

Standard Chartered Bank  
(Hong Kong) Limited

Condensed Consolidated  
Interim Financial Statements (unaudited)

For the period ended  
30 June 2019

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The directors are pleased to announce the unaudited consolidated interim results of Standard Chartered Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2019.

**2019 First Half Results**

Profit before taxation increased by HK\$95 million from HK\$8,032 million to HK\$8,127 million. Net interest income increased by 10 per cent to HK\$11,100 million. Net fee and commission income decreased by 6 per cent over the corresponding period in 2018. Total operating income increased by 3 per cent to HK\$17,892 million.

Operating expenses increased by 3 per cent over the corresponding period to HK\$10,032 million. Total impairments increased by HK\$188 million over the corresponding period.

Profit after taxation was HK\$6,740 million, a decrease of HK\$338 million over HK\$7,078 million recorded in the first half of 2018.

**Condensed consolidated income statement (unaudited)****For the period ended 30 June 2019***(Expressed in millions of Hong Kong dollars)*

	<i>Note</i>	<i>6 months ended 30 June 2019</i>	<i>6 months ended 30 June 2018 (restated)</i>
Interest income	3	17,286	14,668
Interest expense	4	<u>(6,186)</u>	<u>(4,538)</u>
<b>Net interest income</b>		<b>11,100</b>	<b>10,130</b>
Fee and commission income		<u>4,258</u>	<u>4,237</u>
Fee and commission expense		<u>(660)</u>	<u>(423)</u>
Net fee and commission income	5	3,598	3,814
Net trading income	6	1,105	1,228
Other operating income	7	<u>2,089</u>	<u>2,162</u>
		<u>6,792</u>	<u>7,204</u>
<b>Total operating income</b>		<b>17,892</b>	<b>17,334</b>
Staff costs		<u>(4,732)</u>	<u>(4,640)</u>
Premises and equipment		<u>(1,889)</u>	<u>(1,963)</u>
Others		<u>(3,411)</u>	<u>(3,129)</u>
<b>Operating expenses</b>	8	<u>(10,032)</u>	<u>(9,732)</u>
<b>Operating profit before impairment</b>		<b>7,860</b>	<b>7,602</b>
Credit impairment	9	(716)	(324)
Other impairment	10	<u>(219)</u>	<u>(423)</u>
<b>Operating profit after impairment</b>		<b>6,925</b>	<b>6,855</b>
Share of profit from associate		<u>1,202</u>	<u>1,177</u>
<b>Profit before taxation</b>		<b>8,127</b>	<b>8,032</b>
Taxation	11	<u>(1,387)</u>	<u>(954)</u>
<b>Profit after taxation</b>		<u>6,740</u>	<u>7,078</u>
Profit/(loss) attributable to:			
– Non-controlling interests		(45)	–
– Equity shareholders of the Bank		<u>6,785</u>	<u>7,078</u>
<b>Profit after taxation</b>		<u>6,740</u>	<u>7,078</u>

The notes on pages 7 to 35 form part of these condensed consolidated interim financial statements.

**Condensed consolidated statement of comprehensive income (unaudited)****For the period ended 30 June 2019***(Expressed in millions of Hong Kong dollars)*

	<i>6 months ended 30 June 2019</i>	<i>6 months ended 30 June 2018 (restated)</i>
<b>Profit after taxation</b>	6,740	7,078
<b>Other comprehensive income:</b>		
<u>Items that will not be reclassified to the income statement:</u>		
Own credit adjustment on financial liabilities designated at fair value through profit or loss	(689)	336
Defined benefit plans:		
– Remeasurement of net defined benefit liability	68	84
– Related tax effect	(11)	(14)
Equity securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the period	(1)	–
<u>Items that may be reclassified subsequently to the income statement:</u>		
Debt securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the period	1,226	226
– Changes in fair value transferred to the income statement on disposal	(88)	(56)
– Transfer to the income statement on fair value hedged items attributable to hedged risk	(955)	101
– Expected credit loss	2	8
– Share of impact from associate	(10)	158
– Related tax effect	(24)	(64)
Cash flow hedges:		
– Changes in fair value recognised during the period	(775)	503
– Transferred to the income statement on termination of hedging derivatives	(3)	32
– Related tax effect	128	(88)
Exchange difference	(28)	(585)
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	(1,160)	641
	<hr/>	<hr/>
<b>Total comprehensive income for the period</b>	<b>5,580</b>	<b>7,719</b>
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
– Non-controlling interests	(45)	–
– Equity shareholders of the Bank	5,625	7,719
	<hr/>	<hr/>
Total comprehensive income for the period	<b>5,580</b>	<b>7,719</b>
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The notes on pages 7 to 35 form part of these condensed consolidated interim financial statements.

**Condensed consolidated statement of financial position as at 30 June 2019 (unaudited)***(Expressed in millions of Hong Kong dollars)*

	Note	At 30 June 2019	At 31 December 2018 <i>(restated)</i>
<b>Assets</b>			
Cash and balances with banks, central banks and other financial institutions		60,990	45,379
Placements with banks and other financial institutions	13	152,094	182,872
Hong Kong SAR Government certificates of indebtedness		50,761	46,691
Financial assets at fair value through profit or loss	14	95,536	71,698
Investment securities	17	292,005	279,451
Advances to customers	15	638,785	594,938
Amounts due from fellow subsidiaries		108,511	113,472
Interest in associate		13,334	12,144
Property, plant and equipment	18	41,358	37,729
Goodwill and intangible assets		2,241	1,742
Deferred tax assets		999	900
Other assets	19	33,791	27,452
		<u>1,490,405</u>	<u>1,414,468</u>
<b>Liabilities</b>			
Hong Kong SAR currency notes in circulation		50,761	46,691
Deposits and balances of banks and other financial institutions		51,552	35,335
Deposits from customers	21	1,051,073	1,049,923
Financial liabilities at fair value through profit or loss	22	80,043	65,944
Debt securities in issue	23	467	7,633
Amounts due to immediate holding company		30,083	–
Amounts due to fellow subsidiaries		55,083	52,804
Current tax liabilities		1,359	1,921
Deferred tax liabilities		593	572
Other liabilities	24	44,928	42,229
Subordinated liabilities	25	5,918	5,906
		<u>1,371,860</u>	<u>1,308,958</u>
<b>Equity</b>			
Share capital		41,421	41,421
Reserves		67,657	62,137
		<u>109,078</u>	<u>103,558</u>
Shareholders' equity	26	109,078	103,558
Other equity instruments		8,983	1,952
Non-controlling interests		484	–
		<u>118,545</u>	<u>105,510</u>
		<u>1,490,405</u>	<u>1,414,468</u>

The notes on pages 7 to 35 form part of these condensed consolidated interim financial statements.

**Condensed consolidated statement of changes in equity (unaudited)****For the period ended 30 June 2019***(Expressed in millions of Hong Kong dollars)*

	Attributable to equity shareholders of the Group														
	Share capital	Own credit adjustment reserve	Cash flow hedge reserve	FVOCI reserve – Debt	FVOCI reserve – Equity	Exchange reserve	Merger Reserve	Capital contribution reserve	Retained earnings	Share option equity reserve	Other reserve	Sub-total	Other equity instruments	Non-controlling interests	Total
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
At 1 January 2018 (restated)	41,421	(17)	26	(479)	161	266	(8,306)	37	59,375	359	3,489	96,332	1,952	-	98,284
Total comprehensive income, net of taxation	-	336	447	373	-	(585)	-	-	7,148	-	-	7,719	-	-	7,719
Dividend paid <sup>1</sup>	-	-	-	-	-	-	-	-	(172)	-	-	(172)	-	-	(172)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	65	-	65	-	-	65
Transfer from retained earnings	-	-	-	-	-	-	-	-	(166)	-	166	-	-	-	-
At 30 June 2018	41,421	319	473	(106)	161	(319)	(8,306)	37	66,185	424	3,655	103,944	1,952	-	105,896
Total comprehensive income, net of taxation	-	366	(186)	263	92	(1,426)	-	-	4,726	-	-	3,835	-	-	3,835
Dividend paid <sup>1</sup>	-	-	-	-	-	-	-	-	(4,079)	-	-	(4,079)	-	-	(4,079)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	(142)	-	(142)	-	-	(142)
At 31 December 2018	41,421	685	287	157	253	(1,745)	(8,306)	37	66,832	282	3,655	103,558	1,952	-	105,510
Issuance of other equity instruments, net of expenses	-	-	-	-	-	-	-	-	-	-	-	-	7,031	-	7,031
Total comprehensive income, net of taxation	-	(689)	(650)	151	(1)	(28)	-	-	6,842	-	-	5,625	-	(45)	5,580
Dividend paid <sup>1</sup>	-	-	-	-	-	-	-	-	(171)	-	-	(171)	-	-	(171)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	33	-	33	-	-	33
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	33	-	-	33	-	529	562
Transfer from retained earnings	-	-	-	-	-	-	-	-	(234)	-	234	-	-	-	-
At 30 June 2019	41,421	(4)	(363)	308	252	(1,773)	(8,306)	37	73,302	315	3,889	109,078	8,983	484	118,545

<sup>1</sup> During the six months ended 30 June 2019, there were no dividends declared and paid in respect of 'A', 'B' and 'C' ordinary shares (year ended 31 December 2018: HK\$2.01728 per share totaling HK\$3,908 million). Total dividend of HK\$122 million (year ended 31 December 2018: HK\$245 million) and HK\$49 million (year ended 31 December 2018: HK\$98 million) were paid in respect of the US\$500 million 6.25% perpetual non-cumulative convertible preference shares and the US\$250 million 5% perpetual non-cumulative subordinated capital securities classified as equity, respectively.

The notes on pages 7 to 35 form part of these condensed consolidated interim financial statements.

**Condensed consolidated cash flow statement (unaudited)****For the period ended 30 June 2019***(Expressed in millions of Hong Kong dollars)*

	<i>For 6 months ended 30 June 2019 HK\$'M</i>	<i>For 6 months ended 30 June 2018 HK\$'M (restated)</i>
<b>Operating activities</b>		
Profit before taxation	8,127	8,032
Adjustments for non-cash items and other adjustments included within income statement	1,535	398
Change in operating assets	(121,765)	(61,578)
Change in operating liabilities	27,637	72,701
Income tax paid	(1,791)	(211)
<b>Net cash (used in)/generated from operating activities</b>	<u>(86,257)</u>	<u>19,342</u>
<b>Investing activities</b>		
Payment for purchase of intangible assets	(665)	(138)
Payment for purchase of property, plant and equipment	(2,232)	(5,009)
Proceeds from disposal of property, plant and equipment	243	678
Proceeds from disposal of an associate	–	1,076
Dividend received from an associate	–	18
<b>Net cash used in investing activities</b>	<u>(2,654)</u>	<u>(3,375)</u>
<b>Financing activities</b>		
Interest paid on subordinated liabilities	(293)	(272)
Dividend paid to shareholders of the Group	(171)	(172)
Contribution from non-controlling interest	562	–
Issuances of other equity instrument	7,031	–
Issuances of subordinated liabilities	24,200	–
<b>Net cash generated from/(used in) financing activities</b>	<u>31,329</u>	<u>(444)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(57,582)	15,523
<b>Cash and cash equivalents at 1 January</b>	255,942	220,378
Effect of foreign exchange	(566)	(1,720)
<b>Cash and cash equivalents at 30 June</b>	<u>197,794</u>	<u>234,181</u>

The notes on pages 7 to 35 form part of these condensed consolidated interim financial statements.

## Notes to condensed consolidated interim financial statements (unaudited)

(Expressed in millions of Hong Kong dollars)

### 1. Principal activities

Standard Chartered Bank (Hong Kong) Limited (the “Bank”) is a licensed bank registered under the Hong Kong Banking Ordinance. The principal activities of the Bank and its subsidiaries (together referred to as the “Group”) are the provision of banking and related financial services.

### 2. Significant accounting policies

#### (a) Statement of compliance

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

The preparation of the condensed consolidated interim financial statements in conformity with HKAS 34/IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgement made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2018, except as stated in note 2(b).

The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and International Financial Reporting Standards (“IFRSs”).

The condensed consolidated interim financial statements are unaudited.

#### (b) Basis of preparation

Except as described below, the accounting policies applied in preparing these condensed consolidated interim financial statements are materially consistent with those applied in preparing the consolidated financial statements for the year ended 31 December 2018. None of the other revised accounting standards, which became effective from 1 January 2019, have a material impact on the condensed consolidated interim financial statements.

##### (i) HKFRS/IFRS 16 Leases

On 1 January 2019, the Group adopted HKFRS/IFRS 16 Leases which replaced HKAS/IAS 17 Leases.

HKFRS/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. HKFRS/IFRS 16 substantially carries forward the lessor accounting requirements in HKAS/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.

## Notes to condensed consolidated interim financial statements (unaudited) (continued)

(Expressed in millions of Hong Kong dollars)

### 2. Significant accounting policies (continued)

#### (b) Basis of preparation (continued)

##### (i) HKFRS/IFRS 16 Leases (continued)

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 4.3%.

The impact of HKFRS/IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. The Group has elected to adopt the simplified approach of transition and will not restate comparative information. On 1 January 2019 the Group recognised a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of recognition of the lease liability and right-of-use asset as of 1 January 2019 was approximately HK\$3,937 million, with no adjustment to retained earnings. The asset is presented in 'Property, plant and equipment' and the liability is presented in 'Other liabilities'.

##### (ii) Application of merger accounting

The Group has applied Accounting Guideline No.5 – “Merger Accounting for Common Control Combinations” issued by the HKICPA in accounting for the following transactions in its consolidated financial statements.

#### 1. Transfer of ownership of the Bank

On 4 March 2019, Standard Chartered PLC (“SC PLC”) acquired the direct ownership of the Bank held by the previous immediate holding company, Standard Chartered Bank (“SCB”). As a result, amounts due from/ to SC PLC and SCB are respectively reported as amounts due from/ to immediate holding company and fellow subsidiaries of the Bank accordingly.

#### 2. Acquisition of Standard Chartered Bank (China) Limited (“SCB China”)

On 1 June 2019, the Bank acquired 100 per cent of the share capital of SCB China from a fellow subsidiary company by issuance of Class C share capital amounting to HK\$21,165 million.

As the Bank and SCB China were under the common control of SC PLC before and after the above-mentioned acquisition, in accordance with the principles of merger accounting, the Group consolidated financial statements have been presented as if the acquisition by the Bank had occurred from the date when SCB China first came under the control of the SC PLC.

The net assets of SCB China have been recognised using the carrying amounts in the consolidated financial statements of the SC PLC Group. Comparative amounts have been restated so that they are presented as if SCB China had been combined and the Class C shares of the Bank had been issued at the earliest date presented in these condensed consolidated interim financial statements.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***2. Significant accounting policies (continued)****(b) Basis of preparation (continued)****(ii) Application of merger accounting (continued)**

A debit amount of HK\$8,306 million was recognised as merger reserve in equity representing the excess of consideration of HK\$21,165 million over the share capital of SCB China of HK\$12,859 million, which was the value of SCB China when it first came under the control of SC PLC.

**(iii) Non-controlling interests**

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period, between non-controlling interests and the equity shareholders of the Bank.

**(c) Basis of consolidation**

These condensed consolidated interim financial statements cover the consolidated positions of the Group unless otherwise stated, and include the attributable share of the results and reserves of its associate.

**3. Interest income**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Interest income arising from financial assets:		
– at amortised cost	13,556	11,606
– at fair value through other comprehensive income	2,949	2,088
– held for trading	679	881
– mandatorily at fair value through profit or loss other than held for trading	102	93
	<u>17,286</u>	<u>14,668</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***4. Interest expense**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Interest expense arising from financial liabilities:		
– at amortised cost	6,039	4,398
– held for trading	40	40
– designated at fair value through profit or loss	107	100
	<u>6,186</u>	<u>4,538</u>

**5. Net fee and commission income**

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

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Net fee and commission income arising from financial assets or financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate):		
– fee and commission income	919	840
– fee and commission expense	227	223
	<u>692</u>	<u>617</u>
Net fee and commission income from trust and other fiduciary activities that result in the holding or investing of assets on behalf of its customers:		
– fee and commission income	238	259
– fee and commission expense	82	77
	<u>156</u>	<u>182</u>

**6. Net trading income**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Net gains on instruments held for trading	1,555	1,612
Net losses on non-trading financial assets mandatorily at fair value through profit or loss	(28)	(37)
Net losses on financial liabilities designated at fair value through profit or loss	(422)	(347)
	<u>1,105</u>	<u>1,228</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***7. Other operating income**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Rental income from operating lease assets	1,909	1,943
Dividend income from financial assets at fair value through other comprehensive income	6	10
Net gains from disposal of debt securities at fair value through other comprehensive income	88	39
Net losses on disposal of financial instruments measured at amortised cost	(6)	(15)
Net gains on disposal and write-off of fixed assets	93	82
Net losses on revaluation of investment properties (note 18)	(56)	–
Others	55	103
	<u>2,089</u>	<u>2,162</u>

**8. Operating expenses**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Staff costs		
– contributions to defined contribution plans	225	247
– expense in respect of the defined benefits plan	38	39
– equity-settled share-based payment expenses	53	65
– salaries and other staff costs	4,416	4,289
Depreciation (note 18)	1,516	1,148
Premises and equipment expense, excluding depreciation		
– rental of premises	37	532
– others	336	283
Amortisation of other intangible assets	165	106
Auditor's remuneration	13	13
Others	3,233	3,010
	<u>10,032</u>	<u>9,732</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***9. Credit impairment**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Net expected credit loss charges/(releases) on:		
– placements with banks and other financial institutions	(4)	2
– advances to customers	723	365
– debt securities at amortised cost	(2)	(1)
– debt securities at fair value through other comprehensive income	2	8
– loan commitments and financial guarantees	(3)	(50)
	<u>716</u>	<u>324</u>

**10. Other impairment**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Charges for property, plant and equipment (note 18)	219	346
Charges for risk participation transactions	–	78
Others	–	(1)
	<u>219</u>	<u>423</u>

**11. Taxation**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
Hong Kong profits tax	921	530
Overseas taxation	303	537
Deferred taxation	163	(113)
	<u>1,387</u>	<u>954</u>

## Notes to condensed consolidated interim financial statements (unaudited) (continued)

(Expressed in millions of Hong Kong dollars)

### 12. Segmental reporting

#### Client Segments

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

- **Corporate & Institutional Banking (“CIB”)** supports clients with their transaction banking, corporate finance, financial markets and borrowing needs, providing solutions to clients in some of the world’s fastest-growing economies and most active trade corridors. The Group’s clients include large corporations, governments, and banks.
- **Commercial Banking** serves local corporations and medium-sized enterprises. The Group aims to be its clients’ main international bank, providing a full range of international financial solutions in areas such as trade finance, cash management, financial markets and corporate finance.
- **Private Banking** offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high net worth individuals across the Group’s footprint.
- **Retail Banking** serves individuals and small businesses with a focus on affluent and emerging affluent in many of the world’s fastest-growing cities. The Group provides digital banking services with a human touch to its clients across deposits, payments, financing products and Wealth Management, as well as supporting client’s business banking needs.

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

#### Geographical segments

The Group comprises two geographical segments, Hong Kong and Mainland China. Geographical segment is classified by the location of the principal operations of the subsidiary or, in the case of the Bank, the location of the branch responsible for reporting the results or advancing the funds.

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

**Notes to condensed consolidated interim financial statements (unaudited) (continued)**

(Expressed in millions of Hong Kong dollars)

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

<b>6 months ended 30 June 2019</b>	<i>Corporate &amp; Institutional Banking HK\$'M</i>	<i>Commercial Banking HK\$'M</i>	<i>Private Banking HK\$'M</i>	<i>Retail Banking HK\$'M</i>	<i>Central &amp; Other Items HK\$'M</i>	<i>Consolidated Total HK\$'M</i>
<i>Operating income</i>						
– Net interest income	3,788	1,233	491	5,030	(69)	10,473
– Other operating income	3,553	664	460	3,278	(32)	7,923
	7,341	1,897	951	8,308	(101)	18,396
Operating expenses <sup>1</sup>	(3,664)	(1,010)	(708)	(4,604)	(115)	(10,101)
Operating profit/(loss) before impairment	3,677	887	243	3,704	(216)	8,295
Credit and other impairment	(232)	(80)	(13)	(509)	(20)	(854)
Share of profit from associate	–	–	–	–	1,202	1,202
Profit before taxation	3,445	807	230	3,195	966	8,643
<b>At 30 June 2019</b>						
Segment assets	572,397	84,646	46,917	302,208	479,058	1,485,226
Segment liabilities	499,372	127,550	54,133	511,095	132,343	1,324,493

*Geographical Segments*

<b>6 months ended 30 June 2019</b>	<i>Hong Kong HK\$'M</i>	<i>Mainland China HK\$'M</i>	<i>Consolidated Total HK\$'M</i>
<i>Operating income</i>			
– Net interest income	7,995	2,478	10,473
– Other operating income	6,913	1,010	7,923
	14,908	3,488	18,396
Operating expenses	(7,571)	(2,530)	(10,101)
Operating profit before impairment	7,337	958	8,295
Credit and other impairment	(521)	(333)	(854)
Share of profit from associate	–	1,202	1,202
Profit before taxation	6,816	1,827	8,643
<b>At 30 June 2019</b>			
Segment assets	1,237,588	247,638	1,485,226
Segment liabilities	1,109,503	214,990	1,324,493

**Notes to condensed consolidated interim financial statements (unaudited) (continued)**

(Expressed in millions of Hong Kong dollars)

**12. Segmental reporting (continued)****(a) Segment results, assets and liabilities (continued)***Client Segments***6 months ended 30 June 2018  
(restated)**

	Corporate & Institutional Banking HK\$'M	Commercial Banking HK\$'M	Private Banking HK\$'M	Retail Banking HK\$'M	Central & Other Items HK\$'M	Consolidated Total HK\$'M
<i>Operating income</i>						
– Net interest income	3,363	1,117	348	4,486	412	9,726
– Other operating income	3,303	692	408	3,370	292	8,065
	6,666	1,809	756	7,856	704	17,791
Operating expenses <sup>1</sup>	(3,867)	(1,135)	(758)	(4,414)	(22)	(10,196)
Operating profit/(loss) before impairment	2,799	674	(2)	3,442	682	7,595
Credit and other impairment	(287)	(115)	–	(272)	(6)	(680)
Share of profit from associate	–	–	–	–	1,177	1,177
Profit/(loss) before taxation	2,512	559	(2)	3,170	1,853	8,092

**At 31 December 2018 (restated)**

Segment assets	524,114	82,423	38,647	298,166	494,435	1,437,785
Segment liabilities	504,304	144,742	57,749	499,026	97,667	1,303,488

*Geographical Segments***6 months ended 30 June 2018  
(restated)**

	Hong Kong HK\$'M	Mainland China HK\$'M	Consolidated Total HK\$'M
<i>Operating income</i>			
– Net interest income	7,081	2,645	9,726
– Other operating income	7,410	655	8,065
	14,491	3,300	17,791
Operating expenses	(7,587)	(2,609)	(10,196)
Operating profit before impairment	6,904	691	7,595
Credit and other impairment	(463)	(217)	(680)
Share of profit from associate	–	1,177	1,177
Profit before taxation	6,441	1,651	8,092
<b>At 31 December 2018 (restated)</b>			
Segment assets	1,200,782	237,003	1,437,785
Segment liabilities	1,090,864	212,624	1,303,488

<sup>1</sup> Operating expenses in Corporate & Institutional Banking segment included depreciation charges of HK\$878 million (30 June 2018: HK\$988 million) for commercial aircraft and vessels leased to customers under operating leases.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***12. Segmental reporting (continued)****(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities**

	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
<b>Operating income</b>		
Reportable segment revenue	18,396	17,791
Income relating to Financial Market products	(118)	(172)
Cost of free funds	824	611
Others	(1,210)	(896)
	<hr/>	<hr/>
Total operating income	<u>17,892</u>	<u>17,334</u>
	<i>6 months ended 30 June 2019 HK\$'M</i>	<i>6 months ended 30 June 2018 HK\$'M (restated)</i>
<b>Profit before taxation</b>		
Reportable segment profit before taxation	8,643	8,092
Income relating to Financial Market products	(118)	(172)
Cost of free funds	824	611
Reallocations of impairment charges	(78)	(71)
Others	(1,144)	(428)
	<hr/>	<hr/>
Profit before taxation	<u>8,127</u>	<u>8,032</u>
	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
<b>Assets</b>		
Reportable segment assets	1,485,226	1,437,785
Assets of group companies not included in consolidated total assets	(4,092)	(4,504)
Amounts due from fellow subsidiaries	108,511	113,472
Others	(99,240)	(132,285)
	<hr/>	<hr/>
Total assets	<u>1,490,405</u>	<u>1,414,468</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***12. Segmental reporting (continued)****(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities (continued)**

	At 30 June 2019 HK\$'M	At 31 December 2018 HK\$'M (restated)
<b>Liabilities</b>		
Reportable segment liabilities	1,324,493	1,303,488
Liabilities of group companies not included in consolidated total liabilities	(1,814)	(2,223)
Amounts due to immediate holding company and fellow subsidiaries	85,166	52,804
Others	(35,985)	(45,111)
	<u>1,371,860</u>	<u>1,308,958</u>
Total liabilities	<u>1,371,860</u>	<u>1,308,958</u>

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

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

**13. Placements with banks and other financial institutions**

	At 30 June 2019 HK\$'M	At 31 December 2018 HK\$'M (restated)
Placements with banks and other financial institutions		
– maturing within one month	43,357	83,776
– maturing between one month and one year	108,164	97,880
– maturing between one year to five years	583	1,230
	<u>152,104</u>	<u>182,886</u>
Less: Expected credit loss provision (note 16)	(10)	(14)
	<u>152,094</u>	<u>182,872</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***14. Financial assets at fair value through profit or loss**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Trading assets	68,362	53,404
Non-trading financial assets mandatorily at fair value through profit or loss	27,174	18,294
	<u>95,536</u>	<u>71,698</u>

**15. Advances to customers**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
<b>(a) Advances to customers</b>		
Gross advances to customers	641,637	597,543
Less: Expected credit loss provision (note 16)	(2,852)	(2,605)
	<u>638,785</u>	<u>594,938</u>
<b>(b) Impaired advances to customers</b>		
Gross impaired advances to customers	3,626	3,565
Less: Stage 3 expected credit loss provision (note 16)	(1,587)	(1,464)
	<u>2,039</u>	<u>2,101</u>
Gross impaired advances to customers as a % of gross advances to customers	<u>0.57%</u>	<u>0.60%</u>
Covered portion of impaired advances to customers	909	788
Uncovered portion of impaired advances to customers	<u>2,717</u>	<u>2,777</u>

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

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***16. Analysis of expected credit loss provisions on financial instruments by stage**

	At 30 June 2019			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Placements with banks and other financial institutions (note 13)	10	–	–	10
– Advances to customers (note 15)	778	487	1,587	2,852
– Debt securities at amortised cost (note 17)	9	1	–	10
– Debt securities at fair value through other comprehensive income <sup>1</sup>	18	1	–	19
– Loan commitments and financial guarantees (note 24)	72	19	–	91
	<u>887</u>	<u>508</u>	<u>1,587</u>	<u>2,982</u>
	At 31 December 2018 (restated)			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Placements with banks and other financial institutions (note 13)	12	2	–	14
– Advances to customers (note 15)	704	437	1,464	2,605
– Debt securities at amortised cost (note 17)	5	7	–	12
– Debt securities at fair value through other comprehensive income <sup>1</sup>	16	1	–	17
– Loan commitments and financial guarantees (note 24)	62	32	–	94
	<u>799</u>	<u>479</u>	<u>1,464</u>	<u>2,742</u>

<sup>1</sup> These instruments are held at fair value on the balance sheet. The corresponding expected credit loss provision is held within FVOCI reserve – Debt.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***17. Investment securities**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
At fair value through other comprehensive income:		
Debt securities:		
– Treasury bills	70,181	106,459
– Certificates of deposit held	25,122	25,687
– Other debt securities	186,613	141,892
	<u>281,916</u>	<u>274,038</u>
Equity shares	394	395
	<u>282,310</u>	<u>274,433</u>
	-----	-----
At amortised cost:		
Other debt securities	9,705	5,030
Less: Expected credit loss provision (note 16)	(10)	(12)
	<u>9,695</u>	<u>5,018</u>
	-----	-----
	<u>292,005</u>	<u>279,451</u>
	=====	=====

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***18. Property, plant and equipment**

	<i>Buildings and leasehold land held for own use HK\$'M</i>	<i>Equipment, furniture &amp; fixtures HK\$'M</i>	<i>Operating lease assets as lessor HK\$'M</i>	<i>Operating lease assets as lessee HK\$'M</i>	<i>Sub-total HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total property, plant and equipment HK\$'M</i>
<b>Cost or valuation:</b>							
At 1 January 2019	3,446	1,770	41,531	–	46,747	830	47,577
Adoption of HKFRS/IFRS 16	–	–	–	3,937	3,937	–	3,937
Additions	102	3	2,108	19	2,232	–	2,232
Transferred to assets classified as assets held for sale	–	–	(647)	–	(647)	–	(647)
Disposals and write-offs	(8)	(35)	(235)	(9)	(287)	–	(287)
Reclassification	(48)	48	–	–	–	–	–
Fair value adjustment (note 7)	–	–	–	–	–	(56)	(56)
Exchange adjustment	(4)	–	(90)	(2)	(96)	–	(96)
At 30 June 2019	<u>3,488</u>	<u>1,786</u>	<u>42,667</u>	<u>3,945</u>	<u>51,886</u>	<u>774</u>	<u>52,660</u>
<b>Representing:</b>							
Cost	3,488	1,786	42,667	3,945	51,886	–	51,886
Valuation	–	–	–	–	–	774	774
	<u>3,488</u>	<u>1,786</u>	<u>42,667</u>	<u>3,945</u>	<u>51,886</u>	<u>774</u>	<u>52,660</u>
<b>Accumulated depreciation:</b>							
At 1 January 2019	1,225	1,142	7,481	–	9,848	–	9,848
Charge for the period (note 8)	57	105	878	476	1,516	–	1,516
Impairment (note 10)	–	–	219	–	219	–	219
Attributable to assets transferred to assets held for sale	–	–	(129)	–	(129)	–	(129)
Attributable to assets sold or written off	(11)	(35)	(82)	(9)	(137)	–	(137)
Exchange adjustment	(1)	(1)	(11)	(2)	(15)	–	(15)
At 30 June 2019	<u>1,270</u>	<u>1,211</u>	<u>8,356</u>	<u>465</u>	<u>11,302</u>	<u>–</u>	<u>11,302</u>
<b>Net book value:</b>							
At 30 June 2019	<u>2,218</u>	<u>575</u>	<u>34,311</u>	<u>3,480</u>	<u>40,584</u>	<u>774</u>	<u>41,358</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***18. Property, plant and equipment (continued)**

	<i>Buildings and leasehold land held for own use HK\$'M</i>	<i>Equipment, furniture &amp; fixtures HK\$'M</i>	<i>Operating lease assets as lessor HK\$'M</i>	<i>Sub-total HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total property, plant and equipment HK\$'M</i>
<b>Cost or valuation:</b>						
At 1 January 2018 (restated)	3,493	1,613	44,424	49,530	866	50,396
Additions	106	322	7,518	7,946	–	7,946
Transferred to assets classified as held for sale	–	–	(957)	(957)	–	(957)
Disposals and write-offs	(50)	(179)	(9,454)	(9,683)	–	(9,683)
Reclassifications	(69)	69	–	–	–	–
Fair value adjustments	–	–	–	–	(36)	(36)
Exchange adjustments	(34)	(55)	–	(89)	–	(89)
At 31 December 2018	<u>3,446</u>	<u>1,770</u>	<u>41,531</u>	<u>46,747</u>	<u>830</u>	<u>47,577</u>
<b>Representing:</b>						
Cost	3,446	1,770	41,531	46,747	–	46,747
Valuation	–	–	–	–	830	830
	<u>3,446</u>	<u>1,770</u>	<u>41,531</u>	<u>46,747</u>	<u>830</u>	<u>47,577</u>
<b>Accumulated depreciation:</b>						
At 1 January 2018 (restated)	1,135	1,168	6,776	9,079	–	9,079
Charge for the year	137	200	2,024	2,361	–	2,361
Impairment	–	–	1,081	1,081	–	1,081
Attributable to assets transferred to held for sale	–	–	(217)	(217)	–	(217)
Attributable to assets sold or written off	(37)	(178)	(2,183)	(2,398)	–	(2,398)
Exchange adjustments	(10)	(48)	–	(58)	–	(58)
At 31 December 2018	<u>1,225</u>	<u>1,142</u>	<u>7,481</u>	<u>9,848</u>	<u>–</u>	<u>9,848</u>
<b>Net book value:</b>						
At 31 December 2018	<u>2,221</u>	<u>628</u>	<u>34,050</u>	<u>36,899</u>	<u>830</u>	<u>37,729</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***19. Other assets**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Prepayments and accrued income	5,478	4,881
Sundry debtors	4,763	3,776
Acceptances and endorsements	10,510	8,582
Unsettled trades and others	12,338	9,363
Assets held for sale <sup>1</sup>	702	850
	<u>33,791</u>	<u>27,452</u>

<sup>1</sup> Assets held for sale include commercial aircraft and corporate loans.

**20. Investments in subsidiaries**

The principal subsidiaries of the Bank are Standard Chartered Bank (China) Limited, SC Digital Solutions Limited and Standard Chartered Leasing Group Limited.

**21. Deposits from customers**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Current accounts	252,779	281,451
Savings accounts	463,632	478,228
Time, call and notice deposits	300,025	277,579
Deposits and balances of central banks	8,651	9,288
Liabilities under sale and repurchase agreements	25,986	3,377
	<u>1,051,073</u>	<u>1,049,923</u>

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***22. Financial liabilities at fair value through profit or loss**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Trading liabilities	30,097	26,098
Financial liabilities designated at fair value through profit or loss:		
– Structured deposits from banks and customers	27,585	26,354
– Debt securities issued	10,655	7,459
– Liabilities under sale and repurchase agreements	11,706	6,033
	<u>49,946</u>	<u>39,846</u>
	<u>80,043</u>	<u>65,944</u>

**23. Debt securities in issue**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Certificates of deposit	467	562
Senior debt securities	–	7,071
	<u>467</u>	<u>7,633</u>

**24. Other liabilities**

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Accruals and deferred income	5,800	6,556
Provision for liabilities and charges	287	345
Expected credit loss provision on loan commitments and financial guarantees (note 16)	91	94
Acceptances and endorsements	10,510	8,582
Unsettled trades and others	28,240	26,652
	<u>44,928</u>	<u>42,229</u>

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

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
US\$750 million 5.875% Fixed Rate Notes 2020	5,918	5,906

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

**26. Shareholders' equity**

The Hong Kong Monetary Authority ("HKMA") requires the Bank and its subsidiaries to maintain a minimum level of impairment allowance for advances to customers which is in excess of the expected credit loss provision required under Hong Kong Financial Reporting Standards. Of the retained earnings as at 30 June 2019 an amount of HK\$3,472 million (31 December 2018: HK\$3,954 million) has been reserved for this purpose.

**27. Capital commitments and contingencies****(a) Capital commitment**

Capital commitments in respect of property, plant and equipment purchases not provided for in the consolidated financial statements were as follows:

	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
Contracted for	671	3,496
Authorised but not contracted for	141	143
	<u>812</u>	<u>3,639</u>

**(b) Contingencies**

The Group receives legal claims against it arising in the normal course of business. The Group considers none of these matters as material. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

**28. Material related-party transactions**

There were no significant changes to the nature of the related party transactions described in the 2018 consolidated financial statements that have a material effect on the financial position or performance of the Group during the six months ended 30 June 2019. All related party transactions that took place in the six months ended 30 June 2019 were similar in nature to those disclosed in the 2018 consolidated financial statements.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***29. Ultimate and immediate holding company**

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

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

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

**Valuation methodologies**

The valuation hierarchy is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable <sup>1</sup>	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see note 30 (a)(i))

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



**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***30. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

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

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

*Financial assets*

	<i>Financial assets at fair value through profit or loss HK\$'M</i>	<i>Financial assets at fair value through other comprehensive income HK\$'M</i>	<i>Total level 3 assets HK\$'M</i>
At 1 January 2019	4,136	395	4,531
Total losses recognised in the income statement			
– Net trading income	(94)	–	(94)
Total losses recognised in other comprehensive income			
– Net change in fair value	–	(1)	(1)
Purchases	501	–	501
Sales	(735)	–	(735)
Settlements	(546)	–	(546)
Transferred into level 3 <sup>1</sup>	184	–	184
Transferred out of level 3 <sup>1</sup>	(5)	–	(5)
	<u>3,441</u>	<u>394</u>	<u>3,835</u>
At 30 June 2019			
Total losses recognised in the income statement relating to assets held at 30 June 2019			
– Net trading income	(41)	–	(41)

<sup>1</sup> Transfers into/(out of) level 3 during the period relate to financial instruments where the valuation parameters became unobservable/(observable) during the period.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***30. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)***Financial liabilities*

	<i>Financial liabilities at fair value through profit or loss HK\$'M</i>	<i>Financial liabilities designated at fair value through profit or loss HK\$'M</i>	<i>Total level 3 liabilities HK\$'M</i>
At 1 January 2019	–	917	917
Total gains recognised in the income statement			
– Net trading income	–	32	32
Additions	73	245	318
Settlements	–	(514)	(514)
	<u>73</u>	<u>680</u>	<u>753</u>
At 30 June 2019	<u>73</u>	<u>680</u>	<u>753</u>
Total gains recognised in the income statement relating to liabilities held at 30 June 2019			
– Net trading income	<u>–</u>	<u>32</u>	<u>32</u>

*Financial assets*

	<i>Financial assets at fair value through profit or loss HK\$'M (restated)</i>	<i>Financial assets at fair value through other comprehensive income HK\$'M (restated)</i>	<i>Total level 3 assets HK\$'M (restated)</i>
At 1 January 2018 (restated)	4,567	227	4,794
Total losses recognised in the income statement			
– Net trading income	(46)	–	(46)
Total gains recognised in other comprehensive income			
– Net change in fair value	–	91	91
Purchases	863	77	940
Sales	(454)	–	(454)
Settlements	(796)	–	(796)
Transferred into level 3 <sup>1</sup>	2	–	2
	<u>4,136</u>	<u>395</u>	<u>4,531</u>
At 31 December 2018 (restated)	<u>4,136</u>	<u>395</u>	<u>4,531</u>
Total losses recognised in the income statement relating to assets held at 31 December 2018			
– Net trading income	<u>(35)</u>	<u>–</u>	<u>(35)</u>

<sup>1</sup> Transfers into level 3 during the year relate to financial instruments where the valuation parameters became unobservable during the year.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***30. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

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

*Financial liabilities*

	<i>Financial liabilities designated at fair value through profit or loss HK\$'M (restated)</i>	<i>Total level 3 liabilities HK\$'M (restated)</i>
At 1 January 2018 (restated)	1,706	1,706
Total gains recognised in the income statement		
– Net trading income	(69)	(69)
Additions	33	33
Settlements	(753)	(753)
	<hr/>	<hr/>
At 31 December 2018 (restated)	917	917
	<hr/> <hr/>	<hr/> <hr/>
Total gains recognised in the income statement relating to liabilities held at 31 December 2018		
– Net trading income	(68)	(68)
	<hr/> <hr/>	<hr/> <hr/>

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

<u>Type of instruments</u>	<u>Principal valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range<sup>1</sup></u>	<u>Weighted average<sup>2</sup></u>
Debt securities	Discounted cash flows	Price/Yield	5.0% (2018: 1.0% to 11.0%)	5.0% (2018: 2.79%)
Advances to customers	Discounted cash flows	Recovery rates	88.50% to 100% (2018: 90.0% to 100.0%)	95.80% (2018: 94.60%)
Equity shares	Discounted cash flows	Discount rates	9.9% (2018: 10%)	9.9% (2018: 10%)
Debt securities in issue	Discounted cash flows	Credit spreads	4.0% to 4.0% (2018: 1.30% to 4.0%)	4.0% (2018: 2.80%)
Structured deposits	Discounted cash flows	Credit spreads	1.0% (2018: 1.0%)	1.0% (2018: 1.0%)
Derivatives	Discounted cash flows	Credit spreads	1.0% to 3.60% (2018: NA)	1.6% (2018: NA)

## Notes to condensed consolidated interim financial statements (unaudited) (continued)

(Expressed in millions of Hong Kong dollars)

### 30. Financial instruments (continued)

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

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

<sup>1</sup> The ranges of values shown represent the highest and lowest levels used in the valuation of the level 3 financial instruments as at 30 June 2019 and 31 December 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 reporting date. However, these ranges of values may not represent the uncertainty in fair value measurements of these level 3 financial instruments.

<sup>2</sup> Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value.

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

#### *Yield*

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

#### *Recovery rates*

Recovery rates are the expectation of the rate of recovery 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.

#### *Credit spreads*

Credit spreads represent the additional yield that a market participant would demand for taking exposures to the credit risk of an instrument. An increase in credit spread, in isolation, would result in a decrease in fair value measurement.

#### *Discount rates*

Discount rates is applied to discount future dividend in the discounted cash flow model. An increase in the discount rate, in isolation, would result in decrease in a fair value measurement.

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

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of HKFRS 7/IFRS 7, Financial Instruments: Disclosures. The percentage shift is determined by statistical analysis performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our level 3 financial instruments. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***30. Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

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

At 30 June 2019

	<i>Held at fair value through profit or loss</i>			<i>Held at fair value through other comprehensive income</i>		
	<i>Net exposure HK\$'M</i>	<i>Favourable changes HK\$'M</i>	<i>Unfavourable changes HK\$'M</i>	<i>Net exposure HK\$'M</i>	<i>Favourable changes HK\$'M</i>	<i>Unfavourable changes HK\$'M</i>
Debt securities	600	622	570	–	–	–
Advances to customers	2,377	2,413	2,345	–	–	–
Equity shares	464	510	417	394	432	354
Debt securities issued	(400)	(383)	(417)	–	–	–
Structure bank and customer deposits	(280)	(274)	(282)	–	–	–
Negative fair value of derivatives	(73)	(72)	(74)	–	–	–
	<u>2,688</u>	<u>2,816</u>	<u>2,559</u>	<u>394</u>	<u>432</u>	<u>354</u>

At 31 December 2018 (restated)

	<i>Held at fair value through profit or loss</i>			<i>Financial assets at fair value through other comprehensive income</i>		
	<i>Net exposure HK\$'M</i>	<i>Favourable changes HK\$'M</i>	<i>Unfavourable changes HK\$'M</i>	<i>Net exposure HK\$'M</i>	<i>Favourable changes HK\$'M</i>	<i>Unfavourable changes HK\$'M</i>
Debt securities	1,048	1,070	1,016	–	–	–
Advances to customers	2,582	2,601	2,575	–	–	–
Equity shares	506	556	455	395	436	356
Debt securities issued	(885)	(847)	(915)	–	–	–
Structured bank and customer deposits	(32)	(34)	(31)	–	–	–
	<u>3,219</u>	<u>3,346</u>	<u>3,100</u>	<u>395</u>	<u>436</u>	<u>356</u>

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

<i>Financial instruments</i>	<i>Fair value changes</i>	<i>At 30 June 2019 HK\$'M</i>	<i>At 31 December 2018 HK\$'M (restated)</i>
		Held at fair value through profit or loss	Possible increase
	Possible decrease	129	119
Held at fair value through other comprehensive income	Possible increase	38	41
	Possible decrease	40	39

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***30. Financial instruments (continued)****(b) Valuation of financial instruments carried at amortised cost**

All financial instruments carried at amortised cost are stated at amounts not materially different from their fair value as at 30 June 2019 and 31 December 2018, except for subordinated liabilities.

The following table summarises the carrying amounts and fair values (including the valuation hierarchy) of subordinated liabilities. The values in the table below are stated as at 30 June 2019 and 31 December 2018 and may be different from the actual amounts that will be received on the settlement or maturity of the subordinated liabilities.

	At 30 June 2019		At 31 December 2018 (restated)	
	Carrying amount	Fair value Level 1	Carrying amount	Fair value Level 1
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Subordinated liabilities	5,918	6,033	5,906	6,064

**31. Share based payments**

SCPLC operates a number of share-based arrangements in which the Group's employees participate.

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

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

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

## Notes to condensed consolidated interim financial statements (unaudited) (continued)

(Expressed in millions of Hong Kong dollars)

### 31. Share based payments (continued)

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

#### **2001 Performance Share Plan (“2001 PSP”)**

The SCPLC’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. No further awards will be granted under 2001 PSP.

#### **2006 Restricted Share Scheme (“2006 RSS”)/2007 Supplementary Restricted Share Scheme (“2007 SRSS”)**

The SCPLC’s previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There remain outstanding vested awards under these plans. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half vested two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

#### **All Employee Sharesave Plans (comprised of the “2004 International Sharesave Plan”, the “2004 UK Sharesave Plan” and the “2013 Sharesave Plan”)**

Under the All Employee Sharesave Plans, employees may open a savings contract. Within a period of six months after the third anniversary, as appropriate, employees may purchase ordinary shares in SCPLC at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the “option exercise price”). There are no performance measures attached to options granted under the All Employee Sharesave Plans and no grant price is payable to receive an option. In some countries in which the SCPLC operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the SCPLC offers an equivalent cash-based plan to its employees. The 2004 International Sharesave and the 2004 UK Sharesave plans are now closed and no further awards will be granted under these plans.

The 2013 Sharesave Plan was approved by SCPLC’s shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is five years.

#### **Valuation of share awards**

Details of the valuation models used in determining the fair values of share awards granted under the SCPLC’s share plans are detailed in the Group’s consolidated financial statements for the year ended 31 December 2018.

**Notes to condensed consolidated interim financial statements (unaudited) (continued)***(Expressed in millions of Hong Kong dollars)***31. Share based payments (continued)****Reconciliation of share award movements for the period to 30 June 2019**

	<u>2011 Plan</u>				2013 Sharesave	Weighted average Sharesave exercise price (£)
	LTIP	Deferred/ Restricted shares	PSP	RSS		
Outstanding at 1 January 2019	2,733,627	3,507,677	11,701	–	2,658,574	5.44
Granted	120,487	1,753,148	–	–	–	–
Notional dividend	23,677	29,054	–	–	–	–
Lapsed	(191,747)	(106,283)	–	–	(319,874)	5.49
Exercised	(669,451)	(1,283,261)	(4,774)	–	(646,154)	5.58
Outstanding at 30 June 2019	<u>2,016,593</u>	<u>3,900,335</u>	<u>6,927</u>	<u>–</u>	<u>1,692,546</u>	<u>5.37</u>
Exercisable at 30 June 2019	<u>–</u>	<u>561,769</u>	<u>6,927</u>	<u>–</u>	<u>786</u>	
Range of exercise prices (£)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5.13-6.20</u>	
Weighted average contractual remaining life (years)	<u>6.44</u>	<u>8.42</u>	<u>2.22</u>	<u>–</u>	<u>2.25</u>	

**32. Post balance sheet event**

In July 2019, regulatory approvals have been received for the transfer of Standard Chartered Bank (Taiwan) Limited (“SCB Taiwan”) from Standard Chartered Bank to the Bank. The transfer of Standard Chartered Bank (Korea) Limited (“SCB Korea”) from Standard Chartered Bank to the Bank is currently subject to regulatory approvals. Both SCB Taiwan and SCB Korea will become wholly-owned subsidiaries of the Bank indirectly held via an intermediate holding company upon the expected completion in 2019. These transactions will be accounted for in accordance with the principles of merger accounting as stated in note 2(b)(ii).

By order of the Board

Gregory John Powell

Executive Director and Regional Chief Financial Officer, Greater China and North Asia

Hong Kong

12 August 2019