

Standard Chartered Bank
(Hong Kong) Limited

Condensed Consolidated
Interim Financial Statements (unaudited)

For the period ended
30 June 2020

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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 2020.

2020 First Half Results

Profit before taxation decreased by HK\$2,261 million from HK\$10,199 million to HK\$7,938 million. Net interest income decreased by 11 per cent to HK\$12,290 million. Net fee and commission income decreased by 11 per cent over the corresponding period in 2019. Total operating income increased by 0.6 per cent to HK\$24,012 million.

Operating expenses decreased by 1 per cent over the corresponding period to HK\$13,812 million. Total impairments increased by HK\$1,961 million over the corresponding period.

Profit after taxation was HK\$6,203 million, a decrease of HK\$1,901 million over HK\$8,104 million recorded in the first half of 2019.

Condensed consolidated income statement (unaudited)**For the period ended 30 June 2020***(Expressed in millions of Hong Kong dollars)*

		6 months ended 30 June 2020	6 months ended 30 June 2019 <i>(restated)</i>
	<i>Note</i>		
Interest income	3	20,157	22,895
Interest expense	4	(7,867)	(9,129)
Net interest income		<u>12,290</u>	<u>13,766</u>
Fee and commission income		5,444	5,965
Fee and commission expense		(1,108)	(1,083)
Net fee and commission income	5	4,336	4,882
Net trading income	6	4,858	2,932
Other operating income	7	2,528	2,286
		<u>11,722</u>	<u>10,100</u>
Total operating income		24,012	23,866
Staff costs		(6,708)	(7,090)
Premises and equipment		(2,140)	(2,333)
Others		(4,964)	(4,574)
Operating expenses	8	<u>(13,812)</u>	<u>(13,997)</u>
Operating profit before impairment		10,200	9,869
Credit impairment	9	(2,118)	(653)
Other impairment	10	(715)	(219)
Operating profit after impairment		7,367	8,997
Share of profit of an associate		571	1,202
Profit before taxation		7,938	10,199
Taxation	11	(1,735)	(2,095)
Profit after taxation		<u>6,203</u>	<u>8,104</u>
Profit/(loss) attributable to:			
– Non-controlling interests		(60)	(45)
– Equity shareholders of the Bank		6,263	8,149
Profit after taxation		<u>6,203</u>	<u>8,104</u>

The notes on pages 7 to 37 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of comprehensive income (unaudited)**For the period ended 30 June 2020***(Expressed in millions of Hong Kong dollars)*

	<i>6 months ended 30 June 2020</i>	<i>6 months ended 30 June 2019 (restated)</i>
Profit after taxation	6,203	8,104
Other comprehensive income:		
<u>Items that will not be reclassified to the income statement:</u>		
Own credit adjustment:		
– Changes in own credit adjustment on financial liabilities designated at fair value through profit or loss	113	(847)
– Related tax effect	(15)	149
Defined benefit plans:		
– Remeasurement of net defined benefit obligations	(201)	17
– Related tax effect	35	1
Equity securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the period	(52)	(14)
<u>Items that may be reclassified subsequently to the income statement:</u>		
Debt securities at fair value through other comprehensive income (“FVOCI”):		
– Changes in fair value recognised during the period	3,237	1,438
– Changes in fair value transferred to the income statement on disposal	(521)	(94)
– Transfer to the income statement on fair value hedged items attributable to hedged risk	(1,695)	(1,079)
– Expected credit loss	8	1
– Share of impact from an associate	29	(10)
– Related tax effect	(120)	(42)
Cash flow hedges:		
– Changes in fair value recognised during the period	(604)	(738)
– Transferred to the income statement on termination of hedging derivatives	25	(3)
– Related tax effect	95	120
Exchange difference	(1,433)	(1,375)
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	(1,099)	(2,476)
	<hr/>	<hr/>
Total comprehensive income	5,104	5,628
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
– Non-controlling interests	(60)	(45)
– Equity shareholders of the Bank	5,164	5,673
	<hr/>	<hr/>
Total comprehensive income	5,104	5,628
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The notes on pages 7 to 37 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of financial position as at 30 June 2020 (unaudited)*(Expressed in millions of Hong Kong dollars)*

	Note	At 30 June 2020	At 31 December 2019
Assets			
Cash and balances at central banks		70,218	68,700
Advances to banks and other financial institutions	13	134,751	129,107
Hong Kong SAR Government certificates of indebtedness		54,821	53,821
Financial assets at fair value through profit or loss	14	171,872	127,347
Investment securities	17	436,853	424,178
Advances to customers	15	1,017,857	1,007,035
Amounts due from fellow subsidiaries		167,389	164,132
Amounts due from immediate holding company		340	–
Interest in an associate		14,371	14,046
Property, plant and equipment	18	40,877	35,651
Goodwill and intangible assets		8,454	7,905
Current tax assets		–	53
Deferred tax assets		1,450	1,999
Other assets	19	74,180	84,674
		<u>2,193,433</u>	<u>2,118,648</u>
Liabilities			
Hong Kong SAR currency notes in circulation		54,821	53,821
Deposits and balances of banks and other financial institutions		39,760	37,564
Deposits from customers	21	1,608,830	1,530,112
Financial liabilities at fair value through profit or loss	22	88,965	96,549
Debt securities in issue	23	36,957	31,608
Amounts due to immediate holding company		31,434	30,655
Amounts due to fellow subsidiaries		74,397	76,962
Current tax liabilities		1,271	2,073
Deferred tax liabilities		898	775
Other liabilities	24	77,718	86,649
Subordinated liabilities	25	–	5,876
		<u>2,015,051</u>	<u>1,952,644</u>
Equity			
Share capital		65,025	65,025
Reserves		96,248	91,560
Shareholders' equity	26	161,273	156,585
Other equity instruments		16,733	8,983
Non-controlling interests		376	436
		<u>178,382</u>	<u>166,004</u>
		<u>2,193,433</u>	<u>2,118,648</u>

The notes on pages 7 to 37 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity (unaudited)**For the period ended 30 June 2020***(Expressed in millions of Hong Kong dollars)*

	Share capital	Own credit adjustment reserve	Cash flow hedge reserve	FVOCI reserve – Debt	FVOCI reserve – Equity	Exchange reserve	Statutory reserves	Other reserves	Retained profits	Share option equity 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
At 1 January 2019, as previously stated	41,421	685	287	157	253	(1,745)	3,655	(8,269)	66,832	282	103,558	1,952	-	105,510
Effect of merger of commonly controlled entity	23,604	11	(20)	37	63	(5,583)	8,872	3,897	19,487	326	50,694	-	-	50,694
At 1 January 2019 (restated)	65,025	696	267	194	316	(7,328)	12,527	(4,372)	86,319	608	154,252	1,952	-	156,204
Issuance of other equity	-	-	-	-	-	-	-	-	-	-	-	7,031	-	7,031
Total comprehensive income, net of taxation	-	(698)	(621)	214	(14)	(1,375)	-	-	8,167	-	5,673	-	(45)	5,628
Dividend paid ¹	-	-	-	-	-	-	-	-	(171)	-	(171)	-	-	(171)
Cash contribution to a fellow subsidiary ²	-	-	-	-	-	-	-	-	(4,552)	-	(4,552)	-	-	(4,552)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	48	48	-	-	48
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	33	-	33	-	529	562
Transfer to retained earnings	-	-	-	-	-	-	934	-	(934)	-	-	-	-	-
At 30 June 2019	65,025	(2)	(354)	408	302	(8,703)	13,461	(4,372)	88,862	656	155,283	8,983	484	164,750
Total comprehensive income, net of taxation	-	(90)	(17)	371	(38)	(1,174)	-	-	6,652	-	5,704	-	(48)	5,656
Dividend paid	-	-	-	-	-	-	-	-	(4,219)	-	(4,219)	-	-	(4,219)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	(183)	(183)	-	-	(183)
Transfer to retained earnings	-	-	-	-	-	-	86	-	(86)	-	-	-	-	-
At 31 December 2019	65,025	(92)	(371)	779	264	(9,877)	13,547	(4,372)	91,209	473	156,585	8,983	436	166,004
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	7,750	-	7,750
Total comprehensive income, net of taxation	-	98	(484)	939	(53)	(1,433)	-	-	6,097	-	5,164	-	(60)	5,104
Dividend paid ¹	-	-	-	-	-	-	-	-	(399)	-	(399)	-	-	(399)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	-	(77)	(77)	-	-	(77)
Transfer to retained earnings	-	-	-	-	-	-	839	-	(839)	-	-	-	-	-
At 30 June 2020	65,025	6	(855)	1,718	211	(11,310)	14,386	(4,372)	96,068	396	161,273	16,733	376	178,382

¹ During the six months ended 30 June 2020, there were no dividends declared and paid in respect of Class A, B, C and D ordinary shares (year ended 31 December 2019: HK\$0.74 per share totaling HK\$3,904 million). Dividends of HK\$228 million (year ended 31 December 2019: HK\$144 million), HK\$122 million (year ended 31 December 2019: HK\$244 million) and HK\$49 million (year ended 31 December 2019: HK\$98 million) were paid in respect of the US\$900 million floating rate undated Additional Tier 1 Capital Securities, 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.

² During the year ended 2019, cash distributions of HK\$4,083 million and HK\$469 million were made by Standard Chartered NEA Limited (“SC NEA”) and Standard Chartered Bank (Taiwan) Limited (“SCB Taiwan”) respectively, to a fellow subsidiary prior to the Bank’s acquisition of SC NEA and SCB Taiwan on 1 October 2019.

The notes on pages 7 to 37 form part of these condensed consolidated interim financial statements.

Condensed consolidated cash flow statement (unaudited)**For the period ended 30 June 2020***(Expressed in millions of Hong Kong dollars)*

	<i>For 6 months ended 30 June 2020 HK\$'M</i>	<i>For 6 months ended 30 June 2019 HK\$'M (restated)</i>
Operating activities		
Profit before taxation	7,938	10,199
Adjustments for non-cash items and other adjustments included within income statement	5,530	3,631
Change in operating assets	(72,787)	(138,536)
Change in operating liabilities	85,689	35,671
Income tax paid	(1,966)	(2,243)
Net cash generated from/(used in) operating activities	24,404	(91,278)
Investing activities		
Payment for purchase of property, plant and equipment	(7,539)	(2,377)
Payment for purchase of intangible assets	(880)	(721)
Proceeds from disposal of property, plant and equipment	712	790
Net cash used in investing activities	(7,707)	(2,308)
Financing activities		
Issuances of other equity instrument	7,750	7,031
Issuances of subordinated liabilities	1,081	28,165
Contribution from non-controlling interest	–	562
Cash distributions to fellow subsidiaries	–	(4,552)
Dividend paid to shareholders of the Bank	(399)	(171)
Payment of lease liabilities	(585)	(495)
Interest paid on subordinated liabilities	(647)	(345)
Payment for redemption of subordinated liabilities	(5,914)	–
Net cash generated from financing activities	1,286	30,195
Net increase/(decrease) in cash and cash equivalents	17,983	(63,391)
Cash and cash equivalents at 1 January	180,538	284,542
Effect of foreign exchange	(2,647)	(1,900)
Cash and cash equivalents at 30 June	195,874	219,251

The notes on pages 7 to 37 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 2019, 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 2019, 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 2019. None of the other revised accounting standards, which became effective from 1 January 2020, have a material impact on the 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)

(i) 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 condensed consolidated interim 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”) and SC NEA and its subsidiaries (“SC NEA Group”)*

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. On 1 October 2019, the Bank additionally acquired 100 percent of the share capital of SC NEA Group (which comprises Standard Chartered Bank Korea Limited (“SCB Korea”), Standard Chartered Bank (Taiwan) Limited (“SCB Taiwan”) and Standard Chartered Securities Korea Limited (“SCS Korea”)) from a fellow subsidiary by issuance of Class D ordinary share capital amounting to HK\$23,604 million.

As the Bank and SCB China and SC NEA Group 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 and SC NEA Group first came under the control of the SC PLC.

The net assets of SCB China and SC NEA Group 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 and SC NEA Group had been combined and the Class C shares and Class D shares of the Bank had been issued at the earliest date presented in these condensed consolidated interim financial statements notwithstanding their actual issuance on 1 June 2019 and 1 October 2019 respectively.

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) Interest rate benchmark reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In April 2020 the IASB published an Exposure Draft for the second phase of its proposed amendments to IFRS concerning the global initiative to replace or reform interbank offered rates (“IBORs”) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. The first phase of amendments have already been early adopted for the year ended 31 December 2019. Phase 2 focuses on issues expected to affect financial reporting when an existing IBOR is replaced with an alternative risk-free rate (“RFR”). The Exposure Draft proposes that amendments will be effective for annual reporting periods beginning on or after 1 January 2021, with earlier adoption permitted, and are to be applied retrospectively.

The Exposure Draft recommends a practical expedient to account for the change in benchmark interest rate in a financial instrument to be treated as a change in floating interest rate, provided the re-papered instrument denominated in the alternative RFR is on an economically equivalent basis to the original IBOR-linked instrument. This includes the addition of a fixed spread to compensate for a basis difference between the existing IBOR benchmark and alternative RFR, changes to rest period, reset dates of number of days between coupon payment dates that are necessary to effect reform of an IBOR benchmark and the addition of any fall-back provision to the contractual terms of a financial instrument that allow any of the above changes to be made. Any other change to contractual terms would be assessed under the Group’s accounting policies for loan modifications.

The Exposure Draft also proposes relief from discontinuing hedge relationships and would allow entities to determine that the risk component associated with an alternative RFR is separately identifiable – and therefore be able to apply fair value hedge accounting – if the entity reasonably expects the alternative RFR risk component will become separately identifiable within the next 24 months. Additional disclosures are proposed for annual reports.

The IASB plans to issue final amendments by 30 September 2020, The Group will wait for this publication before commencing a detailed assessment on how Phase 2 amendments will affect the Group’s financial statements.

(c) Basis of consolidation

The Group had subordinated and senior debt in issue which are traded in various stock exchanges. Consequently, the Group is required to prepare consolidated financial statements in accordance with HKFRS 10/IFRS 10 “Consolidated Financial Statements”.

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.

Notes to condensed consolidated interim financial statements (unaudited) (continued)*(Expressed in millions of Hong Kong dollars)***3. Interest income**

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Interest income arising from financial assets:		
– at amortised cost	16,970	19,168
– at fair value through other comprehensive income	3,187	3,727
	<u>20,157</u>	<u>22,895</u>

4. Interest expense

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Interest expense arising from financial liabilities at amortised cost	7,781	9,040
Interest expenses on lease liabilities	86	89
	<u>7,867</u>	<u>9,129</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 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 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	850	948
– fee and commission expense	149	173
	<u>701</u>	<u>775</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	419	385
– fee and commission expense	126	97
	<u>293</u>	<u>288</u>

Notes to condensed consolidated interim financial statements (unaudited) (continued)*(Expressed in millions of Hong Kong dollars)***6. Net trading income**

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Net gains on instruments held for trading	4,862	3,353
Net gains on non-trading financial assets mandatorily at fair value through profit or loss	179	73
Net losses on financial instruments designated at fair value through profit or loss	(183)	(494)
	<u>4,858</u>	<u>2,932</u>

7. Other operating income

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Rental income from operating lease assets	1,763	1,954
Dividend income from financial assets at fair value through other comprehensive income	7	7
Net gains from disposal of debt securities at fair value through other comprehensive income	521	94
Net gains on disposal and write-off of fixed assets	168	100
Net gains on disposal of financial instruments measured at amortised cost	21	48
Net losses on revaluation of investment properties (note 18)	(29)	(56)
Others	77	139
	<u>2,528</u>	<u>2,286</u>

8. Operating expenses

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Staff costs		
– contributions to defined contribution plans	227	258
– expense in respect of the defined benefits plan	135	138
– net share-based payment (releases)/expenses	(44)	68
– salaries and other staff costs	6,390	6,626
Depreciation (note 18)	1,660	1,709
Premises and equipment expense, excluding depreciation	480	624
Amortisation of other intangible assets	328	221
Auditor's remuneration	28	33
Others	4,608	4,320
	<u>13,812</u>	<u>13,997</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 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Net expected credit loss charges/(releases) on:		
– advances to banks and other financial institutions	(7)	(4)
– advances to customers	1,902	665
– debt securities at amortised cost	(1)	(2)
– debt securities at fair value through other comprehensive income	8	1
– loan commitments and financial guarantees	216	(7)
	<u>2,118</u>	<u>653</u>

10. Other impairment

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Charges for property, plant and equipment (note 18)	106	219
Charges for asset held for sale	601	–
Others	8	–
	<u>715</u>	<u>219</u>

11. Taxation

	<i>6 months ended 30 June 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Hong Kong profits tax	918	921
Overseas taxation	275	683
Deferred taxation	542	491
	<u>1,735</u>	<u>2,095</u>

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

(Expressed in millions of Hong Kong dollars)

12 Segmental reporting

The Group's segmental reporting is prepared in accordance with HKFRS/IFRS 8 Operating Segments and is reported consistently with the internal performance framework and as presented to the Group's Management Team. This includes a client segments view and a geographical segments view.

Client segments

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

- **Corporate & Institutional Banking** 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. 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 Group's senior management using these segments.

Geographical segments

The Group comprises four geographical segments, Hong Kong, Mainland China, Taiwan and Korea. Geographical segment is classified by the location of the principal operations of the subsidiary.

(a) Segment results, assets and liabilities

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

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 2020	<i>Corporate & 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 & Other Items HK\$'M</i>	<i>Consolidated Total HK\$'M</i>
<i>Operating income</i>						
– Net interest income	3,493	1,223	452	7,268	(867)	11,569
– Other operating income	5,962	658	512	4,502	857	12,491
	9,455	1,881	964	11,770	(10)	24,060
Operating expenses ¹	(4,080)	(1,227)	(672)	(7,484)	(174)	(13,637)
Operating profit/(loss) before impairment	5,375	654	292	4,286	(184)	10,423
Impairment charges	(1,051)	(295)	11	(996)	2	(2,329)
Share of profit of an associate	–	–	–	–	571	571
Profit before taxation	4,324	359	303	3,290	389	8,665
At 30 June 2020						
Segment assets	687,553	108,536	40,376	583,936	715,527	2,135,928
Segment liabilities	772,195	192,339	51,995	790,010	146,678	1,953,217

Geographical Segments

6 months ended 30 June 2020	<i>Hong Kong HK\$'M</i>	<i>Mainland China HK\$'M</i>	<i>Taiwan HK\$'M</i>	<i>Korea HK\$'M</i>	<i>Consolidated Total HK\$'M</i>
<i>Operating income</i>					
– Net interest income	6,594	2,057	552	2,366	11,569
– Other operating income	7,568	1,625	1,399	1,899	12,491
	14,162	3,682	1,951	4,265	24,060
Operating expenses	(7,348)	(2,399)	(1,227)	(2,663)	(13,637)
Operating profit before impairment	6,814	1,283	724	1,602	10,423
Impairment charges	(1,383)	(791)	(20)	(135)	(2,329)
Share of profit of an associate	–	571	–	–	571
Profit before taxation	5,431	1,063	704	1,467	8,665
At 30 June 2020					
Segment assets	1,237,315	272,366	164,992	461,255	2,135,928
Segment liabilities	1,165,280	232,032	152,632	403,273	1,953,217

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 2019 (restated)**

	<i>Corporate & 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 & Other Items HK\$'M</i>	<i>Consolidated HK\$'M</i>
<i>Operating income</i>						
– Net interest income	4,053	1,445	491	7,238	(237)	12,990
– Other operating income	4,498	745	460	4,742	481	10,926
	8,551	2,190	951	11,980	244	23,916
Operating expenses ¹	(4,221)	(1,376)	(707)	(7,675)	(182)	(14,161)
Operating profit before impairment	4,330	814	244	4,305	62	9,755
Impairment charges	(8)	(63)	(13)	(510)	(19)	(613)
Share of profit of an associate	–	–	–	–	1,202	1,202
Profit before taxation	4,322	751	231	3,795	1,245	10,344
As 31 December 2019						
Segment assets	656,206	110,287	44,726	578,287	644,749	2,034,255
Segment liabilities	731,064	168,501	51,914	785,525	148,887	1,885,891

*Geographical Segments***6 months ended 30 June 2019**

	<i>Hong Kong HK\$'M</i>	<i>Mainland China HK\$'M</i>	<i>Taiwan HK\$'M</i>	<i>Korea HK\$'M</i>	<i>Consolidated Total HK\$'M</i>
<i>Operating income</i>					
– Net interest Income	7,624	2,257	470	2,639	12,990
– Other operating income	6,891	1,231	1,481	1,323	10,926
	14,515	3,488	1,951	3,962	23,916
Operating expenses	(7,353)	(2,536)	(1,211)	(3,061)	(14,161)
Operating profit before impairment	7,162	952	740	901	9,755
Impairment charges	(342)	(334)	9	54	(613)
Share of profit of an associate	–	1,202	–	–	1,202
Profit before taxation	6,820	1,820	749	955	10,344
As 31 December 2019					
Segment assets	1,223,978	235,930	150,608	423,739	2,034,255
Segment liabilities	1,164,266	210,319	141,988	369,318	1,885,891

¹ Operating expenses in Corporate & Institutional Banking segment included depreciation charges of HK\$709 million (30 June 2019: HK\$710 million) for commercial aircraft 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 2020 HK\$'M</i>	<i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Operating income		
Reportable segment revenue	24,060	23,916
Income relating to wealth management products	(590)	(881)
Cost of free funds	1,036	1,138
Others	(494)	(307)
	<hr/>	<hr/>
Total operating income	<u>24,012</u>	<u>23,866</u>
	 <i>6 months ended 30 June 2020 HK\$'M</i>	 <i>6 months ended 30 June 2019 HK\$'M (restated)</i>
Profit before taxation		
Reportable segment profit before taxation	8,665	10,344
Income relating to wealth management products	(590)	(881)
Cost of free funds	1,036	1,138
Reallocation of impairment charges	(408)	691
Others	(765)	(1,093)
	<hr/>	<hr/>
Profit before taxation	<u>7,938</u>	<u>10,199</u>
	 <i>At 30 June 2020 HK\$'M</i>	 <i>At 31 December 2019 HK\$'M</i>
Assets		
Reportable segment assets	2,135,928	2,034,255
Assets of group companies not included in consolidated total assets	(17,590)	(19,059)
Amounts due from fellow subsidiaries	180,608	201,927
Others	(105,513)	(98,475)
	<hr/>	<hr/>
Total assets	<u>2,193,433</u>	<u>2,118,648</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)**

	<i>At 30 June 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
Liabilities		
Reportable segment liabilities	1,953,217	1,885,891
Liabilities of group companies not included in consolidated total liabilities	(2,248)	(1,369)
Amounts due to immediate holding company and fellow subsidiaries	82,946	128,633
Others	(18,864)	(60,511)
	<u>2,015,051</u>	<u>1,952,644</u>
Total liabilities	<u>2,015,051</u>	<u>1,952,644</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. Advances to banks and other financial institutions

	<i>At 30 June 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
Advances to banks and other financial institutions		
– maturing within one month	101,260	66,820
– maturing between one month and one year	32,970	61,547
– maturing between one year to five years	541	767
	<u>134,771</u>	<u>129,134</u>
Less: Expected credit loss provision (note 16)	(20)	(27)
	<u>134,751</u>	<u>129,107</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**

	At 30 June 2020			Total HK\$'M
	Trading assets HK\$'M	Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M	Financial assets designated at fair value through profit or loss HK\$'M	
Debt securities:				
– Treasury bills	14,987	–	–	14,987
– Certificates of deposit held	3,922	–	–	3,922
– Other debt securities	62,133	736	2,093	64,962
	<u>81,042</u>	<u>736</u>	<u>2,093</u>	<u>83,871</u>
Equity securities	835	502	–	1,337
Advances to customers and banks	13,725	40,376	–	54,101
Positive fair values of trading derivatives	32,563	–	–	32,563
	<u>128,165</u>	<u>41,614</u>	<u>2,093</u>	<u>171,872</u>
	At 31 December 2019			
	Trading assets HK\$'M	Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M	Financial assets designated at fair value through profit or loss HK\$'M	Total HK\$'M
Debt securities:				
– Treasury bills	12,275	–	–	12,275
– Certificates of deposit held	6,758	–	–	6,758
– Other debt securities	46,776	799	2,162	49,737
	<u>65,809</u>	<u>799</u>	<u>2,162</u>	<u>68,770</u>
Equity securities	928	571	–	1,499
Advances to customers and banks	9,046	20,064	–	29,110
Positive fair values of trading derivatives	27,968	–	–	27,968
	<u>103,751</u>	<u>21,434</u>	<u>2,162</u>	<u>127,347</u>

Notes to condensed consolidated interim financial statements (unaudited) (continued)*(Expressed in millions of Hong Kong dollars)***15. Advances to customers**

	At 30 June 2020 HK\$'M	At 31 December 2019 HK\$'M
(a) Advances to customers		
Gross advances to customers	1,021,347	1,009,882
Trade bills	1,956	1,884
	<u>1,023,303</u>	<u>1,011,766</u>
Less: Expected credit loss provision (note 16)	(5,446)	(4,731)
	<u>1,017,857</u>	<u>1,007,035</u>
(b) Impaired advances to customers		
Gross impaired advances to customers	6,129	5,250
Less: Stage 3 expected credit loss provision (note 16)	(2,608)	(2,642)
	<u>3,521</u>	<u>2,608</u>
Gross impaired advances to customers as a % of gross advances to customers	<u>0.60%</u>	<u>0.52%</u>
Fair value of collateral held against the covered portion of impaired advance to customers	2,401	2,279
Covered portion of impaired advances to customers	1,427	1,139
Uncovered portion of impaired advances to customers	<u>4,702</u>	<u>4,111</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.

16. Analysis of expected credit loss provisions on financial instruments by stage

	At 30 June 2020			
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	Total HK\$'M
Expected credit loss provision on:				
– Advances to banks and other financial institutions (note 13)	20	–	–	20
– Advances to customers (note 15)	1,455	1,383	2,608	5,446
– Debt securities at amortised cost (note 17)	12	–	–	12
– Debt securities at fair value through other comprehensive income ¹	27	–	–	27
– Loan commitments and financial guarantees (note 24)	106	264	4	374
	<u>1,620</u>	<u>1,647</u>	<u>2,612</u>	<u>5,879</u>

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 (continued)**

	At 31 December 2019			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Advances to banks and other financial institutions (note 13)	14	13	–	27
– Advances to customers (note 15)	1,272	817	2,642	4,731
– Debt securities at amortised cost (note 17)	12	1	–	13
– Debt securities at fair value through other comprehensive income ¹	19	–	–	19
– Loan commitments and financial guarantees (note 24)	114	40	4	158
	<u>1,431</u>	<u>871</u>	<u>2,646</u>	<u>4,948</u>

¹ These instruments are held at fair value on the statement of financial position. The corresponding expected credit loss provision is held within FVOCI reserve – Debt.

17. Investment securities

	At 30 June 2020 HK\$'M	At 31 December 2019 HK\$'M
At fair value through other comprehensive income:		
Debt securities:		
– Treasury bills	71,590	93,462
– Certificates of deposit held	53,587	49,380
– Other debt securities	289,656	264,490
	<u>414,833</u>	<u>407,332</u>
Equity shares	<u>986</u>	<u>435</u>
	<u>415,819</u>	<u>407,767</u>
At amortised cost:		
– Treasury bills	1,159	1,343
– Other debt securities	19,887	15,081
Less: Expected credit loss provision (note 16)	<u>(12)</u>	<u>(13)</u>
	<u>21,034</u>	<u>16,411</u>
	<u>436,853</u>	<u>424,178</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 & fixtures HK\$'M</i>	<i>Operating lease assets as lessor HK\$'M</i>	<i>Operating lease assets as lessee HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total HK\$'M</i>
Cost or valuation:						
At 1 January 2020	8,987	3,205	28,070	5,182	734	46,178
Additions	31	145	7,363	400	–	7,939
Disposals and write-offs	(250)	(111)	(365)	(90)	–	(816)
Reclassification	(53)	53	–	–	–	–
Fair value adjustment (note 7)	–	–	–	–	(29)	(29)
Exchange adjustments	(196)	(70)	(145)	(36)	–	(447)
	<u>8,519</u>	<u>3,222</u>	<u>34,923</u>	<u>5,456</u>	<u>705</u>	<u>52,825</u>
Representing:						
Cost	8,519	3,222	34,923	5,456	–	52,120
Valuation	–	–	–	–	705	705
	<u>8,519</u>	<u>3,222</u>	<u>34,923</u>	<u>5,456</u>	<u>705</u>	<u>52,825</u>
Accumulated depreciation and impairment:						
At 1 January 2020	2,553	2,392	4,402	1,180	–	10,527
Charge for the period (note 8)	100	156	709	695	–	1,660
Impairment (note 10)	–	–	106	–	–	106
Attributable to assets sold or written off	(46)	(111)	(25)	(31)	–	(213)
Exchange adjustments	(44)	(53)	(21)	(14)	–	(132)
	<u>2,563</u>	<u>2,384</u>	<u>5,171</u>	<u>1,830</u>	<u>–</u>	<u>11,948</u>
Net book value:						
At 30 June 2020	<u>5,956</u>	<u>838</u>	<u>29,752</u>	<u>3,626</u>	<u>705</u>	<u>40,877</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 & fixtures HK\$'M</i>	<i>Operating lease assets as lessor HK\$'M</i>	<i>Operating lease assets as lessee HK\$'M</i>	<i>Investment properties HK\$'M</i>	<i>Total HK\$'M</i>
Cost or valuation:						
At 1 January 2019	9,126	3,171	41,542	–	830	54,669
Adoption of HKFRS/IFRS 16	–	–	–	4,748	–	4,748
Additions	364	202	2,340	531	–	3,437
Transfers to assets held for sale	–	–	(11,454)	–	–	(11,454)
Disposals and write-offs	(248)	(181)	(4,221)	(80)	–	(4,730)
Reclassifications	(71)	71	–	–	–	–
Fair value adjustment	–	–	–	–	(96)	(96)
Exchange adjustments	(184)	(58)	(137)	(17)	–	(396)
At 31 December 2019	8,987	3,205	28,070	5,182	734	46,178
Representing:						
Cost	8,987	3,205	28,070	5,182	–	45,444
Valuation	–	–	–	–	734	734
	8,987	3,205	28,070	5,182	734	46,178
Accumulated depreciation and impairment:						
At 1 January 2019	2,471	2,311	7,492	–	–	12,274
Charge for the period	208	308	1,782	1,180	–	3,478
Impairments	4	3	776	43	–	826
Attributable to transfers to assets held for sale	–	–	(4,903)	–	–	(4,903)
Attributable to assets sold or written off	(91)	(181)	(724)	(42)	–	(1,038)
Exchange adjustments	(39)	(49)	(21)	(1)	–	(110)
At 31 December 2019	2,553	2,392	4,402	1,180	–	10,527
Net book value:						
At 31 December 2019	6,434	813	23,668	4,002	734	35,651

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

	<i>At</i> <i>30 June</i> <i>2020</i> <i>HK\$'M</i>	<i>At</i> <i>31 December</i> <i>2019</i> <i>HK\$'M</i>
Prepayments and accrued income	6,043	6,664
Sundry debtors	7,927	5,691
Acceptances and endorsements	9,004	11,538
Unsettled trades and others	46,798	54,613
Assets held for sale ¹	4,408	6,168
	<u>74,180</u>	<u>84,674</u>

¹ As at 30 June 2020, assets held for sale included vessels. As at 31 December 2019, assets held for sale included vessels and corporate loans.

20. Investments in subsidiaries

The principal subsidiaries of the Bank are Standard Chartered Bank (China) Limited, Standard Chartered NEA Limited, Standard Chartered Bank (Korea) Limited, Standard Chartered Bank (Taiwan) Limited, Mox Bank Limited and Standard Chartered Leasing Group Limited.

21. Deposits from customers

	<i>At</i> <i>30 June</i> <i>2020</i> <i>HK\$'M</i>	<i>At</i> <i>31 December</i> <i>2019</i> <i>HK\$'M</i>
Current accounts	355,757	322,040
Savings accounts	814,564	726,470
Time and other deposits	438,509	481,602
	<u>1,608,830</u>	<u>1,530,112</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 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
Trading liabilities		
– Short position in securities	21,676	19,425
– Negative fair values of trading derivatives	32,670	30,013
	<u>54,346</u>	<u>49,438</u>
Financial liabilities designated at fair value through profit or loss:		
– Structured deposits from banks and customers	24,284	26,930
– Debt securities issued	8,713	16,571
– Liabilities under sale and repurchase agreements	1,622	3,610
	<u>34,619</u>	<u>47,111</u>
	<u><u>88,965</u></u>	<u><u>96,549</u></u>

23. Debt securities in issue

	<i>At 30 June 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
Certificates of deposit	9,613	10,330
Others debt securities	27,344	21,278
	<u>36,957</u>	<u>31,608</u>

24. Other liabilities

	<i>At 30 June 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
Accruals and deferred income	8,199	10,998
Provision for liabilities and charges	842	436
Acceptances and endorsements	9,004	11,538
Expected credit loss provision on loan commitments and financial guarantees (note 16)	374	158
Lease liabilities	3,802	4,182
Unsettled trades and others	55,497	59,337
	<u>77,718</u>	<u>86,649</u>

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

	<i>At</i>	<i>At</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>
Issued by the Bank:		
US\$750 million 5.875% Tier 2 fixed rate notes 2020	–	5,876
	<u> </u>	<u> </u>

26. Shareholders' equity

The Hong Kong Monetary Authority ("HKMA") requires the Group 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 2020 an amount of HK\$1,995 million (31 December 2019: HK\$5,379 million) has been reserved for this purpose.

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

Capital commitments outstanding at 30 June 2020 in respect of property, plant and equipment purchases not provided for in the consolidated financial statements were HK\$146 million (2019: HK\$3,239 million).

(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 2020 consolidated financial statements that have a material effect on the financial position or performance of the Group during the six months ended 30 June 2020. All related party transactions that took place in the six months ended 30 June 2020 were similar in nature to those disclosed in the 2019 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 SC PLC, a company registered in England and Wales. SC PLC has listings on the London Stock Exchange and the Stock Exchange of Hong Kong. In addition, The Indian Depository Receipt (IDR) programme termination notice period ended on 15 June 2020. SC PLC was formally delisted from the BSE Limited and National Stock Exchange of India Limited in the form of IDR with effect from 22 July 2020.

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 ¹	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see note 30 (a)(i))

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

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

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

	<i>At 30 June 2020</i>			<i>Total HK\$'M</i>
	<i>Level 1 HK\$'M</i>	<i>Level 2 HK\$'M</i>	<i>Level 3 HK\$'M</i>	
Financial assets at fair value through profit or loss:				
– Trading assets	40,538	87,141	486	128,165
– Non-trading financial assets mandatorily at fair value through profit or loss	18	39,388	2,208	41,614
– Financial assets designated at fair value through profit or loss	–	2,093	–	2,093
Investment securities at fair value through other comprehensive income	228,348	186,485	986	415,819
Amounts due from immediate holding company				
– Positive fair values of hedging derivatives	–	340	–	340
Amounts due from fellow subsidiaries				
– Positive fair values of trading and hedging derivatives	–	33,507	–	33,507
Total assets measured at fair value	268,904	348,954	3,680	621,538
Financial liabilities at fair value through profit or loss:				
– Trading liabilities	18,392	35,881	73	54,346
– Financial liabilities designated at fair value through profit or loss	–	33,441	1,178	34,619
Amounts due to fellow subsidiaries				
– Negative fair values of trading and hedging derivatives	–	40,479	3	40,482
Total liabilities measured at fair value	18,392	109,801	1,254	129,447

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>At 31 December 2019</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Financial assets at fair value through profit or loss:				
– Trading assets	32,042	71,518	191	103,751
– Non-trading financial assets mandatorily at fair value through profit or loss	64	18,537	2,833	21,434
– Financial assets designated at fair value through profit or loss	–	2,162	–	2,162
Investment securities at fair value through other comprehensive income	225,873	181,459	435	407,767
Amounts due from fellow subsidiaries				
– Positive fair values of trading and hedging derivatives	64	29,668	–	29,732
– Debt securities	–	13	–	13
Other assets				
– Positive fair values of hedging derivatives	–	48	–	48
Total assets measured at fair value	258,043	303,405	3,459	564,907
Financial liabilities at fair value through profit or loss:				
– Trading liabilities	16,674	32,691	73	49,438
– Financial liabilities designated at fair value through profit or loss	–	46,265	846	47,111
Amounts due to immediate holding company				
– Negative fair values of hedging derivatives	–	127	–	127
Amounts due to fellow subsidiaries				
– Negative fair values of trading and hedging derivatives	98	32,766	3	32,867
Other liabilities				
– Negative fair values of hedging derivatives	–	75	–	75
Total liabilities measured at fair value	16,772	111,924	922	129,618

There were no significant transfers between level 1 and level 2 instruments during 2019 and 2020.

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 2020	3,024	435	3,459
Total losses recognised in the income statement			
– Net trading income	(122)	–	(122)
Total losses recognised in other comprehensive income			
– Net change in fair value	–	(38)	(38)
Purchases	290	589	879
Settlements	(462)	–	(462)
Transferred into level 3 ¹	215	–	215
Transferred out of level 3 ¹	(251)	–	(251)
	<u>2,694</u>	<u>986</u>	<u>3,680</u>
At 30 June 2020			
Total losses recognised in the income statement relating to assets held at 30 June 2020			
– Net trading income	(107)	–	(107)

¹ 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>Amount due to fellow subsidiaries HK\$'M</i>	<i>Total level 3 liabilities HK\$'M</i>
At 1 January 2020	919	3	922
Total gains recognised in the income statement			
– Net trading income	(32)	–	(32)
Additions	969	–	969
Settlements	(605)	–	(605)
	<u>1,251</u>	<u>3</u>	<u>1,254</u>
At 30 June 2020	<u>1,251</u>	<u>3</u>	<u>1,254</u>
Total gains recognised in the income statement relating to liabilities held at 30 June 2020			
– Net trading income	(21)	–	(21)

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	4,725	494	5,219
Total gains recognised in the income statement			
– Net trading income	284	–	284
Total losses recognised in other comprehensive income			
– Net change in fair value	–	(59)	(59)
Purchases	855	–	855
Sales	(1,401)	–	(1,401)
Settlements	(1,613)	–	(1,613)
Transferred into level 3 ¹	187	–	187
Transferred out of level 3 ¹	(13)	–	(13)
	<u>3,024</u>	<u>435</u>	<u>3,459</u>
At 31 December 2019	<u>3,024</u>	<u>435</u>	<u>3,459</u>
Total gains recognised in the income statement relating to assets held at 31 December 2019			
– Net trading income	26	–	26

¹ Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) 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 at fair value through profit or loss</i> HK\$'M	<i>Amount due to fellow subsidiaries</i> HK\$'M	<i>Total level 3 liabilities</i> HK\$'M
At 1 January 2019	921	–	921
Total gains recognised in the income statement			
– Net trading income	(16)	–	(16)
Additions	885	–	885
Settlements	(871)	–	(871)
Transferred into level 3 ¹	–	3	3
	<u>919</u>	<u>3</u>	<u>922</u>
At 31 December 2019	<u>919</u>	<u>3</u>	<u>922</u>
Total gains recognised in the income statement relating to liabilities held at 31 December 2019			
– Net trading income	<u>(16)</u>	<u>–</u>	<u>(16)</u>

¹ 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)**

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>Range¹</u>	<u>Weighted average²</u>
Debt securities	Discounted cash flows	Price/Yield	3.6% to 32.8% (2019: 3.8%)	19.1% (2019: 3.8%)
Advances to customers	Discounted cash flows	Recovery rates	84.6% to 100% (2019: 88.5% to 100%)	94.1% (2019: 95.9%)
		Price/Yield	NA (2019: 0.5% to 0.6%)	NA (2019: 0.5%)
Equity shares	Discounted cash flows	Discount rates	8.3% to 13.9% (2019: 8.4% to 16.2%)	11.1% (2019: 9.6%)
Debt securities issued	Discounted cash flows	Credit spreads	1.0% (2019: 1.4%)	1.0% (2019: 1.4%)
Structured bank deposits	Discounted cash flows	Credit spreads	1.0% (2019: 1.0% to 1.8%)	1.0% (2019: 1.4%)
Structured customers deposits	Discounted cash flows	Credit spreads	32.8% (2019: NA)	32.8% (2019: NA)
Derivatives	Discounted cash flows	Credit spreads	1.0% to 7.7% (2019: 7.9%)	7.5% (2019: 7.9%)
		Internal Pricing Model	Equity-Equity Correlation 2.0% to 90.0% (2019: 1.0% to 90.0%)	65.0% (2019: 58.0%)
		Equity-Foreign Exchange Correlation	-85.0% to 70.0% (2019: -80.0% to 70.0%)	39.0% (2019: -29.0%)

¹ The ranges of values shown represent the highest and lowest levels used in the valuation of the level 3 financial instruments as at 30 June 2020 and 31 December 2019. The ranges of values used are reflective of the underlying characteristics of these level 3 financial instruments based on the market conditions at the reporting date. However, these ranges of values may not represent the uncertainty in fair value measurements of these level 3 financial instruments.

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

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)

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.

Equity-Equity correlation and Equity-Foreign Exchange correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. An equity-equity correlation is the correlation between two equity instruments while an equity-foreign exchange correlation refers to the correlation between equity instrument and foreign exchange instrument.

(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 2020

	<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	502	526	468	–	–	–
Advances to customers	1,700	1,719	1,660	–	–	–
Equity shares	487	532	436	986	1,084	890
Positive fair value of derivatives	5	5	5	–	–	–
Debt securities issued	(491)	(491)	(491)	–	–	–
Structured bank deposits	(537)	(537)	(537)	–	–	–
Structured customer deposits	(151)	(147)	(154)	–	–	–
Negative fair value of derivatives	(75)	(75)	(76)	–	–	–
	<u>1,440</u>	<u>1,532</u>	<u>1,311</u>	<u>986</u>	<u>1,084</u>	<u>890</u>

At 31 December 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	232	255	209	–	–	–
Advances to customers	2,232	2,239	2,190	–	–	–
Equity shares	553	608	498	435	477	390
Positive fair value of derivatives	7	7	6	–	–	–
Debt securities issued	(409)	(409)	(409)	–	–	–
Structured bank deposits	(437)	(437)	(437)	–	–	–
Negative fair value of derivatives	(76)	(76)	(76)	–	–	–
	<u>2,102</u>	<u>2,187</u>	<u>1,981</u>	<u>435</u>	<u>477</u>	<u>390</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 by the amounts disclosed below.

<i>Financial instruments</i>	<i>Fair value changes</i>	<i>At 30 June 2020 HK\$'M</i>	<i>At 31 December 2019 HK\$'M</i>
		Held at fair value through profit or loss	Possible increase
	Possible decrease	129	121
Held at fair value through other comprehensive income	Possible increase	98	42
	Possible decrease	96	45

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 2020 and 31 December 2019, 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 2020 and 31 December 2019 and may be different from the actual amounts that will be received on the settlement or maturity of the subordinated liabilities.

	At 30 June 2020			At 31 December 2019		
	Carrying amount	Fair value Level 1	Fair value Level 2	Carrying amount	Fair value Level 1	Fair value Level 2
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Subordinated liabilities	37,010	–	36,916	41,985	5,931	36,123

31. Share based payments

SC PLC 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 SC PLC's shareholders in May 2011 and is the SC PLC'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 installments on anniversaries of the award specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the SC PLC to meet regulatory requirements relating to deferral levels, and is in line with market practice.
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers vest on anniversaries of the award date specified at the time of grant. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures.
- Underpin shares are subject to a combination of two performance measures: EPS growth and RoRWA. The weighting between the two elements is split equally, one half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance.

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

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

(Expressed in millions of Hong Kong dollars)

31. Share based payments (continued)

2001 Performance Share Plan (“2001 PSP”)

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

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

Valuation of share awards

Details of the valuation models used in determining the fair values of share awards granted under the SC PLC’s share plans are detailed in the Group’s consolidated financial statements for the year ended 31 December 2019.

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 2020**

	2011 Plan				Weighted average Sharesave exercise price (£)
	LTIP	Deferred/ Restricted shares	PSP	2013 Sharesave	
Outstanding at 1 January 2020	2,125,060	4,399,736	4,878	5,930,698	5.28
Granted	153,031	2,898,109	–	–	–
Notional dividend	2,780	37,784	–	–	–
Lapsed	(8,661)	(77,558)	–	(988,404)	5.29
Exercised	(8,484)	(1,495,936)	–	(92,238)	5.30
Outstanding at 30 June 2020	<u>2,263,726</u>	<u>5,762,135</u>	<u>4,878</u>	<u>4,850,056</u>	<u>5.28</u>
Exercisable at 30 June 2020	<u>–</u>	<u>553,929</u>	<u>4,878</u>	<u>3,205</u>	
Range of exercise prices (£)	<u>–</u>	<u>–</u>	<u>–</u>	<u>4.98 - 6.20</u>	
Weighted average contractual remaining life (years)	<u>6.25</u>	<u>8.61</u>	<u>1.14</u>	<u>2.17</u>	

32. Comparative figures

As explained in note 2(b)(i), comparative amounts for the six months ended 30 June 2019 have been restated to include SCNEA Group which includes SCB Korea and SCB Taiwan, as a result of the adoption of merger accounting for the common control combinations taking place during the period.

33. Post balance sheet event

China Bohai Bank Co. Ltd. (“Bohai”), an associate of the Group, completed its Initial Public Offering (“IPO”) on the Hong Kong Stock Exchange on 16 July 2020. The IPO has resulted in the Group’s shareholding percentage decreasing from 19.99% to between 16.26% to 16.67%, subject to the finalisation of the over-allotment option. This is a non-adjusting post balance sheet event, and an estimated loss on dilution ranging from approximately HK\$310 million to HK\$390 million will be recognised in the second half of 2020. The actual loss on dilution will depend on the amount of over-allotment option exercised and the finalisation of Bohai’s results up to the date of the IPO, both of which will only be concluded in the second half of 2020. The Group has recognised its share of profit or loss and other comprehensive income of Bohai three month in arrears given the timing of Bohai’s publicly available financial information. The Group in previous periods recognised its share of profit or loss and other comprehensive income one month in arrears, so there are four months of its share of profit or loss and other comprehensive income recognised in the first half of 2020.

By order of the Board

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

Hong Kong
30 July 2020