IFRS classification debt/equity

The substance of a financial instrument, rather than its legal form, governs its classification. A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingents Liabilities and Contingent Assets)

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

Pension obligations

IFRS (IAS 19 Employee Benefits)

For defined contribution plans, contributions are charged to operating expenses. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The net interest expense on the net defined liability for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Indian GAAP (AS 15 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. The expected return on plan assets is based on market expectation for the returns over the entire life of the related obligation. Actuarial gains or losses are recognised immediately in the statement of income.

Share-based compensation

IFRS (IFRS 2 Share-based payments)

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share-based compensation continued

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Interest income and expense

IFRS (IFRS 9)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates 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 (IAS 9 Revenue Recognition)

As per IAS 9, Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. 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

Accounting and disclosure of dividends is similar to IFRS with effect from 1 April 2016.

Other supplementary information

A. Our Fair Pay Charter

The Group's Fair Pay Charter sets out the principles we use to determine and deliver pay for all employees globally. Our Fair Pay Charter is set out in the Group's 2017 Annual Report and Accounts.

B. Group Share Plans

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

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

- Long Term Incentive Plan ('LTIP') awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return ('TSR'); return on equity ('RoE') with a common equity tier 1 ('CET1') underpin; strategic measures; earnings per share ('EPS') growth; and return on risk-weighted assets ('RoRWA'). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures
- 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 price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is three 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 are no 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

2013 Sharesave Plan

The 2013 Sharesave Plan was approved by shareholders in May 2013. Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 2013 Sharesave Plan and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to deliver shares through the 2013 Sharesave Plan, typically due to securities law and regulatory restrictions. In these countries, the Group offers an equivalent cash-based plan to its employees. The remaining life of the 2013 Sharesave Plan is four years.

2004 International Sharesave and the 2004 UK Sharesave plans

The Group's previous all employee Sharesave plans were the 2004 International Sharesave and the 2004 UK Sharesave plans, both replaced by the 2013 Sharesave Plan. There are no outstanding vested awards under these plans. These plans are closed and no further awards will be granted under them.

B. Group Share Plans continued

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 2017 Annual Report and Accounts.

Reconciliation of share award movements for the period to 30 June 2018

	2011 Plan[1]						
	LTIP	Deferred/ restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average Sharesave exercise price (£)
Outstanding at 1 January 2018	25,477,368	23,311,221	17,222	185,943	1,249	12,818,234	6.06
Granted[2]	2,315,629	12,895,556	–	–	–	–	–
Lapsed	(411,393)	(840,557)	(553)	(50,484)	–	(1,929,188)	8.29
Exercised	(14,502)	(5,988,767)	(4,525)	(135,459)	(1,249)	(60,319)	5.52
Outstanding at 30 June 2018	27,367,102	29,377,453	12,144	–	–	10,828,727	5.66
Exercisable as at 30 June 2018	49,891	4,319,615	12,144	–	–	29,996	5.66
Range of exercise prices (£)	–	–	–	–	–	5.30-9.38	
Intrinsic value of vested but not exercised options ($million)	0.1	3.2	0.0	0.0	0.0	0.0	
Weighted average contractual remaining life (years)	7.94	8.56	0.80	0.0	0.0	1.75	
Weighted average share price for options exercised during the period (£)	7.65	7.68	7.79	7.84	7.85	7.59	

1 Employees do not contribute towards the cost of these awards

2 12,508,120 (DRSA/RSA) granted on 9 March 2018, 39,945 (notional dividend) granted on 11 March 2018, 63,350 (notional dividend) granted on 13 March 2018, 37,774 (notional dividend) granted on 19 March 2018, 2,076,370 (LTIP) granted on 9 March 2018, 216,127 (notional dividend) granted on 11 March 2018, 22,317 (notional dividend) granted on 13 March 2018, 815 (notional dividend) granted on 19 March 2018 and 246,367 (DRSA/RSA) granted on 18 June 2018

C. Group Chairman and independent non-executive directors' interests in ordinary shares as at 30 June 2018[1,2]

	Shares beneficially held as at 1 January 2018	**Shares beneficially held as at 30 June 2018**
Chairman		
J Viñals	8,500	**8,500**
Current independent non-executive directors		
N Kheraj	2,571	**2,571**
O P Bhatt	2,000	**2,000**
Dr L Cheung	2,571	**2,571**
Mr D P Conner	10,000	**10,000**
Dr B E Grote	44,541	**44,541**
Dr Han Seung-soo, KBE	3,474	**3,509**
C M Hodgson	2,571	**2,571**
G Huey Evans, OBE	2,571	**2,597**
Dr N Okonjo-Iweala	2,000	**2,020**
J M Whitbread	2,571	**2,571**

1 Independent non-executive directors are required to hold shares with a nominal value of $1,000. All the directors have met this requirement

2 The beneficial interests of directors and their related parties in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares. None of the directors used ordinary shares as collateral for any loans. No director had either i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or ii) any corporate interests in the Company's ordinary shares. All figures are as at 30 June 2018

D. Executive directors' interests in ordinary shares as at 30 June 2018

Scheme interests awarded, exercised and lapsed during the period

The following table shows the changes in share interests. Employees, including executive directors, are not permitted to engage in any personal hedging strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

	Changes in interests during the period 1 January to 30 June 2018							
	As at 1 January	Awarded[1]	Dividends awarded[7]	Exercised[2]	Lapsed	As at 30 June	Performance period end	Vesting date
W T Winters[3]								
Restricted shares (buy-out)	314,822	–	–	–	–	314,822	–	22 Sep 2018
	314,916	–	–	–	–	314,916	–	22 Sep 2019
LTIP 2016–18	496,390	–	–	–	–	496,390	11 Mar 2019	4 May 2019
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2020
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2021
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2022
	124,100	–	–	–	–	124,100	11 Mar 2019	4 May 2023
LTIP 2017–19	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2020
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2021
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2022
	118,550	–	–	–	–	118,550	13 Mar 2020	13 Mar 2023
	118,551	–	–	–	–	118,551	13 Mar 2020	13 Mar 2024
LTIP 2018–20	–	108,378	–	–	–	108,378	9 Mar 2021	9 Mar 2021
	–	108,378	–	–	–	108,378	9 Mar 2021	9 Mar 2022
	–	108,378	–	–	–	108,378	9 Mar 2021	9 Mar 2023
	–	108,378	–	–	–	108,378	9 Mar 2021	9 Mar 2024
	–	108,379	–	–	–	108,379	9 Mar 2021	9 Mar 2025
A N Halford								
LTIP 2015–17[4]	28,529	–	–	–	28,529	–	31 Dec 2017	19 Mar 2020
LTIP 2016–18[5]	296,417	–	–	–	–	296,417	11 Mar 2019	4 May 2019
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2020
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2021
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2022
	74,105	–	–	–	–	74,105	11 Mar 2019	4 May 2023
LTIP 2017–19[5]	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2020
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2021
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2022
	73,390	–	–	–	–	73,390	13 Mar 2020	13 Mar 2023
	73,394	–	–	–	–	73,394	13 Mar 2020	13 Mar 2024
LTIP 2018–20	–	67,108	–	–	–	67,108	9 Mar 2021	9 Mar 2021
	–	67,108	–	–	–	67,108	9 Mar 2021	9 Mar 2022
	–	67,108	–	–	–	67,108	9 Mar 2021	9 Mar 2023
	–	67,108	–	–	–	67,108	9 Mar 2021	9 Mar 2024
	–	67,108	–	–	–	67,108	9 Mar 2021	9 Mar 2025
Deferred shares 2014[4]	12,936	–	259	13,195	–	–	–	19 Mar 2018
Underpin shares 2015–17[4]	14,264	–	–	–	14,264	–	31 Dec 2017	19 Mar 2018
	14,264	–	–	–	14,264	–	31 Dec 2017	19 Mar 2020
Sharesave[6]	1,612	–	–	–	–	1,612	–	1 Dec 2018

1 For the LTIP 2018–20 awards granted to Bill Winters and Andy Halford on 9 March 2018, the values granted were: Bill Winters: £3.3 million; Andy Halford: £2.1 million. The number of shares awarded in respect of the LTIP took into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award was maintained. Performance measures apply to LTIP 2018–20. The share price at grant was the closing price on the day before the grant date

2 On 19 March 2018, Andy Halford exercised deferred share awards over a total of 13,195 shares. The closing share price on the day before exercise was £7.674

3 The unvested share awards held by Bill Winters are conditional rights under the 2011 Plan. Bill does not have to pay towards these awards

4 The LTIP 2014–16, LTIP 2015–17, deferred shares 2014 and underpin shares 2015–17 held by Andy Halford are nil cost options under the 2011 Plan

5 The LTIP 2016–18, LTIP 2017–19 and LTIP 2018–20 held by Andy Halford are conditional rights under the 2011 Plan. Andy does not have to pay towards these awards

6 The Sharesave option held by Andy Halford is under the 2013 Sharesave Plan at an exercise price of GBP 5.5776 per share

7 Dividend equivalent shares may be awarded on vesting for awards granted prior to 1 January 2018

8 Further details relating to the above awards and individual shareholding requirements can be found in the 2017 Annual Report and Accounts

D. Executive directors' interests in ordinary shares as at 30 June 2018 continued

Shareholdings and share interests

The following table summarises the executive directors' shareholdings and share interests[1].

	Shareholdings		Share awards	
	Shares held beneficially[2,3]	Vested but unexercised share awards	Unvested share awards not subject to performance measures	Unvested share awards subject to performance measures
W T Winters	836,388	–	629,738	2,127,423
A N Halford	475,610	–	1,612	1,295,328

1 All figures are as at 30 June 2018 unless stated otherwise. No director had either (i) an interest in Standard Chartered PLC's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in Standard Chartered PLC's ordinary shares

2 The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used ordinary shares as collateral for any loans

3 The shares held beneficially include shares awarded to deliver the executive directors' fixed pay allowance

E. Share price information

The middle market price of an ordinary share at the close of business on 30 June 2018 was 692.60 pence. The share price range during the first half of 2018 was 690.90 pence to 849.20 pence (based on the closing middle market prices).

F. Substantial shareholders

The Company and its shareholders have been granted partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO).

As a result of this exemption, shareholders no longer have an obligation under Part XV of the SFO (other than Divisions 5, 11 and 12 thereof) to notify the Company of substantial shareholding interests, and the Company is no longer required to maintain a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with The Stock Exchange of Hong Kong Limited any disclosure of interests made in the UK.

G. Code for Financial Reporting Disclosure

The UK Finance Code for Financial Reporting Disclosure sets out five disclosure principles together with supporting guidance. The principles are that UK banks will: provide high quality, meaningful and decision useful disclosures; review and enhance their financial instrument disclosures for key areas of interest; assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited. The Group's interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with the Code's principles.

Glossary

AT1 or Additional Tier 1 capital
Additional Tier 1 capital consists of instruments other than Common Equity Tier 1 that meet the Capital Requirements Regulation (CRR) criteria for inclusion in Tier 1 capital.

Additional value adjustment
See Prudent valuation adjustment.

Advanced Internal Rating Based (AIRB) approach
The AIRB approach under the Basel framework is used to calculate credit risk capital based on the Group's own estimates of prudential parameters.

Advances-to-deposits/customer advances-to-deposits (ADR) ratio
The ratio of total loans and advances to customers relative to total customer accounts. A low advances-to-deposits ratio demonstrates that customer accounts exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

Alternative performance measures
A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

ASEAN
Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

AUM or Assets under management
Total market value of assets such as deposits, securities and funds held by the Group on behalf of the clients.

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the International Convergence of Capital Measurement and Capital Standards.

Basel III
The global regulatory standards on bank capital adequacy and liquidity, originally issued in December 2010 and updated in June 2011. In December 2017, the BCBS published a document setting out the finalisation of the Basel III framework. The latest requirements issued in December 2017 will be implemented from 2022.

BCBS or Basel Committee on Banking Supervision
A forum on banking supervisory matters which develops global supervisory standards for the banking industry. Its members are officials from 45 central banks or prudential supervisors from 28 countries and territories.

Basic underling earnings per share (EPS)
Represents the underlying earnings divided by the basic weighted average number of shares.

Basis point (bps)
One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

CRD IV or Capital Requirements Directive IV
A capital adequacy legislative package adopted by EU member states. CRD IV comprises the recast Capital Requirements Directive and the Capital Requirements Regulation (CRR). The package implements the Basel III framework together with transitional arrangements for some of its requirements. CRD IV came into force on 1 January 2014.

Capital resources
Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

CGU or Cash-generating unit
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash shortfall
The difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Clawback
An amount an individual is required to pay back to the Group, which has to be returned to the Group under certain circumstances.

CRE or Commercial real estate
Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

CET1 or Common Equity Tier 1 capital
Common Equity Tier 1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1.

CET1 ratio
A measure of the Group's CET1 capital as a percentage of risk-weighted assets.

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 and interest is due to be paid.

CIR or Cost to income ratio
Represents the proportion of total operating expenses to total operating income. Underlying CIR represents the proportion of total underlying expenses to total underling operating income.

Countercyclical capital buffer
The countercyclical capital buffer (CCyB) is part of a set of macroprudential instruments, designed to help counter procyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets in a given jurisdiction. The Bank of England's Financial Policy Committee has the power to set the CCyB rate for the United Kingdom. Each bank must calculate its 'institution-specific' CCyB rate, defined as the weighted average of the CCyB rates in effect across the jurisdictions in which it has credit exposures. The institution-specific CCyB rate is then applied to a bank's total risk weighted assets.

Counterparty credit risk
The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

Cover ratio
The ratio of impairment provisions for each stage to the gross loan exposure for each stage. For stage 3, the cover ratio is also presented as the ratio of impairment provisions plus the realisable value of collateral to the gross loan exposure.

Cover ratio (after collateral)
Represents the extent to which non-performing loans are covered by both impairment provisions, and collateral held against the exposure.

CCF or Credit conversion factor
An estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default. This is either prescribed by CRR or modelled by the bank.

CDS or Credit default swaps
A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit institutions
An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk mitigation
Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

CVA or Credit valuation adjustments
An adjustment to the fair value of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the contracts.

Customer accounts
Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement (see repo/reverse repo). Such funds are recorded as liabilities in the Group's balance sheet under customer accounts.

Days past due
One or more days that interest and/or principal payments are overdue based on the contractual terms.

DVA or Debit valuation adjustment
An adjustment to the fair value of derivative contracts that reflect the possibility that the Group may default and not pay the full market value of contracts.

Debt securities
Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

DTA or Deferred tax asset
Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

DTL or Deferred tax liability
Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

Default
Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit impaired.

Defined benefit obligation
The present value of expected future payments required to settle the obligations of a defined benefit scheme resulting from employee service.

Defined benefit scheme
Pension or other post-retirement benefit scheme other than a defined contribution scheme.

Defined contribution scheme
A pension or other post-retirement benefit scheme where the employer's obligation is limited to its contributions to the fund.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks
Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

Diluted underling earnings per share (EPS)
Represents the underlying earnings divided by the diluted weighted average number of shares.

Dividend per share
Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Early alert, purely and non-purely precautionary
A borrower's account which exhibits risks or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded to credit grade 12 or worse. When an account is on early alert, it is classified as either purely precautionary or non-purely precautionary. A purely precautionary account is one that exhibits early alert characteristics but these do not present any imminent credit concern. If the symptoms present an imminent credit concern, an account will be considered for classification as non-purely precautionary.

Effective tax rate
The tax on profit/(losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.

Encumbered assets
On-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities.

EU or European Union
The European Union (EU) is a political and economic union of 28 member states that are located primarily in Europe.

Eurozone
Represents the 19 EU countries that have adopted the euro as their common currency.

ECL or Expected credit loss
Represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

Expected loss
The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on probability of default, loss given default and exposure at default, with a one-year time horizon.

Exposures
Credit exposures represent the amount lent to a customer, together with any undrawn commitments.

EAD or Exposure at default
The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

ECAI or External Credit Assessment Institution
External credit ratings are used to assign risk-weights under the standardised approach for sovereigns, corporates and institutions. The external ratings are from credit rating agencies that are registered or certified in accordance with the credit rating agencies regulation or from a central bank issuing credit ratings which is exempt from the application of this regulation.

FCA or Financial Conduct Authority
The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.

Forbearance
Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial difficulties. The Group classifies such modified loans as either 'Forborne – not impaired loans' or 'Loans subject to forbearance – impaired'. Once a loan is categorised as either of these, it will remain in one of these two categories until the loan matures or satisfies the 'curing' conditions described in Note 7 to the financial statements.

Forborne – not impaired loans
Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

Free deliveries
A transaction where a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making immediate payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving immediate payment.

Free funds
Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/unfunded exposures
Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where a commitment to provide future funding is made but funds have been released/not released.

FVA or Funding valuation adjustments
FVA reflects an adjustment to fair value in respect of derivative contracts that reflect the funding costs that the market participant would incorporate when determining an exit price.

G-SIBs or Global Systemically Important Banks
Global banking financial institutions whose size, complexity and systemic interconnectedness mean that their distress or failure would cause significant disruption to the wider financial system and economic activity. The list of G-SIBs is assessed under a framework established by the FSB and the BCBS. In the EU, the G-SIB framework is implemented via CRD IV and G-SIBs are referred to as Global Systemically Important Institutions (G-SIIs).

G-SIB buffer
A CET1 capital buffer which results from designation as a G-SIB. The G-SIB buffer is between 1% and 3.5%, depending on the allocation to one of five buckets based on the annual scoring. The G-SIB buffer is being phased in by 1 January 2019. In the EU, the G-SIB buffer is implemented via CRD IV as Global Systemically Important Institutions (G-SII) buffer requirement.

Interest rate risk
The risk of an adverse impact on the Group's income statement due to changes in interest rates.

IRB approach or internal ratings-based approach
Risk-weighting methodology in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of prudential parameters.

IMA approach or internal model approach
The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD IV/CRR.

IAS or International Accounting Standard
A standard that forms part of the International Financial Reporting Standards framework.

IASB or International Accounting Standards Board
An independent standard-setting body responsible for the development and publication of IFRS, and approving interpretations of IFRS standards that are recommended by the IFRS Interpretations Committee (IFRIC).

IFRS or International Financial Reporting Standards
A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRSs and IASs. All companies that have issued publicly traded securities in the EU are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

IFRIC
The IFRS Interpretations Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs and IASs.

Investment grade
A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

Leverage ratio
A ratio introduced under CRD IV that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

Liquid asset ratio
Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquidation portfolio
A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

LCR or Liquidity coverage ratio
The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

Loan exposure
Loans and advances to customers reported on the balance sheet held at amortised cost or FVOCI, non-cancellable credit commitments and cancellable credit commitments for credit cards and overdraft facilities.

Loans and advances
This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks
Amounts loaned to credit institutions including securities bought under Reverse repo.

LTV or loan-to-value ratio
A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due
Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

Loans subject to forbearance – impaired
Loans where the terms have been renegotiated on terms not consistent with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

Loss rate
Uses an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.

LGD or Loss given default
The percentage of an exposure that a lender expects to lose in the event of obligor default.

Malus
An arrangement that permits the Group to prevent vesting of all or part of the amount of an unvested variable remuneration award, due to a specific crystallised risk, behaviour, conduct or adverse performance outcome.

Master netting agreement
An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Mezzanine capital
Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

MREL or minimum requirement for own funds and eligible liabilities
A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks, implementing the FSB's Total Loss Absorbing Capacity (TLAC) standard. MREL is intended to ensure that there is sufficient equity and specific types of liabilities to facilitate an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions and avoids exposing taxpayers to loss.

Net asset value (NAV) per share
Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure
The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

NII or Net interest income
The difference between interest received on assets and interest paid on liabilities.

NIM or Net interest margin
Net interest income divided by average interest earning assets.

NSFR or Net stable funding ratio
The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

Net tangible asset value per share
Ratio of net tangible assets (total tangible assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

NPLs or non-performing loans
An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes Retail loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

Non-linearity
Non-linearity of expected credit loss occurs when the average of expected credit loss for a portfolio is higher than the base case (median) due to the fact that bad economic environment could have a larger impact on expected credit loss calculation than good economic environment.

Normalised items
See 'Underlying earnings'.

Operating expenses
Staff and premises costs, general and administrative expenses, depreciation and amortisation. Underlying operating expenses exclude expenses as described in 'Underlying earnings'. A reconciliation between underlying and statutory earnings is contained in Note 2 to the financial statements.

Operating income or operating profit
Net interest, net fee and net trading income, as well as other operating income.

Underlying operating income represents the income line items above, on an underlying basis. See 'Underling earnings'.

OTC or Over-the-counter derivatives
A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

OCA or Own credit adjustment
An adjustment to the Group's issued debt designated at fair value through profit or loss that reflects the possibility that the Group may default and not pay the full market value of the contracts.

Physical risks
The risk of increased extreme weather events including flood, drought and sea level rise.

Pillar 1
The first pillar of the three pillars of the Basel framework which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk. Minimum capital requirements are 8 per cent of the Group's risk-weighted assets.

Pillar 2
The second pillar of the three pillars of the Basel framework which requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3
The third pillar of the three pillars of the Basel framework which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Private equity investments
Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

PD or Probability of default
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation over a given time horizon.

Probability weighted
Obtained by considering the values the metric can assume, weighted by the probability of each value occurring.

Profit (loss) attributable to ordinary shareholders
Profit (loss) for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

PVA or Prudent valuation adjustment
An adjustment to CET1 capital to reflect the difference between fair value and prudent value positions, where the application of prudence results in a lower absolute carrying value than recognised in the financial statements.

PRA or Prudential Regulation Authority
The Prudential Regulation Authority is the statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and a small number of significant investment firms in the UK. The PRA is a part of the Bank of England.

Repo/reverse repo
A repurchase agreement or repo is a short-term funding agreement, which allows a borrower to sell a financial asset, such as asset-backed securities or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Residential mortgage
A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

RoE or 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. Underlying return on equity represents the ratio above using underlying earnings. See 'Underling earnings'.

RoRWA or Return on risk-weighted assets
Profit before tax for year as a percentage of RWA. Profit may be statutory or underlying and is specified where used. See 'RWA' and 'Underlying earnings'.

RoTE or Return on tangible equity
Represents the ratio of the current period's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders equity less the average goodwill and intangibles for the reporting period. Underlying return on tangible equity represents the ratio above using underlying earnings. See 'Underling earnings'.

RWA or Risk-weighted assets
A measure of a bank's assets adjusted for their associated risks, expressed as a percentage of an exposure value in accordance with the applicable standardised or IRB approach provisions.

Risks-not-in-VaR (RNIV)
A framework for identifying and quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

Roll rate
Uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.

Secured (fully and partially)
A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Securitisation
Securitisation is a process by which credit exposures are aggregated into a pool, which is used to back new securities. Under traditional securitisation transactions, assets are sold to a special purpose entity (SPE) who then issues new securities to investors at different levels of seniority (credit tranching). This allows the credit quality of the assets to be separated from the credit rating of the originating institution and transfers risk to external investors in a way that meets their risk appetite. Under synthetic securitisation transactions, the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originating institution.

Senior debt
Debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

SICR or Significant increase in credit risk
Assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after considering the passage of time).

Sovereign exposures
Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures, as defined by the European Banking Authority, include only exposures to central governments.

Stage 1
Assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2
Assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3
Assets that are in default and considered credit-impaired (non-performing loans).

Standardised approach
In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Structured note
An investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated liabilities
Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

Tier 1 capital
The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital
Tier 2 capital comprises qualifying subordinated liabilities and related share premium accounts.

TLAC or Total loss absorbing capacity
An international standard for TLAC issued by the FSB, which requires G-SIBs to have sufficient loss-absorbing and recapitalisation capacity available in resolution, to minimise impacts on financial stability, maintain the continuity of critical functions and avoid exposing public funds to loss.

TSR or Total shareholder return
The total return of the Group's equity (share price growth and dividends) to investors.

Transition risks
The risk of changes to market dynamics or sectoral economics due to governments' response to climate change.

UK bank levy
A levy that applies to certain UK banks and the UK operations of foreign banks. The levy is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

Unbiased
Not overly optimistic or pessimistic, represents information that is not slanted, weighted, emphasised, deemphasised or otherwise manipulated to increase the probability that the financial information will be received favourably or unfavourably by users.

Underlying earnings
The Group's statutory performance adjusted for restructuring and other items representing profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period, and items which management and investors would ordinarily identify separately when assessing performance period-by-period. A reconciliation between underlying and statutory performance is contained in Note 2 to the financial statements.

Unlikely to pay
Indications of unlikeliness to pay shall include placing the credit obligation on non-accrued status; the recognition of a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Group taking on the exposure;; selling the credit obligation at a material credit related economic loss; the Group consenting to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees; filing for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Group; the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Group.

VaR or Value at Risk
A quantitative measure of market risk estimating the potential loss that will not be exceeded in a set time period at a set statistical confidence level.

ViU or Value-in-Use
The present value of the future expected cash flows expected to be derived from an asset or CGU.

Write-downs
After an advance has been identified as impaired and is subject to an impairment provision, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

XVA
The term used to incorporate credit, debit and funding valuation adjustments to the fair value of derivative financial instruments. See 'CVA', 'DVA' and 'FVA'.

Shareholder information

Dividend and interest payment dates

2018 interim dividend	
Ex-dividend date[1]	9 August 2018
Record date for dividend	10 August 2018
Dividend payment date	22 October 2018

2018 final dividend	(provisional only)
Results and dividend announcement date	26 February 2019

Preference shares	Next half-yearly dividend
7 3/8 per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2018
8 ¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2018
6.409 per cent Non-cumulative preference shares of $5 each	30 July 2018
7.014 per cent Non-cumulative preference shares of $5 each	30 July 2018

1 Ex-dividend date is Wednesday 8 August 2018 for the Hong Kong branch register

Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 Rights Issues)

Dividend and financial year	Payment date	Dividend per ordinary share[1]	Cost of one new ordinary share under share dividend scheme
Interim 2006	11 October 2006	20.83c/11.14409p/HK$1.622699	£13.2360/$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK$3.926106	£14.2140/$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK$1.794713	£15.2560/$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK$4.380092	£16.2420/$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.9841241	£17.394/$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK$3.623404/INR1.99751701	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.137971251	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK$3.9776083375/INR2.66670151	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.3498039501	£13.417/$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK$4.4048756997/INR2.9762835751	£17.40/$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK$2.233204992/INR1.68131	£15.362/$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK$4.43464736/INR3.3546261	£11.949$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK$2.2340016000/INR1.6718425601	£12.151/$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK$4.43329/INR3.5140591	£9.797/$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK$1.115985456/INR0.861393721	£8.5226/$13.34383
Final 2015	No dividend declared	N/A	N/A
Interim 2016	No dividend declared	N/A	N/A
Final 2016	No dividend declared	N/A	N/A
Interim 2017	No dividend declared	N/A	N/A
Final 2017	17 May 2018	11.00c/7.88046p/HK$0.86293/INR0.653643340	£7.7600/$10.83451

1 The INR dividend is per Indian Depository Receipt

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and you will still receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information please contact the shareholder helpline on 0370 702 0138.

Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from sharegift.org. There is no implication for capital gains Tax (no gain no loss) when you donate shares to charity and UK tax-payers may be able to claim income tax relief on the value of their donation.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

The Company's ordinary shares are listed on the Official List and traded on the London Stock Exchange. The Company's ordinary shares are also listed on The Stock Exchange of Hong Kong Limited, and through Indian Depository Receipts on the BSE Limited (Bombay Stock Exchange) and National Stock Exchange of India Limited.

If you have any enquiries relating to your shareholding and you hold your shares on the United Kingdom register, please contact our registrar Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, or contact the shareholder helpline on 0370 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. You can check your shareholding at: computershare.com/hk/investors.

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Selenium, Tower- B, Plot No. 31 & 32., Financial District, Nanakramguda, Serilingampally Mandal, Hyderabad, 500032, India.

Chinese translation

If you would like a Chinese version of this Half Year Report, please contact: Computershare Hong Kong Investor Services Limited at 17M.Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong.Kong. 本半年報告之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后 大道東183號合和中心17M樓。Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare. If there is a dispute between any translation and the English version of this Half Year Report, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong and the United States will be sent to you with your dividend documents.

Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise. Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

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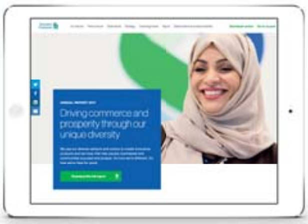

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