Standard Chartered PLC

Half Year Report 2020

Registered in England under company No. 966425
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Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning.

By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Please refer to the Group's 2019 Annual Report and this Half-Year Report for a discussion of certain risks and factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

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

The information within this report is unaudited.

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

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

Standard Chartered PLC is incorporated in England and Wales with limited liability. Standard Chartered PLC is headquartered in London. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888 and LSE STAN.LN.

Results for the first half and second quarter ending 30 June 2020

All figures are presented on an underlying basis and comparisons are made to 2019 on a reported currency basis, unless otherwise stated. A reconciliation of restructuring and other items excluded from underlying results is set out on page 11.

"I am pleased we have come through the extremely challenging early stage of the COVID-19 crisis with a clean bill of operational health, higher income and lower costs. Despite having taken significantly higher impairment charges we remained profitable and enter the next phase of the crisis with our CET1 capital ratio at one of the highest levels for many years. Low interest rates and depressed oil prices continue to be headwinds and we expect new waves of COVID-19 related challenge in the coming quarters but I am confident that our resilience and client franchise will see us through. I am encouraged by how well my colleagues are coping and that many clients in some of our larger markets are recovering strongly and already operating at close to their pre-pandemic capacity."

Bill Winters, Group Chief Executive

Update on strategic priorities

- **Deliver our network and grow affluent:** our differentiated strengths enable us to support our clients through the crisis
- **Improve productivity:** cost-to-income ratio improved 5%pts to 59% excluding Debit Valuation Adjustment (DVA)
- **Optimise low-returning markets:** operating profit improved 7% in aggregate from four of our largest markets
- **Transform and disrupt with digital:** client digital engagement up 12%pts to 36%; HK virtual bank launching very soon
- **Drive sustainability:** stimulus measures targeting sustainable recovery play to our leading strengths in sustainable finance

Selected information concerning financial performance (1H'20 unless otherwise stated)

- **Income** up 5% to $8.0bn; up 7% constant currency (ccy)
  - Excluding $146m positive movement in DVA, income was up 5% ccy
  - 2Q'20: income down 4%; down 2% ccy and up 4% excluding $212m negative movement in DVA
- **Expenses** 5% lower to $4.7bn; 2% lower ccy
  - Positive jaws of 7% ccy ex-DVA
- **Net interest margin** down 26bps from 1H'19 to 1.40%. Down 24bps in 2Q'20 to 1.28%
- **Credit impairment** lower QoQ but up significantly YoY, driven primarily by the impact of COVID-19
  - Stage 1 and 2 impairment up $586m in the first half to $668m
    - Approximately one-half due to management overlay
  - Stage 3 impairment up $727m in the first half to $899m, with no significant new exposures in 2Q'20
  - Net stage 3 plus credit grade 12 exposures up 22% in 2Q'20 to $5.1bn; early alerts increased $2.9bn to $14.4bn
- **Return on tangible equity** down 240bps to 6.0%
  - Pre-provision operating profit up 22% to $3.3bn; up 17% ccy and ex-DVA
  - Underlying profit before tax down 25% to $2.0bn driven by higher credit impairment; down 30% ccy and ex-DVA
  - Statutory profit before tax down 33% to $1.6bn, includes $249m goodwill impairment in India in 1Q'20
- **Risk-weighted assets** of $263bn down $2bn since 31 December 2019
  - Down $10bn QoQ in 2Q'20 including $9bn reduction from completion of Permata sale
- The Group remains strongly capitalised and highly liquid
  - **Common equity tier 1** ratio up 90bps in 2Q'20 to 14.3%, above the top of the 13-14% medium-term target range
    - 50bps uplift from Permata sale with remainder from profits and other comprehensive income gains
  - Aiming to remain highly liquid to support clients through the crisis
    - Asset-to-deposit ratio 62.7% (1Q'20: 61.9%); liquidity coverage ratio 149% (1Q'20: 142%)
    - Continue to target higher quality deposits: Retail CASA up 9% and TB OPAC up 20% since 31 December 2019
    - $14bn or 4% of loans and advances subject to some form of relief measure
- **Earnings per share** down 13.2c or 27% to 35.9c; 40m shares bought back and cancelled in 1Q'20

Outlook

We continue to believe that some of our larger markets will start to drive the global economy out of recession over the coming quarters but expect economic activity across our footprint in that period to be volatile and uneven.

Income is likely to be lower both half-on-half and year-on-year in the second half of 2020. The benefits of the early stage recovery in some of our markets and our geographic and product diversity are unlikely to be enough to offset the impact of low interest rates and the probability of less buoyant conditions for our Financial Markets business.

Expenses excluding the UK bank levy are usually higher in the second half, but we continue to target being below $10bn in 2020. Given the more challenging external environment we have started to implement new sustainable efficiency initiatives with the intent to stay below $10bn in 2021 as well.

Given the extreme economic pressures relating to the persistence of COVID-19, partially addressed through the efficacy of government support measures, it is not possible to reliably predict the quantum or timing of future impairments. However, if economic conditions in our markets do not materially deteriorate in the coming months then, given the substantial provisions we have taken already, we anticipate that impairments in the second half will be lower than those recorded in the first half.

Statement of results

For the six months ended 30 June 2020

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million	Change[1] %
Underlying performance			
Operating income	**8,047**	7,696	5
Operating expenses	**(4,713)**	(4,969)	5
Credit impairment	**(1,567)**	(254)	nm
Other impairment	**112**	(21)	nm
Profit from associates and joint ventures	**76**	157	(52)
Profit before taxation	**1,955**	2,609	(25)
Profit attributable to ordinary shareholders[2]	**1,138**	1,623	(30)
Return on ordinary shareholders' tangible equity (%)	**6.0**	8.4	(240)bps
Cost-to-income ratio (%)	**58.6**	64.6	600bps
Statutory performance			
Operating income	**8,099**	7,830	3
Operating expenses	**(4,748)**	(5,298)	10
Credit impairment	**(1,576)**	(254)	(520)
Goodwill impairment	**(258)**	–	nm
Other impairment	**35**	(44)	180
Profit from associates and joint ventures	**75**	180	(58)
Profit before taxation	**1,627**	2,414	(33)
Taxation	**(561)**	(918)	39
Profit for the period	**1,066**	1,496	(29)
Profit attributable to parent company shareholders	**1,048**	1,477	(29)
Profit attributable to ordinary shareholders[2]	**816**	1,256	(35)
Return on ordinary shareholders' tangible equity (%)	**4.3**	6.5	(220)bps
Cost-to-income ratio (%)	**58.6**	67.7	904bps
Balance sheet and capital			
Total assets	**741,585**	712,504	4
Total equity	**49,897**	50,439	(1)
Tangible equity attributable to ordinary shareholders[2]	**38,048**	38,871	(2)
Loans and advances to customers	**276,313**	263,595	5
Customer accounts	**421,153**	401,597	5
Risk weighted assets	**262,552**	270,739	(3)
Total capital	**56,468**	54,957	3
Net interest margin (%) (adjusted)	**1.40**	1.66	(26)bps
Advances-to-deposits ratio (%)[3]	**62.7**	63.7	(1.0)
Liquidity coverage ratio (%)	**149**	139	10
Common Equity Tier 1 ratio (%)	**14.3**	13.5	80bps
Total capital (%)	**21.5**	20.3	120bps
UK leverage ratio (%)	**5.2**	5.3	(10)bps
Information per ordinary share	**Cents**	Cents	Cents
Earnings per share – underlying[4]	**35.9**	49.1	(13.2)
– statutory[4]	**25.8**	38.0	(12.2)
Net asset value per share[5]	**1,384**	1,339	45
Tangible net asset value per share[5]	**1,224**	1,182	42
Number of ordinary shares at period end (m)	**3,148**	3,255	(3)

1 Variance is better/(worse) other than assets, liabilities and risk weighted assets

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

3 When calculating this ratio, total loans and advances to customers excludes reverse repurchase agreements and other similar secured lending, excludes approved balances held with central banks, confirmed as repayable at the point of stress and includes loans and advances to customers held at fair value through profit and loss. Total customer accounts includes customer accounts held at fair value through profit or loss

4 Represents the underlying or statutory earnings divided by the basic weighted average number of shares

5 Calculated on period end net asset value, tangible net asset value and number of shares

Group Chairman's statement

"Staying the course with resilience, agility and humanity"

In the most recent Annual Report, I said that instability and rapid change are becoming the new normal. That observation was made in February when the COVID-19 outbreak was impacting only a few of our markets. Since then, the pandemic has spread to affect all our markets and cause massive disruption to the global economy leading to a deep recession.

I could not be prouder of the tremendous efforts of my colleagues who have shown extraordinary agility and resilience during this crisis. What has really stood out for me is how their actions have been tempered with humanity – truly embodying our brand promise of being Here for good.

At one stage in April we had three-quarters of our people working from home. Despite this unprecedented level of extended disruption, our transaction processing capabilities and risk controls held up remarkably well, a testament to the agility of our people in adapting to the crisis and a tribute to the operational and technological resilience of the franchise.

Financial resilience

We made solid progress on our strategic priorities in the first half, which together with the benefits of our product and geographic diversity and firm cost control meant pre-provision operating profit improved significantly. Impairments increased in the period as the pandemic took hold and we have taken substantial provisions against possible future loan losses resulting from the crisis, which meant underlying profit was lower in the first half. Our capital position remains strong, bolstered by completion of the sale of our equity interest in Permata in Indonesia, and we have ensured that our balance sheet is very liquid. Overall, our franchise remains fundamentally healthy, which underpins my belief that we can endure the crisis caused by COVID-19 and come out on the other side stronger, with our financial resilience to external shocks tested like it has never been before.

We can't reliably predict how long the effects of the pandemic will last, nor quantify the resulting impact on our future financial performance. We are therefore focusing intently on the things we can control. The management team is taking action to manage expenses very carefully to preserve our key long-term investment projects and continue the transformation to take advantage of future opportunities.

Our response to the COVID-19 crisis

We have prioritised the wellbeing, safety and security of our colleagues, supporting our clients and showing solidarity with our communities. We believe this approach protects and advances the interests of our shareholders.

For personal customers, our response has included the following actions:

- Our retail banking branches had to be retrofitted at speed to adhere to social distancing guidelines. In some cases, they were closed entirely as part of lockdown measures meaning customers migrated to online platforms, many for the first time, while staff had to be set up to work from home in large numbers
- We have put in place a comprehensive support scheme for individuals and smaller businesses including loan repayment holidays, fee waivers or cancellations and loan extension facilities. We have approved nearly 300,000 applications already, over half of which arose from mandatory schemes in some of our markets. The approval percentage of applications received under voluntary schemes is close to 98 per cent, demonstrating our determination to support customers within this particularly vulnerable segment of our communities that are seeking help

On the corporate and institutional side:

- We helped our clients navigate an extremely volatile period, with strong demand for our currency, commodities and interest rate risk management capabilities. While some larger 'new economy' clients have flourished in recent months, most businesses – particularly the smaller ones – are being negatively impacted by the economic situation and will need our support for some time to come
- We launched a $1 billion financing programme that is being offered on favourable terms for companies providing critical goods and services in the fight against COVID-19, and those planning to switch to making products that are in high demand. We have approved applications for nearly half the commitment so far, and have already started disbursing funds to several corporate clients. Most of those clients are in the Commercial Banking segment and they are evenly split across our three largest regions in Asia, Africa and the Middle East

To support the communities that we operate in, we launched a $50 million global charitable fund to provide immediate relief to those affected by COVID-19 and to contribute to localised long-term economic rebuilding efforts. I'm delighted to say that around half of this has already been distributed in 52 markets across our network, with the rest expected to be allocated within a matter of months.

Group Chairman’s statement continued

Looking ahead

Before the crisis it had become clear that greater international cooperation is needed to reap the full benefits of globalisation and make markets more inclusive both within and across nations. The hard road ahead may prove a temptation to governments and regulators to retreat within their borders. But we believe that would be taking exactly the wrong lesson from the astonishing accomplishments of recent months, which to my mind provide concrete evidence of how much we stand to gain by staying agile, resilient and humane – together.

Relations between the US and China remain highly charged, driven by both economic and political considerations. We have seen some markets including the US introduce laws or policies relating to Hong Kong and China, the full implications of which are not yet known. We are convinced that more collaboration – not less – is the best way to find a sustainable equilibrium in these complex situations, but we do not expect an easy or quick resolution. We do believe, however, that Hong Kong will continue to play a key role as an international financial hub and we are fully committed to contributing to its continued success.

Governance matters and the dividend

I am delighted to welcome Phil Rivett to the Board. His more than 40 years of professional accountancy and audit experience in the financial services sector across many of our markets will, I am sure, prove valuable in the years ahead. Louis Cheung stepped down as a director in March after seven years on the Board. I would like to thank Louis for his important contributions to the Group.

We announced on 31 March that in response to a request from the Prudential Regulation Authority, the Board had decided after careful consideration that no interim dividend on ordinary shares will be accrued, recommended or paid in 2020. This difficult decision is allowing us to provide the support for individuals, businesses and the communities in which we operate that I described above, while at the same time strengthening further our capital ratios and enabling us to invest to transform the business for the long term.

The Board fully recognises the importance of dividends to its owners and we hope to reinstate them as soon as prudently possible.

Conclusion

In my first Annual Report as Chairman of the Group in 2017, I said that the requirements for success in previous crises impacting the financial services sector were to have a clear strategy, a sensible business plan and exceptionally talented people who are determined to execute that plan with discipline and pace. I believe we have shown in recent years and most recently during this crisis that we have all those ingredients.

We are monitoring the situation very carefully and are committed to deploying our strong capital and liquidity to support our clients and the communities we operate in through this exceptionally challenging period.

I would like to again thank all my colleagues across our footprint for their tremendous efforts to maintain our operational resilience, and ensure that we continue to deliver on our promise to be Here for good.

José Viñals

Group Chairman

30 July 2020

Group Chief Executive's review

"Strong operating performance in severe conditions"

We are feeling the acute impact of the COVID-19 pandemic across our markets and in our business. This and the related fall in both interest rates and oil prices created extremely challenging operating conditions in the first half of the year. We, like nearly all businesses, have had to cope with those conditions with most of our people working remotely to ensure their safety and that of our customers.

I am pleased we came through that period with a clean bill of operational health and with higher income, lower costs and therefore significantly better pre-provision operating profit compared with last year. We remained profitable despite higher impairments, which together with our strengthened capital position enabled us to build substantial reserves in the face of the heightened uncertainty and tougher conditions. I am encouraged by how well my colleagues are coping in the crisis and that many clients in some of our larger markets are recovering strongly and already operating at close to their pre-pandemic capacity.

Strategic progress

The COVID-19 crisis has reinforced the relevance of our strategic priorities:

- The sharp global economic contraction has had an inevitable impact on income that we generate from our international network. But our unique geographic diversity means that we are ideally placed to help our clients manage their risks across borders in volatile conditions
- Heightened geopolitical tensions add to the pressure on our network business. We are focused on staying close to our clients as any re-configuration of their trade and investment flows often plays to our strengths: we are the only global bank present in every ASEAN market and across South Asia, the Middle East and Africa
- Social isolation meant that we could not interact face-to-face with most of our affluent customers, leading to lower commissions from that segment. Our substantially improved digital channels, though, have helped us stay close and will enable us to address their needs through every stage of the crisis
- The crisis has put our existing focus on productivity into a whole new light. We are accelerating some elements of existing projects targeted at creating a leaner and more agile organisation. We are also developing new expense reduction initiatives to ensure that whatever cost savings we realise in 2020 as a direct result of the crisis are reinforced by more enduring efficiencies into 2021 and beyond
- Our significantly higher investment into our core digital capabilities in recent years has borne fruit during this initial phase of the pandemic, with up to three-quarters of my colleagues operating remotely across 60 markets and many more corporate, institutional and personal clients now engaging with us through digital channels. All of this was achieved with no interruption to data or transaction processing. Meanwhile, we continue to develop exciting new initiatives such as Mox, our majority-owned virtual bank in Hong Kong, which is in advanced testing and is due to launch shortly
- We continue to make good progress, despite the crisis, in our businesses in India, Korea, the UAE and Indonesia, where we are focused on optimising returns. Our team in the UAE is also having to cope with the impact of suppressed oil prices, but solid profit growth in the three other markets fuelled by strong demand for our Financial Markets risk management capabilities led to a 7 per cent improvement in operating profit overall

Capital and liquidity allocation

We remain financially strong and very liquid. Our immediate priority is to use the resulting funding capacity to support our clients through the crisis. We have approved over 90 per cent of relief applications that we have received so far under a combination of mandatory and voluntary schemes. Only around 4 per cent of our total loans and advances has been subjected to relief. Most of this is secured and some has been repaid already, likely reflecting our strategic focus on multinational businesses and affluent personal customers.

Our long-term priorities for deployment of surplus capital, however, have not changed: first support growth, then fund dividends and finally return what's left to shareholders. We were the only large UK bank to have an active stock buy-back programme at the time of the PRA's request to suspend distributions, but our equity story is grounded in the ability to offer long-term and sustainable growth. I believe that we will find many such opportunities as markets in our footprint drive the global economic recovery.

We will invest where we can make acceptable levels of return above our cost of capital. We are currently carrying capital in excess of the amount we will require in more normal times, reflecting the uncertainty in our earnings outlook as the global economy adjusts to the crisis, and starts to recover. As we develop confidence in the macro environment, we expect to return to our stated target CET1 capital range of 13–14 per cent and will return capital to shareholders to the extent we have exhausted attractive investment opportunities. While the current external conditions mean it will take longer to achieve a return on tangible equity above 10 per cent, we believe our franchise can deliver these returns and remain committed to delivering them.

Group Chief Executive's review continued

Sustainability

Although the priority of most governments currently is quite rightly on minimising the damage to health and the economies in their markets caused by COVID-19, I am delighted to see how many are thinking ahead to consider pathways to delivering a more sustainable and resilient future. Stimulus measures will be vital; we hope priority will be given to those that more tangibly promote the many facets of the UN's Sustainable Development Goals, which we support wholeheartedly. That is why we will continue to deliver on the $75 billion commitment we announced earlier this year to finance sustainable infrastructure, renewables and clean technology to support the transition to a low-carbon economy, and why we are aiming to achieve net zero emissions from our own operations by 2030.

This focus on sustainability is particularly relevant in the markets across Asia, Africa and the Middle East that have been our home for 160 years, where the opportunity to drive positive fundamental change is arguably greatest. They are among the most dynamic economies in the world and the rate of progress on climate action, human rights, diversity and inclusion varies considerably.

We are faced every day with difficult decisions operating in those markets, but I am convinced that sticking resolutely to our purpose and showing through our actions that we are Here for good will help bring about positive change. We aim to contribute to their growth and prosperity when they thrive, but we also stay to assist when they are challenged - for example, through providing $1 billion of financing to support businesses who are tackling the pandemic and our $50 million COVID-19 Charitable Fund.

Concluding remarks

Governments and policymakers around the world are facing an extremely complex set of economic and societal challenges. Navigating the resulting geopolitical tensions and assessing the possible impact on our business will be challenging at times. It is vital that we remain calm in this environment and continue to focus on what we can control, on supporting our colleagues as they return to the workplace and on developing differentiated capabilities to serve the needs of our clients and the communities in which we operate.

Bill Winters

Group Chief Executive

30 July 2020

Group Chief Financial Officer's review

The Group delivered a resilient performance overall in the first half in conditions that became extremely challenging

Summary of financial performance

	1H'20 $million	1H'19 $million	Change %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change %	Constant currency change[1] %
Net interest income	**3,502**	3,862	(9)	(7)	**1,660**	1,942	(15)	(12)
Other income	**4,545**	3,834	19	20	**2,060**	1,941	6	8
Underlying operating income	**8,047**	7,696	5	7	**3,720**	3,883	(4)	(2)
Underlying operating expenses	**(4,713)**	(4,969)	5	2	**(2,355)**	(2,554)	8	4
Underlying operating profit before impairment and taxation	**3,334**	2,727	22	23	**1,365**	1,329	3	3
Credit impairment	**(1,567)**	(254)	nm[2]	nm[2]	**(611)**	(176)	nm[2]	nm[2]
Other impairment	**112**	(21)	nm[2]	nm[2]	**(42)**	(19)	(121)	(133)
Profit from associates and joint ventures	**76**	157	(52)	(52)	**21**	91	(77)	(78)
Underlying profit before taxation	**1,955**	2,609	(25)	(25)	**733**	1,225	(40)	(41)
Restructuring	**(90)**	(14)	nm[2]	nm[2]	**2**	(46)	104	107
Other items	**(238)**	(181)	(31)	(31)	**6**	(7)	186	186
Statutory profit before taxation	**1,627**	2,414	(33)	(33)	**741**	1,172	(37)	(37)
Taxation	**(561)**	(918)	39	37	**(192)**	(494)	61	59
Profit for the period	**1,066**	1,496	(29)	(30)	**549**	678	(19)	(22)
Net interest margin (%)	**1.40**	1.66			**1.28**	1.67		
Underlying return on tangible equity (%)	**6.0**	8.4			**3.5**	7.3		
Underlying earnings per share (cents)	**35.9**	49.1			**10.4**	21.4		
Statutory return on tangible equity (%)	**4.3**	6.5			**3.6**	5.0		
Statutory earnings per share (cents)	**25.8**	38.0			**10.8**	14.6		

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Not meaningful

The Group delivered a resilient performance in the first half in conditions that became extremely challenging. Strong and broad-based growth in the initial months of the year was followed by lower income in the second quarter driven by negative movements in the debit valuation adjustment (DVA) and the effects of COVID-19 which led to severe global economic contraction and substantially reduced interest rates. Pre-provision operating profit improved significantly with income growing at a faster rate than expenses. Underlying profit fell due to substantially higher credit impairments booked particularly in the first quarter driven by the deterioration in the macroeconomic outlook.

The Group is committed to deploying its strong capital and surplus liquidity to support its clients and the communities it operates in through the crisis. The Group's CET1 ratio has risen to 14.3 per cent – above the top end of its medium-term target range – while its assets-to-deposits ratio has reduced to 62.7 per cent and its liquidity coverage ratio has increased to 149 per cent.

All commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2019 on a reported currency basis, unless otherwise stated.

- **Operating income** grew 5 per cent in the first half including a $146 million positive movement in the debit valuation adjustment (DVA). Income was also up 5 per cent on a constant currency basis and excluding DVA as the impact of lower interest rates was more than offset by a double-digit increase in Financial Markets income
- **Net interest income** decreased 9 per cent with increased volumes more than offset by the compressive impact of a significantly lower interest rate environment on net interest margin
- **Other income** increased 19 per cent, or 15 per cent excluding the positive impact of movements in DVA, with a particularly strong underlying performance in Financial Markets and realisation gains in Treasury
- **Operating expenses** were 5 per cent lower and 2 per cent lower on a constant currency basis, with tight control of costs generating positive income-to-cost jaws of 10 per cent on a reported basis, or 7 per cent on a constant currency basis excluding DVA. The cost-to-income ratio improved 5 percentage points to 59 per cent excluding DVA
- **Credit impairment** increased by $1.3 billion to $1.6 billion. Stage 1 and 2 impairments increased by $586 million, of which around one-half was attributable to a management overlay to reflect deterioration in the macroeconomic outlook not captured in the modelled outcome and the estimated impact of payment relief measures on delinquencies and flow rates. Impairments of Stage 3 assets increased $727 million, the majority of which were recorded in the first quarter
- **Other impairment** was a $112 million credit, primarily driven by a reversal of previously impaired assets partially offset by impairment charges relating to aircraft

- **Profit from associates and joint ventures** was down 52 per cent to $76 million. The Group could only recognise its share of the profits of its associate China Bohai Bank for four rather than six months due to the timing of its recently completed initial public offering in July 2020, which has resulted in the requisite financial information not yet being publicly available
- **Underlying profit before tax** decreased 25 per cent. Charges relating to restructuring, provisions for regulatory matters and other items increased $133 million to $328 million, primarily relating to $249 million of goodwill impairment in India due to a lower GDP growth outlook
- **Taxation** was $561 million on a statutory basis with an underlying effective tax rate of 29.0 per cent broadly in-line with the prior year rate of 28.6 per cent
- **Underlying return on tangible equity** declined by 240 basis points to 6.0 per cent, with the impact of reduced profits partly offset by lower tangible equity reflecting the dividends paid and share buy-back programmes completed since 1H'19

Operating income by product

	1H'20 $million	1H'19 $million	Change %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change %	Constant currency change[1] %
Transaction Banking[2]	**1,521**	1,778	(14)	(13)	**721**	901	(20)	(18)
Trade	**490**	559	(12)	(11)	**230**	282	(18)	(17)
Cash Management	**1,031**	1,219	(15)	(14)	**491**	619	(21)	(19)
Financial Markets[2]	**2,248**	1,665	35	38	**970**	834	16	20
Foreign Exchange	**758**	602	26	29	**343**	304	13	18
Rates	**717**	357	101	106	**339**	136	149	155
Commodities	**126**	89	42	42	**82**	44	86	86
Credit and Capital Markets	**276**	285	(3)	(2)	**250**	145	72	76
Capital Structuring Distribution Group	**113**	156	(28)	(25)	**52**	74	(30)	(28)
DVA	**104**	(42)	nm[3]	nm[3]	**(201)**	11	nm[3]	nm[3]
Security Services[2]	**163**	170	(4)	(1)	**79**	87	(9)	(7)
Other Financial Markets	**(9)**	48	(119)	(119)	**26**	33	(21)	(18)
Corporate Finance	**547**	534	2	5	**269**	272	(1)	2
Lending and Portfolio Management	**427**	384	11	14	**232**	197	18	22
Wealth Management	**964**	976	(1)	–	**434**	511	(15)	(14)
Retail Products	**1,859**	1,927	(4)	(1)	**913**	976	(6)	(4)
CCPL and other unsecured lending	**599**	625	(4)	(1)	**295**	320	(8)	(5)
Deposits	**885**	995	(11)	(9)	**413**	501	(18)	(15)
Mortgage and Auto	**305**	258	18	22	**169**	129	31	36
Other Retail Products	**70**	49	43	41	**36**	26	38	35
Treasury	**503**	559	(10)	(8)	**178**	251	(29)	(27)
Other	**(22)**	(127)	83	82	**3**	(59)	105	109
Total underlying operating income	**8,047**	7,696	5	7	**3,720**	3,883	(4)	(2)

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Following a reorganisation, there has been a reclassification of balances relating to Securities services from Transaction Banking to Financial Markets including prior period numbers. There is no change in the total income

3 Not meaningful

Transaction Banking income was down 14 per cent. Cash Management declined 15 per cent with strong liability growth being more than offset by declining margins given the lower interest rate environment. Trade declined 12 per cent from lower balances.

Financial Markets income grew 35 per cent or 26 per cent excluding DVA. The business benefited from heightened market volatility, wider spreads and increased hedging and investment activity by clients. Income from Rates doubled and there was strong double-digit growth in Foreign Exchange and Commodities. Credit and Capital Markets recovered momentum in the second quarter but was down 3 per cent in the first half. Income from Securities Services, which is now managed within Financial Markets having previously been reported as part of Transaction Banking, declined 4 per cent.

Corporate Finance income was up 2 per cent due to increased balances from drawdowns on revolving credit facilities.

Lending and Portfolio Management income increased 11 per cent with improved margins and increased volumes in Corporate Lending.

Wealth Management income was down 1 per cent, despite significantly more challenging market conditions, with lower bancassurance sales resulting from reduced branch walk-ins due to COVID-19, partially offset by clients increasingly using digital channels. There was a particularly strong sales performance in FX, fixed income and equities.

Retail Products income reduced 4 per cent on a reported basis and was down 1 per cent on a constant currency basis. A lower interest rate environment has compressed Deposit margins but boosted margins across asset products by reducing funding costs. Deposits income declined 11 per cent as margin compression more than offset increased volumes. Increases in volumes and margins led to double-digit income growth across Mortgages & Auto and Business Banking within Other Retail Products. Credit Cards & Personal Loans income was down 4 per cent as COVID-19 impacted new sales.

Treasury income declined 10 per cent with reduced interest income on deployed assets within Treasury Markets and a $25 million unfavourable movement in hedge ineffectiveness partly offset by a $280 million increase in realisation gains from the sale of longer-dated securities as bond yields declined.

Profit before tax by client segment and geographic region

	1H'20 $million	1H'19 $million	Change %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change %	Constant currency change[1] %
Corporate & Institutional Banking	1,132	1,297	(13)	(12)	476	617	(23)	(21)
Retail Banking	326	624	(48)	(47)	93	334	(72)	(73)
Commercial Banking	182	337	(46)	(46)	80	150	(47)	(49)
Private Banking	56	100	(44)	(46)	19	28	(32)	(32)
Central & other items (segment)	259	251	3	(4)	65	96	(32)	(45)
Underlying profit before taxation	1,955	2,609	(25)	(25)	733	1,225	(40)	(41)
Greater China & North Asia	1,134	1,329	(15)	(14)	484	672	(28)	(28)
ASEAN & South Asia	456	760	(40)	(40)	89	371	(76)	(74)
Africa & Middle East	90	441	(80)	(78)	43	162	(73)	(72)
Europe & Americas	356	13	nm[2]	nm[2]	255	45	nm[2]	nm[2]
Central & other items (region)	(81)	66	nm[2]	(198)	(138)	(25)	nm[2]	nm[2]
Underlying profit before taxation	1,955	2,609	(25)	(25)	733	1,225	(40)	(41)

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Not meaningful

Corporate & Institutional Banking income grew 13 per cent with a 41 per cent increase in Financial Markets including a $146 million positive movement in DVA. This was more than offset by increased impairments resulting in profits down 13 per cent or 23 per cent excluding DVA. It remains the largest contributor to the overall Group's profit before tax from a client segment perspective. **Retail Banking** income declined 3 per cent but was flat on a constant currency basis. Higher impairments were the primary driver of a 48 per cent reduction in profit. **Commercial Banking** experienced a 9 per cent reduction in income, higher impairments and profit declining 46 per cent. A non-repeat of a prior-year impairment release meant **Private Banking** profit was down 44 per cent. **Central & other items** income increased 9 per cent with one-off gains in income offsetting lower Treasury income. Profit increased 3 per cent as the higher income was partly offset by a reduction in the Group's share of Bohai profits due to a change in timing of profit recognition.

Greater China & North Asia income grew 2 per cent despite the disruption caused by the early imposition of lockdowns. An increase in impairments meant profits were down 15 per cent but it remains the largest regional contributor to the overall Group's profit before tax. **ASEAN & South Asia** achieved double-digit income growth and lower expenses, but this was offset by increased impairments resulting in a 40 per cent reduction in profits. **Africa & Middle East** experienced difficult conditions that included the effect of sharply lower oil prices in the period, which led to a 6 per cent reduction in income, higher impairments and profit declining 80 per cent. **Europe & Americas** income increased 38 per cent with strong Financial Markets performance including a $80 million positive movement in DVA. Lower costs offset increased impairments and profits increased to $356 million, up from a $13 million profit in the same period last year. **Central & other items** income halved mainly due to lower returns paid to Treasury on the equity provided to the regions from a falling interest rate environment partly offset by lower expenses resulting in a $81 million operating loss in the first half.

Adjusted net interest income and margin

	1H'20 $million	1H'19[1] $million	Change[2] %	2Q'20 $million	2Q'19[1] $million	Change[2] %	1Q'20 $million	Change[2] %
Adjusted net interest income[3]	3,619	4,004	(10)	1,688	2,011	(16)	1,931	(13)
Average interest-earning assets	520,902	485,737	7	531,131	484,066	10	510,672	4
Average interest-bearing liabilities	471,801	434,530	9	479,053	432,223	11	464,549	3
Gross yield (%)[4]	2.65	3.45	(80)	2.37	3.46	(109)	2.95	(58)
Rate paid (%)[4]	1.39	2.00	(61)	1.21	2.01	(80)	1.57	(36)
Net yield (%)[4]	1.26	1.45	(19)	1.16	1.45	(29)	1.38	(22)
Net interest margin (%)[4,5]	1.40	1.66	(26)	1.28	1.67	(39)	1.52	(24)

1 The Group in 2019 changed its accounting policy for net interest income and the basis of preparation of its net interest margin to better reflect the underlying performance of its banking book. See notes to the financial statements in the 2019 Annual Report for further details.
2 Variance is better/(worse) other than assets and liabilities which is increase/(decrease)
3 Adjusted net interest income is statutory net interest income less funding costs for the trading book
4 Change is the basis points (bps) difference between the two periods rather than the percentage change
5 Adjusted net interest income divided by average interest-earning assets, annualised

Adjusted net interest income was down 10 per cent with a 26 basis points reduction in net interest margin which averaged 140 basis points for the half. The net interest margin in the second quarter of 2020 averaged 128 basis points and was down 24 basis points versus the prior quarter:

- Average interest-earning assets increased 4 per cent in the quarter, driven by an increase in Treasury Market assets. Gross yields declined 58 basis points compared with the average in the prior quarter and predominantly reflected the flow-through of declining interest rates in the second half of 2019 and those that occurred in the first quarter of 2020
- Average interest-bearing liabilities increased 3 per cent in the quarter, driven by growth in customer accounts. The rate paid on liabilities decreased 36 basis points compared with the average in the prior quarter reflecting interest rate movements

Credit Risk summary

Income statement

	1H'20 $million	1H'19 $million	Change[1] %	**2Q'20 $million**	2Q'19 $million	Change[1] %	1Q'20 $million	Change[1] %
Total credit impairment	**1,567**	254	517	**611**	176	247	956	(36)
Of which stage 1 and 2	**668**	82	715	**217**	19	1,044	451	(52)
Of which stage 3	**899**	172	423	**394**	157	151	505	(22)

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

Balance sheet

	30.06.20[1] $million	31.03.20 $million	Change[2] %	31.12.19 $million	Change[2] %	30.06.19[3] $million	Change[2] %
Gross loans and advances to customers[4]	**282,826**	277,444	2	274,306	3	269,633	5
Of which stage 1	**250,278**	247,696	1	246,149	2	245,747	2
Of which stage 2	**23,739**	21,979	8	20,759	14	16,090	48
Of which stage 3	**8,809**	7,769	13	7,398	19	7,796	13
Expected credit loss provisions	**(6,513)**	(6,210)	5	(5,783)	13	(6,038)	8
Of which stage 1	**(476)**	(416)	14	(402)	18	(407)	17
Of which stage 2	**(780)**	(713)	9	(377)	107	(350)	123
Of which stage 3	**(5,257)**	(5,081)	3	(5,004)	5	(5,281)	–
Net loans and advances to customers	**276,313**	271,234	2	268,523	3	263,595	5
Of which stage 1	**249,802**	247,280	1	245,747	2	245,340	2
Of which stage 2	**22,959**	21,266	8	20,382	13	15,740	46
Of which stage 3	**3,552**	2,688	32	2,394	48	2,515	41
Cover ratio of stage 3 before/after collateral (%)[5]	**60 / 80**	65 / 85	(5) / (5)	68 / 85	(8) / (5)	68 / 85	(8) / (5)
Credit grade 12 accounts ($million)	**1,519**	1,453	5	1,605	(5)	1,416	7
Early alerts ($million)	**14,406**	11,461	26	5,271	173	4,068	254
Investment grade corporate exposures (%)[5]	**57**	62	(5)	61	(4)	57	–

1 Stage 3 Gross Loans and Advances to Banks of $13 million is not included in the table above

2 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

3 2Q 2019 Stage 3 balances, provisions and cover ratios have been restated to include interest due but unpaid together with equivalent credit impairment charge

4 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $4,383 million at 30 June 2020, $2,903 million at 31 March 2020, $1,469 million at 31 December 2019 and $2,704 million at 30 June 2019

5 Change is the percentage points difference between the two points rather than the percentage change

There was a significant impact from the economic environment on the Group's loan portfolio in the first half of 2020, primarily reflecting the impact of COVID-19. There is a weaker outlook in many of the markets in which the Group operates, with negative global growth expected for 2020 and what is likely to be a volatile and uneven economic recovery. In the second quarter of 2020 the credit quality of the portfolio remained under stress with a further deterioration in short-term macroeconomic forecasts, albeit the pace of deterioration slowed compared to the first quarter.

The Group has taken a number of steps to mitigate the effect on its portfolios and risk profile, informed by stress-testing of various COVID-19 related scenarios, voice of the customer surveys and deep-dives on specific portfolios, and it remains vigilant in the light of the developing situation.

Credit impairment increased by $1,313 million to $1,567 million compared to 1H'19 but was $345 million lower in 2Q'20 than in 1Q'20.

Stage 1 and 2 impairments increased by $586 million, of which around one-half was attributable to modelled outcomes split broadly equally between the impact of deteriorating macroeconomic variables and the net change in exposures and portfolio movements. The remaining half is due to a management overlay, to reflect the deterioration in the macroeconomic outlook not captured in the modelled outcome and the impact of lockdowns and payment relief measures on delinquencies and flow rates within Retail Banking.

Stage 3 impairments increased $727 million across all client segments with over half of the increase due to impairments relating to three unconnected Corporate & Institutional Banking client exposures that were highlighted in 1Q'20.

Gross Stage 3 loans and advances to customers of $8.8 billion were up 19 per cent compared with 31 December 2019 primarily due to increased inflows in Corporate & Institutional Banking. These credit-impaired loans represented 3.1 per cent of gross loans and advances, an increase of 40 basis points compared with 31 December 2019.

The Stage 3 cover ratio reduced to 60 per cent from 68 per cent as at 31 December 2019 due to write-offs of fully-provided balances as well as new downgrades which incurred lower levels of provisions but were partially covered by tangible collateral. The cover ratio after collateral declined to 80 per cent from 85 per cent as some of the new inflows are also covered by non-tangible collateral such as guarantees and insurance, which are not captured in the cover ratio after collateral metric.

Credit grade 12 balances have decreased 5 per cent since 31 December 2019 with new inflows from Early Alert accounts including the impact of sovereign downgrades more than offset by outflows to stage 3 and repayments.

Early Alert accounts more than doubled to $14.4 billion with just under half of the increase driven by the Aviation sector. Early alerts increased $2.9 billion in the second quarter of 2020, as detailed reviews continued on a wide range of sectors and clients but declined in June. The Group is monitoring its exposures in the Aviation, Metals & Mining and Oil & Gas sectors particularly carefully, given the unusual stresses caused by the effects of COVID-19 including low oil prices.

The proportion of investment grade corporate exposures has reduced since 31 December 2019 by 4 percentage points to 57 per cent reflecting a reduction in repo balances and downgrades in the Aviation and Oil & Gas sectors.

Restructuring and others

	1H'20			1H'19		
	Provision for regulatory matters $million	Restructuring $million	Other items $million	Provision for regulatory matters $million	Restructuring $million	Other items $million
Operating income	–	46	6	–	134	–
Operating expenses	14	(49)	–	(204)	(125)	–
Credit impairment	–	(9)	–	–	–	–
Goodwill impairment	–	–	(258)	–	–	–
Other impairment	–	(77)	–	–	(23)	–
Profit from associates and joint ventures	–	(1)	–	–	–	23
Profit/(loss) before taxation	14	(90)	(252)	(204)	(14)	23

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing underlying performance period-by-period.

Restructuring charges of $90 million primarily reflect impairments from the Group's discontinued ship leasing and principal finance businesses. Other items of $252 million relates mainly to a goodwill impairment on the Group's branch in India that was taken in 1Q'20 due to a lower economic growth forecast and increases to the discount rate.

Balance sheet and liquidity

	30.06.20 $million	31.03.20 $million	Change[1] %	31.12.19 $million	Change[1] %	30.06.19 $million	Change[1] %
Assets							
Loans and advances to banks	**50,499**	61,323	(18)	53,549	(6)	59,210	(15)
Loans and advances to customers	**276,313**	271,234	2	268,523	3	263,595	5
Other assets	**414,773**	432,359	(4)	398,326	4	389,699	6
Total assets	**741,585**	764,916	(3)	720,398	3	712,504	4
Liabilities							
Deposits by banks	**28,986**	25,519	14	28,562	1	30,783	(6)
Customer accounts	**421,153**	422,192	–	405,357	4	401,597	5
Other liabilities	**241,549**	267,201	(10)	235,818	2	229,685	5
Total liabilities	**691,688**	714,912	(3)	669,737	3	662,065	4
Equity	**49,897**	50,004	–	50,661	(2)	50,439	(1)
Total equity and liabilities	**741,585**	764,916	(3)	720,398	3	712,504	4
Advances-to-deposits ratio (%)[2]	**62.7%**	61.9%		64.2%		63.7%	
Liquidity coverage ratio (%)	**149%**	142%		144%		139%	

1 Variance is increase/(decrease)comparing current reporting period to prior reporting periods

2 The Group now excludes $13,595 million held with central banks (31.03.20: $9,947 million, 31.12.19: $9,109 million, 30.06.19: $6,835 million) that has been confirmed as repayable at the point of stress

The Group’s balance sheet remains strong, liquid and well diversified:

- Loans and advances to customers increased 3 per cent since 31 December 2019 to $276 billion driven mainly by growth in Financial Markets, Corporate Lending and Corporate Finance. The increase in Corporate Lending and Corporate Finance reflects increased draw-downs on revolving credit facilities that coincided with the global spread of COVID-19 in March and April
- Customer accounts of $421 billion increased 4 per cent since 31 December 2019 with an increase in operating account balances within Cash Management and Retail Banking current accounts partly offset by a reduction in Corporate and Retail Banking time deposits
- Other assets increased 4 per cent since 31 December 2019 driven by increased derivative assets and reverse repurchase agreements to support the strong growth in Financial Markets. Other liabilities increased 2 per cent from increased trading book liabilities and derivative liabilities

The advances-to-deposits ratio reduced slightly to 62.7 per cent from 64.2 per cent at 31 December 2019. The liquidity coverage ratio strengthened, increasing from 144 per cent to 149 per cent due to improved funding mix and supported by the Group’s term debt issuance activity notwithstanding challenging market conditions and remains well above the minimum regulatory requirement of 100 per cent.

Risk-weighted assets

	30.06.20 $million	31.03.20 $million	Change[1] %	31.12.19 $million	Change[1] %	30.06.19 $million	Change[1] %
By risk type							
Credit Risk	**213,136**	223,003	(4)	215,664	(1)	220,010	(3)
Operational Risk	**26,800**	27,803	(4)	27,620	(3)	27,620	(3)
Market Risk	**22,616**	21,847	4	20,806	9	23,109	(2)
Total RWAs	**262,552**	272,653	(4)	264,090	(1)	270,739	(3)

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

Total risk-weighted assets (RWA) decreased 1 per cent or $2 billion since 31 December 2019 to $263 billion and have reduced by $10 billion since 31 March 2020, reflecting the completion of the sale of the Group's interest in PT Bank Permata Tbk (Permata) in Indonesia which reduced RWAs by $9 billion in total:

- Credit Risk RWA reduced by $3 billion in the first half to $213 billion with a $8 billion reduction from Permata partly offset by the impact of economic disruption related to COVID-19 on asset growth and credit migration. Negative credit migration totalled $7 billion in the first half and was partly mitigated by $4 billion of favourable FX movements. Asset growth increased RWAs by $1 billion with increased balance sheet volumes broadly offset by improvements in RWA density
- Operational Risk RWA declined 3 per cent reflecting a $1 billion reduction relating to Permata
- Market Risk RWA increased by $2 billion to $23 billion due to higher levels of Financial Markets activity with increased value-at-risk from elevated market volatility partly offset by regulatory mitigation for back-testing exceptions

Capital base and ratios

	30.06.20 $million	31.03.20 $million	Change[1] %	31.12.19 $million	Change[1] %	30.06.19 $million	Change[1] %
CET1 capital	**37,625**	36,467	3	36,513	3	36,511	3
Additional Tier 1 capital (AT1)	**5,612**	4,620	21	7,164	(22)	6,612	(15)
Tier 1 capital	**43,237**	41,087	5	43,677	(1)	43,123	–
Tier 2 capital	**13,231**	12,371	7	12,288	8	11,834	12
Total capital	**56,468**	53,458	6	55,965	1	54,957	3
CET1 capital ratio end point (%)[2]	**14.3**	13.4	0.9	13.8	0.5	13.5	0.8
Total capital ratio transitional (%)[2]	**21.5**	19.6	1.9	21.2	0.3	20.3	1.2
UK leverage ratio (%)[2]	**5.2**	4.9	0.3	5.2	–	5.3	(0.1)

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

2 Change is percentage points difference between two points rather than percentage change

The Group is well capitalised with low leverage and high levels of loss-absorbing capacity. Its capital and liquidity metrics remain well above regulatory thresholds.

The Group announced on 31 March 2020 that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share and to suspend the buy-back programme announced on 28 February 2020. Furthermore, no interim dividend on ordinary shares will be accrued, recommended or paid in 2020.

The board fully recognises the importance of dividends to the Group's owners. However, suspending ordinary shareholder distributions is allowing the Group to maximise its support for individuals, businesses and the communities in which it operates whilst at the same time preserving strong capital ratios and investing to transform the business for the long term.

The Group had purchased 40 million ordinary shares for $242 million through the buy-back programme announced on 28 February 2020. These shares were subsequently cancelled reducing total issued share capital by 1.3 per cent.

The Group's minimum Common Equity Tier 1 (CET1) requirement has reduced from 10.2 per cent to 10.0 per cent reflecting the reductions in counter-cyclical buffer rates in the UK and Hong Kong.

The Group's CET1 ratio of 14.3 per cent was 50 basis points higher than as at 31 December 2019, over four percentage points above the Group's latest regulatory minimum of 10.0 per cent and above the top of the 13-14 per cent medium-term target range.

The Group on 20 May 2020 announced the completion of the sale of its stake in PT Bank Permata Tbk, which generated an increase in the Group's CET1 ratio of approximately 50 basis points.

The impact on credit RWAs from asset growth and negative credit migration was a 50 basis point reduction in the CET1 ratio. The $242 million share buy-back also reduced the CET1 ratio by 10 basis points. This was partly offset by an aggregate 60 basis point impact from profit accretion and the cancellation of the 2019 final dividend.

The Group's UK leverage ratio of 5.2 per cent was in line with the ratio at 31 December 2019. The Group's leverage ratio remains significantly above its minimum requirement of 3.6 per cent.

The Group continues to target a CET1 ratio of 13-14 per cent in the medium-term.

Outlook

We continue to believe that some of our larger markets will start to drive the global economy out of recession over the coming quarters but expect economic activity across our footprint in that period to be volatile and uneven.

Income is likely to be lower both half-on-half and year-on-year in the second half of 2020. The benefits of the early stage recovery in some of our markets and our geographic and product diversity are unlikely to be enough to offset the impact of low interest rates and the probability of less buoyant conditions for our Financial Markets business.

Expenses excluding the UK bank levy are usually higher in the second half, but we continue to target being below $10 billion in 2020. Given the more challenging external environment we have started to implement new sustainable efficiency initiatives with the intent to stay below $10 billion in 2021 as well.

Given the extreme economic pressures relating to the persistence of COVID-19, partially addressed through the efficacy of government support measures, it is not possible to reliably predict the quantum or timing of future impairments. However, if economic conditions in our markets do not materially deteriorate in the coming months then, given the substantial provisions we have taken already, we anticipate that impairments in the second half will be lower than those recorded in the first half.

Andy Halford
Group Chief Financial Officer
30 July 2020

Underlying performance by client segment

	1H'20					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,987	2,537	740	300	483	8,047
External	4,012	2,103	700	202	1,030	8,047
Inter-segment	(25)	434	40	98	(547)	–
Operating expenses	(1,985)	(1,780)	(421)	(239)	(288)	(4,713)
Operating profit before impairment losses and taxation	2,002	757	319	61	195	3,334
Credit impairment	(985)	(430)	(137)	(5)	(10)	(1,567)
Other impairment	115	(1)	–	–	(2)	112
Profit from associates and joint ventures	–	–	–	–	76	76
Underlying profit before taxation	1,132	326	182	56	259	1,955
Provision for regulatory matters	–	–	–	–	14	14
Restructuring	(56)	(3)	(18)	(3)	(10)	(90)
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Goodwill impairment	–	–	–	–	(258)	(258)
Statutory profit before taxation	1,076	323	164	53	11	1,627
Total assets	336,623	107,327	33,158	13,202	251,275	741,585
Of which: loans and advances to customers including FVTPL	164,392	105,085	28,151	13,097	17,440	328,165
Total liabilities	402,920	149,422	43,578	18,842	76,926	691,688
Of which: customer accounts including FVTPL and repurchase agreements	257,512	146,088	40,507	18,725	6,632	469,464

	1H'19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,534	2,603	811	306	442	7,696
External	3,633	2,140	863	171	889	7,696
Inter-segment	(99)	463	(52)	135	(447)	–
Operating expenses	(2,102)	(1,825)	(445)	(253)	(344)	(4,969)
Operating profit before impairment losses and taxation	1,432	778	366	53	98	2,727
Credit impairment	(116)	(154)	(29)	47	(2)	(254)
Other impairment	(19)	–	–	–	(2)	(21)
Profit from associates and joint ventures	–	–	–	–	157	157
Underlying profit before taxation	1,297	624	337	100	251	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	23	(1)	–	(1)	(35)	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	23	23
Statutory profit before taxation	1,320	623	337	99	35	2,414
Total assets	329,113	103,909	35,718	15,654	228,110	712,504
Of which: loans and advances to customers including FVTPL[1]	149,752	101,784	30,465	15,521	9,120	306,642
Total liabilities	380,549	143,297	39,805	18,616	79,798	662,065
Of which: customer accounts including FVTPL and repurchase agreements	234,142	139,898	36,908	18,473	15,490	444,911

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. Prior periods have been restated

Supplementary financial information continued

Corporate & Institutional Banking

	1H'20 $million	1H'19 $million	Change[4] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[4] %	Constant currency change[1] %
Operating income	**3,987**	3,534	13	15	**1,833**	1,776	3	6
Transaction Banking[3]	**1,120**	1,323	(15)	(14)	**531**	672	(21)	(20)
Trade	**310**	352	(12)	(11)	**146**	179	(18)	(18)
Cash Management	**810**	971	(17)	(15)	**385**	493	(22)	(20)
Financial Markets[3]	**2,081**	1,479	41	44	**897**	740	21	25
Foreign Exchange	**664**	503	32	35	**302**	256	18	23
Rates	**695**	338	106	111	**328**	128	156	163
Commodities	**111**	73	52	52	**76**	37	105	105
Credit and Capital Markets	**260**	263	(1)	–	**245**	130	88	92
Capital Structuring Distribution Group	**104**	141	(26)	(24)	**47**	66	(29)	(25)
DVA	**104**	(42)	nm[7]	nm[7]	**(201)**	11	nm[7]	nm[7]
Security Services[3]	**163**	170	(4)	(1)	**79**	87	(9)	(7)
Other Financial Markets	**(20)**	33	(161)	(154)	**21**	25	(16)	(22)
Corporate Finance	**496**	478	4	6	**245**	240	2	5
Lending and Portfolio Management	**304**	265	15	18	**168**	138	22	26
Other	**(14)**	(11)	(27)	(56)	**(8)**	(14)	43	43
Operating expenses	**(1,985)**	(2,102)	6	3	**(1,004)**	(1,070)	6	3
Operating profit before impairment losses and taxation	**2,002**	1,432	40	41	**829**	706	17	20
Credit impairment	**(985)**	(116)	nm[7]	nm[7]	**(315)**	(73)	nm[7]	nm[7]
Other impairment	**115**	(19)	nm[7]	nm[7]	**(38)**	(16)	(138)	(138)
Underlying profit before taxation	**1,132**	1,297	(13)	(12)	**476**	617	(23)	(21)
Restructuring	**(56)**	23	nm[7]	nm[7]	**6**	(21)	129	137
Statutory profit before taxation	**1,076**	1,320	(18)	(18)	**482**	596	(19)	(17)
Total assets	**336,623**	329,113	2	3	**336,623**	329,113	2	3
Of which: loans and advances to customers including FVTPL[2]	**164,392**	149,752	10	11	**164,392**	149,752	10	11
Total liabilities	**402,920**	380,549	6	7	**402,920**	380,549	6	7
Of which: customer accounts including FVTPL and repurchase agreements	**257,512**	234,142	10	11	**257,512**	234,142	10	11
Risk-weighted assets	**137,150**	134,938	2		**137,150**	134,938	2	
Underlying return on risk-weighted assets (%)[5]	**1.7**	2.0	(30)bps		**1.4**	1.8	(40)bps	
Underlying return on tangible equity (%)[5]	**8.3**	9.8	(150)bps		**6.8**	9.2	(240)bps	
Cost-to-income ratio (%)[6]	**49.8**	59.5	9.7	9.3	**54.8**	60.2	5.4	5.3

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. Prior periods have been restated

3 Following a reorganisation, there has been a reclassification of balances relating to Securities Services from Transaction Banking to Financial Markets including prior-period numbers. There is no change in the total income

4 Variance is better/(worse) other than risk-weighted assets, assets and liabilities which is increase/(decrease)

5 Change is the basis points (bps) difference between the two periods rather than the percentage change

6 Change is the percentage points difference between the two periods rather than the percentage change

7 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $1,132 million was down 13 per cent (12 per cent on a constant currency basis) driven by increased credit impairments relating to three unconnected Corporate & Institutional Banking client exposures that were highlighted in 1Q'20, despite higher income and lower costs
- Underlying operating income of $3,987 million was up 13 per cent (9 per cent excluding a positive movement in the debit valuation adjustment) primarily driven by Financial Markets income off the back of heightened volatility and increased client demand, partially offset by Cash Management income due to the margin impact of rate cuts
- Good balance sheet momentum with loans and advances to customers up 7 per cent since 31 December 2019
- Risk-weighted assets up $8 billion year-to-date mainly as a result of increased Credit RWA
- RoTE reduced from 9.8 per cent to 8.3 per cent

Retail Banking

	1H'20 $million	1H'19 $million	Change[3] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[3] %	Constant currency change[1] %
Operating income	**2,537**	2,603	(3)	–	**1,216**	1,334	(9)	(7)
Transaction Banking	**9**	9	–	–	**4**	5	(20)	–
Trade	**9**	9	–	–	**4**	5	(20)	–
Wealth Management	**760**	780	(3)	(2)	**346**	410	(16)	(15)
Retail Products	**1,760**	1,815	(3)	(1)	**862**	920	(6)	(3)
CCPL and other unsecured lending	**599**	625	(4)	(1)	**295**	320	(8)	(5)
Deposits	**803**	900	(11)	(8)	**372**	454	(18)	(15)
Mortgage and Auto	**288**	241	20	23	**159**	120	33	38
Other Retail Products	**70**	49	43	41	**36**	26	38	30
Other	**8**	(1)	nm[6]	nm[6]	**4**	(1)	nm[6]	nm[6]
Operating expenses	**(1,780)**	(1,825)	2	–	**(889)**	(928)	4	1
Operating profit before impairment losses and taxation	**757**	778	(3)	(2)	**327**	406	(19)	(19)
Credit impairment	**(430)**	(154)	(179)	(187)	**(233)**	(72)	nm[6]	nm[6]
Other impairment	**(1)**	–	nm[6]	nm[6]	**(1)**	–	nm[6]	nm[6]
Underlying profit before taxation	**326**	624	(48)	(47)	**93**	334	(72)	(73)
Restructuring	**(3)**	(1)	(200)	(200)	**–**	(1)	100	100
Statutory profit before taxation	**323**	623	(48)	(48)	**93**	333	(72)	(72)
Total assets	**107,327**	103,909	3	5	**107,327**	103,909	3	5
Of which: loans and advances to customers including FVTPL[2]	**105,085**	101,784	3	5	**105,085**	101,784	3	5
Total liabilities	**149,422**	143,297	4	6	**149,422**	143,297	4	6
Of which: customer accounts including FVTPL and repurchase agreements	**146,088**	139,898	4	6	**146,088**	139,898	4	6
Risk-weighted assets	**44,186**	42,839	3		**44,186**	42,839	3	
Underlying return on risk-weighted assets (%)[4]	**1.5**	3.0	(150)bps		**0.8**	3.2	(240)bps	
Underlying return on tangible equity (%)[4]	**7.3**	14.8	(750)bps		**4.2**	15.8	(1,160)bps	
Cost-to-income ratio (%)[5]	**70.2**	70.1	(0.1)	(0.4)	**73.1**	69.6	(3.5)	(4.1)

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6 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $326 million was down year-on-year due to lower income and increased credit impairment due to a worsening credit environment with the impact of COVID-19
- Underlying operating income of $2,537 million was down 3 per cent (flat on a constant currency basis), predominantly driven by a 8 per cent decline (down 2 per cent on a constant currency basis) in Africa & Middle East, a 4 per cent decline (down 1 per cent on a constant currency basis) in ASEAN & South Asia and a 1 per cent decline (flat on a constant currency basis) in Greater China & North Asia
- All regions have been impacted by the more challenging current environment with lower income and higher loan impairment, but Greater China & North Asia is showing early signs of recovery
- RoTE decreased from 14.8 per cent to 7.3 per cent

Commercial Banking

	1H'20 $million	1H'19 $million	Change[3] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[3] %	Constant currency change[1] %
Operating income	**740**	811	(9)	(7)	**350**	412	(15)	(13)
Transaction Banking	**392**	446	(12)	(11)	**186**	224	(17)	(15)
Trade	**171**	198	(14)	(13)	**80**	98	(18)	(17)
Cash Management	**221**	248	(11)	(9)	**106**	126	(16)	(14)
Financial Markets	**167**	186	(10)	(8)	**73**	94	(22)	(20)
Foreign Exchange	**94**	99	(5)	(2)	**41**	48	(15)	(11)
Rates	**22**	19	16	16	**11**	8	38	25
Commodities	**15**	16	(6)	(6)	**6**	7	(14)	(14)
Credit and Capital Markets	**16**	22	(27)	(27)	**5**	15	(67)	(67)
Capital Structuring Distribution Group	**9**	15	(40)	(40)	**5**	8	(38)	(50)
Other Financial Markets	**11**	15	(27)	(23)	**5**	8	(38)	–
Corporate Finance	**51**	54	(6)	–	**24**	30	(20)	(17)
Lending and Portfolio Management	**123**	119	3	5	**64**	59	8	12
Wealth Management	**–**	1	(100)	(100)	**–**	–	nm[6]	(100)
Retail Products	**3**	3	–	–	**1**	2	(50)	–
Deposits	**3**	3	–	–	**1**	2	(50)	(50)
Other	**4**	2	100	nm[6]	**2**	3	(33)	(33)
Operating expenses	**(421)**	(445)	5	3	**(212)**	(227)	7	2
Operating profit before impairment losses and taxation	**319**	366	(13)	(11)	**138**	185	(25)	(26)
Credit impairment	**(137)**	(29)	nm[6]	nm[6]	**(58)**	(35)	(66)	(79)
Underlying profit before taxation	**182**	337	(46)	(46)	**80**	150	(47)	(49)
Restructuring	**(18)**	–	nm[6]	nm[6]	**(4)**	(1)	nm[6]	nm[6]
Statutory profit before taxation	**164**	337	(51)	(51)	**76**	149	(49)	(52)
Total assets	**33,158**	35,718	(7)	(5)	**33,158**	35,718	(7)	(5)
Of which: loans and advances to customers including FVTPL[2]	**28,151**	30,465	(8)	(5)	**28,151**	30,465	(8)	(5)
Total liabilities	**43,578**	39,805	9	10	**43,578**	39,805	9	10
Of which: customer accounts including FVTPL and repurchase agreements	**40,507**	36,908	10	11	**40,507**	36,908	10	11
Risk-weighted assets	**30,856**	34,555	(11)		**30,856**	34,555	(11)	
Underlying return on risk-weighted assets (%)[4]	**1.2**	2.0	(80)bps		**1.0**	1.7	(70)bps	
Underlying return on tangible equity (%)[4]	**5.8**	9.7	(390)bps		**5.1**	8.7	(360)bps	
Cost-to-income ratio (%)[5]	**56.9**	54.9	(2.0)	(2.2)	**60.6**	55.1	(5.5)	(6.7)

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6 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $182 million was down 46 per cent mainly due to higher impairments and lower income, partially offset by lower costs
- Underlying operating income of $740 million was down 9 per cent predominantly driven by Transaction Banking which was negatively impacted by interest rate cuts and a slowdown in Trade. Income was down 13 per cent in Greater China & North Asia, down 5 per cent in ASEAN & South Asia and down 9 per cent in Africa & Middle East
- RoTE decreased from 9.7 per cent to 5.8 per cent

Private Banking

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**300**	306	(2)	(2)	**138**	157	(12)	(11)
Corporate Finance	**–**	2	(100)	(100)	**–**	2	(100)	(100)
Wealth Management	**204**	195	5	5	**88**	101	(13)	(12)
Retail Products	**96**	109	(12)	(11)	**50**	54	(7)	(7)
Deposits	**79**	92	(14)	(13)	**40**	45	(11)	(11)
Mortgage and Auto	**17**	17	–	–	**10**	9	11	11
Operating expenses	**(239)**	(253)	6	4	**(115)**	(129)	11	9
Operating profit before impairment losses and taxation	**61**	53	15	9	**23**	28	(18)	(18)
Credit impairment	**(5)**	47	(111)	(111)	**(4)**	–	nm[5]	nm[5]
Underlying profit before taxation	**56**	100	(44)	(46)	**19**	28	(32)	(32)
Restructuring	**(3)**	(1)	(200)	nm[5]	**(1)**	1	(200)	(200)
Statutory profit before taxation	**53**	99	(46)	(50)	**18**	29	(38)	(43)
Total assets	**13,202**	15,654	(16)	(15)	**13,202**	15,654	(16)	(15)
Of which: loans and advances to customers including FVTPL	**13,097**	15,521	(16)	(15)	**13,097**	15,521	(16)	(15)
Total liabilities	**18,842**	18,616	1	2	**18,842**	18,616	1	2
Of which: customer accounts including FVTPL and repurchase agreements	**18,725**	18,473	1	2	**18,725**	18,473	1	2
Risk-weighted assets	**6,128**	6,615	(7)		**6,128**	6,615	(7)	
Underlying return on risk-weighted assets (%)[3]	**1.7**	3.1	(140)bps		**1.2**	1.7	(50)bps	
Underlying return on tangible equity (%)[3]	**8.5**	15.7	(720)bps		**5.9**	8.4	(250)bps	
Cost-to-income ratio (%)[4]	**79.7**	82.7	3.0	2.0	**83.3**	82.2	(1.1)	(1.4)

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5 Not meaningful

Performance highlights

- Underlying operating profit of $56 million was down 44 per cent, as lower expenses were more than offset by a non-repeat of an impairment release in the prior year
- Underlying operating income of $300 million was down 2 per cent, primarily due to a decline in Retail Products (mainly Deposits), mitigated by continued resilient performance from Wealth Management
- Assets under management at $63 billion was down 4 per cent mainly from negative market valuation of $1.4 billion
- RoTE decreased from 15.7 per cent to 8.5 per cent mainly due to a one-off credit impairment release included in the previous year

Central & other items (segment)

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**483**	442	9	12	**183**	204	(10)	(7)
Treasury	**503**	559	(10)	(8)	**178**	251	(29)	(27)
Other	**(20)**	(117)	83	83	**5**	(47)	111	115
Operating expenses	**(288)**	(344)	16	9	**(135)**	(200)	33	22
Operating profit before impairment losses and taxation	**195**	98	99	71	**48**	4	nm[5]	187
Credit impairment	**(10)**	(2)	nm[5]	nm[5]	**(1)**	4	(125)	(125)
Other impairment	**(2)**	(2)	–	–	**(3)**	(3)	–	–
Profit from associates and joint ventures	**76**	157	(52)	(52)	**21**	91	(77)	(78)
Underlying profit before taxation	**259**	251	3	(4)	**65**	96	(32)	(45)
Provision for regulatory matters	**14**	(204)	107	107	**–**	(18)	100	100
Restructuring	**(10)**	(35)	71	71	**1**	(24)	104	108
Net gain on businesses disposed/held for sale	**6**	–	nm[5]	nm[5]	**6**	–	nm[5]	nm[5]
Goodwill impairment	**(258)**	–	nm[5]	nm[5]	**–**	–	nm[5]	nm[5]
Share of profits of PT Bank Permata Tbk joint venture	**–**	23	(100)	(100)	**–**	11	(100)	(100)
Statutory profit before taxation	**11**	35	(69)	(86)	**72**	65	11	(12)
Total assets	**251,275**	228,110	10	11	**251,275**	228,110	10	11
Of which: loans and advances to customers including FVTPL	**17,440**	9,120	91	97	**17,440**	9,120	91	97
Total liabilities	**76,926**	79,798	(4)	(3)	**76,926**	79,798	(4)	(3)
Of which: customer accounts including FVTPL and repurchase agreements	**6,632**	15,490	(57)	(57)	**6,632**	15,490	(57)	(57)
Risk-weighted assets	**44,232**	51,792	(15)		**44,232**	51,792	(15)	
Underlying return on risk-weighted assets (%)[3]	**1.0**	1.0	0bps		**0.6**	0.7	(10)bps	
Underlying return on tangible equity (%)[3]	**(2.7)**	(2.0)	(70)bps		**(9.9)**	(5.9)	(400)bps	
Cost-to-income ratio (%) (excluding UK bank levy)[4]	**59.6**	77.8	18.2	13.6	**73.8**	98.0	24.2	15.5

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Performance highlights

- Underlying operating profit negatively impacted from a change in timing of revenue recognition (from a 1-month to 3-month lag) of profit from associates (Bohai)
- Lower Treasury net interest income as rates declined offset by realisation gains on sale of securities

Underlying performance by region

	1H'20					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,144	2,376	1,255	1,095	177	8,047
Operating expenses	(1,780)	(1,247)	(793)	(661)	(232)	(4,713)
Operating profit/(loss) before impairment losses and taxation	1,364	1,129	462	434	(55)	3,334
Credit impairment	(289)	(838)	(370)	(80)	10	(1,567)
Other impairment	(15)	165	(2)	2	(38)	112
Profit from associates and joint ventures	74	–	–	–	2	76
Underlying profit/(loss) before taxation	1,134	456	90	356	(81)	1,955
Provision for regulatory matters	–	–	–	–	14	14
Restructuring	(43)	(7)	(9)	(10)	(21)	(90)
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Goodwill impairment	–	–	–	–	(258)	(258)
Statutory profit/(loss) before taxation	1,091	449	81	346	(340)	1,627
Total assets	289,352	154,508	63,927	223,226	10,572	741,585
Of which: loans and advances to customers including FVTPL	144,794	84,949	33,083	65,339	–	328,165
Total liabilities	258,322	131,993	40,740	217,300	43,333	691,688
Of which: customer accounts including FVTPL and repurchase agreements	214,586	100,324	32,530	122,024	–	469,464

	1H'19					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,080	2,136	1,340	794	346	7,696
Operating expenses	(1,826)	(1,292)	(850)	(715)	(286)	(4,969)
Operating profit before impairment losses and taxation	1,254	844	490	79	60	2,727
Credit impairment	(70)	(84)	(49)	(66)	15	(254)
Other impairment	(8)	–	–	–	(13)	(21)
Profit from associates and joint ventures	153	–	–	–	4	157
Underlying profit before taxation	1,329	760	441	13	66	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	(3)	(16)	(2)	(15)	22	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	23	–	–	–	23
Statutory profit/(loss) before taxation	1,326	767	439	(2)	(116)	2,414
Total assets	275,414	151,714	59,189	214,126	12,061	712,504
Of which: loans and advances to customers including FVTPL	134,440	82,826	30,161	59,215	–	306,642
Total liabilities	240,802	132,763	37,000	215,504	35,996	662,065
Of which: customer accounts including FVTPL and repurchase agreements	196,994	101,594	29,621	116,702	–	444,911

Greater China & North Asia

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**3,144**	3,080	2	3	**1,448**	1,553	(7)	(6)
Operating expenses	**(1,780)**	(1,826)	3	2	**(880)**	(921)	4	4
Operating profit before impairment losses and taxation	**1,364**	1,254	9	10	**568**	632	(10)	(9)
Credit impairment	**(289)**	(70)	nm[4]	nm[4]	**(91)**	(40)	(128)	(136)
Other impairment	**(15)**	(8)	(88)	(88)	**(14)**	(8)	(75)	(75)
Profit from associates and joint ventures	**74**	153	(52)	(52)	**21**	88	(76)	(78)
Underlying profit before taxation	**1,134**	1,329	(15)	(14)	**484**	672	(28)	(28)
Restructuring	**(43)**	(3)	nm[4]	nm[4]	**7**	9	(22)	(40)
Statutory profit before taxation	**1,091**	1,326	(18)	(17)	**491**	681	(28)	(28)
Total assets	**289,352**	275,414	5	5	**289,352**	275,414	5	5
Of which: loans and advances to customers including FVTPL	**144,794**	134,440	8	8	**144,794**	134,440	8	8
Total liabilities	**258,322**	240,802	7	8	**258,322**	240,802	7	8
Of which: customer accounts including FVTPL and repurchase agreements	**214,586**	196,994	9	10	**214,586**	196,994	9	10
Risk-weighted assets	**89,139**	84,881	5		**89,139**	84,881	5	
Cost-to-income ratio (%)[3]	**56.6**	59.3	2.7	2.8	**60.8**	59.3	(1.5)	(1.3)

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4 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $1,134 million was down 15 per cent, driven by increased impairment levels and a decline in profits from associates (Bohai) income due to recognition timing changes (change from a 1-month to 3-month lag)
- Underlying operating income of $3,144 million was up 2 per cent (up 3 per cent on a constant currency basis), with strong Financial Markets growth offsetting a weaker performance in Cash Management and Retail Deposits, which were negatively impacted by interest rate cuts
- Loans and advances to customers were up 3 per cent year-to-date and customer accounts grew 5 per cent, which was predominantly driven by Cash Management and Retail current and savings accounts, partly offset by a decline in Retail Time Deposits
- Risk-weighted assets were up $3 billion year-to-date, driven by Credit RWA (predominantly CIB) and Market RWA

ASEAN & South Asia

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**2,376**	2,136	11	14	**1,099**	1,090	1	5
Operating expenses	**(1,247)**	(1,292)	3	–	**(622)**	(651)	4	–
Operating profit before impairment losses and taxation	**1,129**	844	34	35	**477**	439	9	12
Credit impairment	**(838)**	(84)	nm[4]	nm[4]	**(387)**	(68)	nm[4]	nm[4]
Other impairment	**165**	–	nm[4]	nm[4]	**(1)**	–	nm[4]	nm[4]
Underlying profit before taxation	**456**	760	(40)	(40)	**89**	371	(76)	(74)
Restructuring	**(7)**	(16)	56	56	**(7)**	(10)	30	30
Share of profits of PT Bank Permata Tbk joint venture	**–**	23	(100)	(100)	**–**	11	(100)	(100)
Statutory profit before taxation	**449**	767	(41)	(41)	**82**	372	(78)	(76)
Total assets	**154,508**	151,714	2	5	**154,508**	151,714	2	5
Of which: loans and advances to customers including FVTPL	**84,949**	82,826	3	6	**84,949**	82,826	3	6
Total liabilities	**131,993**	132,763	(1)	2	**131,993**	132,763	(1)	2
Of which: customer accounts including FVTPL and repurchase agreements	**100,324**	101,594	(1)	1	**100,324**	101,594	(1)	1
Risk-weighted assets	**80,040**	93,737	(15)		**80,040**	93,737	(15)	
Cost-to-income ratio (%)[3]	**52.5**	60.5	8.0	7.5	**56.6**	59.7	3.1	2.8

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Variance is better/(worse) other than risk-weighted assets, assets and liabilities which is increase/(decrease)

3 Change is the percentage points difference between the two periods rather than the percentage change

4 Not meaningful

Performance highlights

- Underlying operating profit before taxation decreased 40 per cent to $456 million driven by higher credit impairment which more than offset the 11 per cent income growth
- Underlying operating income of $2,376 million is 11 per cent higher (12 per cent on a constant currency basis excluding a positive movement in the debit valuation adjustment), driven by income growth in Corporate & Institutional Banking, predominantly due to strong performance in Financial Markets and Corporate Finance. Commercial Banking, Retail Banking and Private Banking declined impacted by margin compression (down 5, 4 and 4 per cent respectively)
- Customer accounts were up 3 per cent year-to-date, with double-digit growth in Retail and Corporate current and savings accounts offset by reduction of high-priced Corporate and Retail Time Deposits. Loans and advances to customers were up 5 per cent year-to-date but risk-weighted assets declined by 10 per cent driven by the sale of Permata

Africa & Middle East

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**1,255**	1,340	(6)	(2)	**594**	632	(6)	1
Operating expenses	**(793)**	(850)	7	1	**(390)**	(427)	9	1
Operating profit before impairment losses and taxation	**462**	490	(6)	(2)	**204**	205	–	4
Credit impairment	**(370)**	(49)	nm[4]	nm[4]	**(159)**	(43)	nm[4]	nm[4]
Other impairment	**(2)**	–	nm[4]	nm[4]	**(2)**	–	nm[4]	nm[4]
Underlying profit before taxation	**90**	441	(80)	(78)	**43**	162	(73)	(72)
Restructuring	**(9)**	(2)	nm[4]	nm[4]	**(2)**	(1)	(100)	–
Statutory profit before taxation	**81**	439	(82)	(80)	**41**	161	(75)	(72)
Total assets	**63,927**	59,189	8	13	**63,927**	59,189	8	13
Of which: loans and advances to customers including FVTPL	**33,083**	30,161	10	16	**33,083**	30,161	10	16
Total liabilities	**40,740**	37,000	10	14	**40,740**	37,000	10	14
Of which: customer accounts including FVTPL and repurchase agreements	**32,530**	29,621	10	14	**32,530**	29,621	10	14
Risk-weighted assets	**52,009**	51,705	1		**52,009**	51,705	1	
Cost-to-income ratio (%)[3]	**63.2**	63.4	0.2	(0.2)	**65.7**	67.6	1.9	1.1

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Variance is better/(worse) other than risk-weighted assets, assets and liabilities which is increase/(decrease)

3 Change is the percentage points difference between the two periods rather than the percentage change

4 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $90 million was down 80 per cent primarily due to higher credit impairment
- Underlying operating income of $1,255 million was down 6 per cent (or down 2 per cent on a constant currency basis) despite strong performance in Financial Markets. Cash Management was impacted by a drop in interest rates and Retail Banking was negatively impacted by a debt relief program in Bahrain
- Loans and advances to customers were up 5 per cent year-to-date and customer accounts grew 11 per cent

Europe & Americas

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**1,095**	794	38	39	**549**	435	26	27
Operating expenses	**(661)**	(715)	8	6	**(318)**	(352)	10	8
Operating profit before impairment losses and taxation	**434**	79	nm[4]	nm[4]	**231**	83	178	168
Credit impairment	**(80)**	(66)	(21)	(23)	**22**	(38)	158	161
Other impairment	**2**	–	nm[4]	nm[4]	**2**	–	nm[4]	nm[4]
Underlying profit before taxation	**356**	13	nm[4]	nm[4]	**255**	45	nm[4]	nm[4]
Restructuring	**(10)**	(15)	33	36	**4**	(11)	136	156
Statutory profit/(loss) before taxation	**346**	(2)	nm[4]	nm[4]	**259**	34	nm[4]	nm[4]
Total assets	**223,226**	214,126	4	5	**223,226**	214,126	4	5
Of which: loans and advances to customers including FVTPL	**65,339**	59,215	10	11	**65,339**	59,215	10	11
Total liabilities	**217,300**	215,504	1	1	**217,300**	215,504	1	1
Of which: customer accounts including FVTPL and repurchase agreements	**122,024**	116,702	5	5	**122,024**	116,702	5	5
Risk-weighted assets	**44,326**	42,809	4		**44,326**	42,809	4	
Cost-to-income ratio (%)[3]	**60.4**	90.1	29.7	28.9	**57.9**	80.9	23.0	21.9

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Variance is better/(worse) other than risk-weighted assets, assets and liabilities which is increase/(decrease)

3 Change is the percentage points difference between the two periods rather than the percentage change

4 Not meaningful

Performance highlights

- Underlying operating profit before taxation of $356 million was up $343 million predominantly driven by income growth and lower costs
- Underlying operating income of $1,095 million was up 38 per cent (27 per cent excluding DVA) driven by strong Financial Markets sales and trading performance, and Treasury Markets realisation gains from bond sales as yields fell significantly
- There was no significant impact to credit impairment despite the recent economic deterioration, demonstrating the strong credit quality of the portfolio

Central & other items (region)

	1H'20 $million	1H'19 $million	Change[2] %	Constant currency change[1] %	2Q'20 $million	2Q'19 $million	Change[2] %	Constant currency change[1] %
Operating income	**177**	346	(49)	(49)	**30**	173	(83)	(83)
Operating expenses	**(232)**	(286)	19	10	**(145)**	(203)	29	19
Operating profit/(loss) before impairment losses and taxation	**(55)**	60	(192)	(172)	**(115)**	(30)	nm[4]	nm[4]
Credit impairment	**10**	15	(33)	(33)	**4**	13	(69)	(69)
Other impairment	**(38)**	(13)	(192)	(192)	**(27)**	(11)	(145)	(170)
Profit from associates and joint ventures	**2**	4	(50)	(33)	**–**	3	(100)	(100)
Underlying profit/(loss) before taxation	**(81)**	66	nm[4]	(198)	**(138)**	(25)	nm[4]	nm[4]
Provision for regulatory matters	**14**	(204)	107	107	**–**	(18)	100	100
Restructuring	**(21)**	22	(195)	(191)	**–**	(33)	100	100
Net gain on businesses disposed/held for sale	**6**	–	nm[4]	nm[4]	**6**	–	nm[4]	nm[4]
Goodwill impairment	**(258)**	–	nm[4]	nm[4]	**–**	–	nm[4]	nm[4]
Statutory profit/(loss) before taxation	**(340)**	(116)	(193)	nm[4]	**(132)**	(76)	(74)	(122)
Total assets	**10,572**	12,061	(12)	(12)	**10,572**	12,061	(12)	(12)
Total liabilities	**43,333**	35,996	20	20	**43,333**	35,996	20	20
Risk-weighted assets	**(2,962)**	(2,393)	(24)		**(2,962)**	(2,393)	(24)	
Cost-to-income ratio (%) (excluding UK bank levy)[3]	**131.1**	82.7	(48.4)	(57.8)	**483.3**	117.3	(366.0)	(400.8)

1 Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2 Variance is better/(worse) other than risk-weighted assets, assets and liabilities which is increase/(decrease)

3 Change is the percentage points difference between the two periods rather than the percentage change

4 Not meaningful

Performance highlights

- Lower income and profit mainly due to lower net interest income in Treasury Capital as rates declined

Retail Banking

	1H'20				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,517	680	323	17	2,537
Operating expenses	(968)	(514)	(287)	(11)	(1,780)
Operating profit before impairment losses and taxation	549	166	36	6	757
Credit impairment	(128)	(236)	(66)	–	(430)
Other impairment	–	–	(1)	–	(1)
Underlying profit/(loss) before taxation	421	(70)	(31)	6	326
Restructuring	(1)	(2)	–	–	(3)
Statutory profit/(loss) before taxation	420	(72)	(31)	6	323
Loans and advances to customers including FVTPL	73,751	26,071	4,759	504	105,085
Customer accounts including FVTPL and repurchase agreements	99,696	36,326	9,074	992	146,088

	1H'19				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Operating income	1,527	707	350	19	2,603
Operating expenses	(982)	(530)	(302)	(11)	(1,825)
Operating profit before impairment losses and taxation	545	177	48	8	778
Credit impairment	(65)	(63)	(26)	–	(154)
Underlying profit before taxation	480	114	22	8	624
Restructuring	–	(1)	–	–	(1)
Statutory profit before taxation	480	113	22	8	623
Loans and advances to customers including FVTPL	67,781	28,103	5,371	529	101,784
Customer accounts including FVTPL and repurchase agreements	96,240	34,152	8,440	1,066	139,898

Commercial Banking

	1H'20			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	246	333	161	740
Operating expenses	(158)	(165)	(98)	(421)
Operating profit before impairment losses and taxation	88	168	63	319
Credit impairment	(38)	(91)	(8)	(137)
Underlying profit before taxation	50	77	55	182
Restructuring	(8)	(2)	(8)	(18)
Statutory profit before taxation	42	75	47	164
Loans and advances to customers including FVTPL	13,168	10,348	4,635	28,151
Customer accounts including FVTPL and repurchase agreements	24,092	12,514	3,901	40,507

	1H'19			
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Total $million
Operating income	284	350	177	811
Operating expenses	(175)	(162)	(108)	(445)
Operating profit before impairment losses and taxation	109	188	69	366
Credit impairment	(8)	(9)	(12)	(29)
Underlying profit before taxation	101	179	57	337
Restructuring	–	–	–	–
Statutory profit before taxation	101	179	57	337
Loans and advances to customers including FVTPL[1]	13,974	11,289	5,202	30,465
Customer accounts including FVTPL and repurchase agreements	21,165	12,511	3,232	36,908

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. Prior periods have been restated

Underlying performance by key market

	1H'20								
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	Indonesia $million	UAE $million	UK $million	US $million
Operating income	1,830	549	474	790	724	196	318	567	431
Operating expenses	(948)	(343)	(309)	(475)	(318)	(85)	(198)	(324)	(260)
Operating profit before impairment losses and taxation	882	206	165	315	406	111	120	243	171
Credit impairment	(162)	(15)	(102)	(438)	(167)	(64)	(192)	(65)	(13)
Other impairment	(15)	–	–	–	–	–	–	2	–
Profit from associates and joint ventures	–	–	74	–	–	–	–	–	–
Underlying profit/(loss) before taxation	705	191	137	(123)	239	47	(72)	180	158
Total assets employed	161,959	59,516	35,142	86,599	28,907	5,154	23,331	149,632	62,010
Of which: loans and advances to customers including FVTPL	77,549	37,347	16,240	49,959	15,057	2,398	11,737	41,611	19,270
Total liabilities employed	150,645	52,033	29,938	82,231	19,631	3,537	15,835	142,100	65,853
Of which: customer accounts including FVTPL and repurchase agreements	126,463	42,937	23,125	62,667	13,906	2,324	12,223	81,179	36,043
Cost-to-income ratio (%)	51.8	62.5	65.2	60.1	43.9	43.4	62.3	57.1	60.3

	1H'19								
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	Indonesia $million	UAE $million	UK $million	US $million
Operating income	1,854	505	445	871	502	143	327	330	365
Operating expenses	(938)	(390)	(323)	(484)	(328)	(86)	(210)	(342)	(296)
Operating profit/(loss) before impairment losses and taxation	916	115	122	387	174	57	117	(12)	69
Credit impairment	(36)	7	(43)	(7)	(41)	(23)	(26)	(15)	(50)
Other impairment	(8)	–	–	–	–	–	–	–	–
Profit from associates and joint ventures	–	–	153	–	–	–	–	–	–
Underlying profit/(loss) before taxation	872	122	232	380	133	34	91	(27)	19
Total assets employed	158,434	50,832	31,702	84,532	31,036	5,047	20,934	150,284	53,320
Of which: loans and advances to customers including FVTPL	73,924	32,059	15,725	46,953	16,154	2,522	10,673	41,903	15,008
Total liabilities employed	142,036	44,965	27,523	83,526	21,188	3,136	14,467	154,052	53,447
Of which: customer accounts including FVTPL and repurchase agreements	118,556	36,132	20,513	63,702	15,808	2,116	10,702	86,514	26,335
Cost-to-income ratio (%)	50.6	77.2	72.6	55.6	65.3	60.1	64.2	103.6	81.1

Quarterly underlying operating income by product

	2Q'20 $million	1Q'20 $million	4Q'19[1] $million	3Q'19[1] $million	2Q'19[1] $million	1Q'19[1] $million	4Q'18 $million	3Q'18 $million
Transaction Banking[2]	**721**	800	834	887	901	877	861	854
Trade	**230**	260	259	282	282	277	257	277
Cash Management	**491**	540	575	605	619	600	604	577
Financial Markets[2]	**970**	1,278	716	877	834	831	661	713
Foreign Exchange	**343**	415	264	261	304	298	232	239
Rates	**339**	378	163	176	136	221	63	194
Commodities	**82**	44	37	39	44	45	50	38
Credit and Capital Markets	**250**	26	125	167	145	140	83	48
Capital Structuring Distribution Group	**52**	61	86	87	74	82	91	71
DVA	**(201)**	305	(72)	14	11	(53)	46	3
Security Services[2]	**79**	84	85	88	87	83	81	82
Other Financial Markets	**26**	(35)	28	45	33	15	15	38
Corporate Finance[3]	**269**	278	328	281	272	262	370	268
Lending and Portfolio Management	**232**	195	201	201	197	187	181	179
Wealth Management	**434**	530	415	488	511	465	343	465
Retail Products	**913**	946	960	975	976	951	925	929
CCPL and other unsecured lending	**295**	304	311	315	320	305	294	320
Deposits	**413**	472	484	510	501	494	481	476
Mortgage and Auto	**169**	136	130	123	129	129	127	114
Other Retail Products	**36**	34	35	27	26	23	23	19
Treasury	**178**	325	196	335	251	308	253	342
Other	**3**	(25)	(53)	(66)	(59)	(68)	1	(26)
Total underlying operating income	**3,720**	4,327	3,597	3,978	3,883	3,813	3,595	3,724

1 Following a reorganisation of certain clients, there has been a reclassification of balances across products. Prior periods have been restated from 1Q'19

2 Following a reorganisation, there has been a reclassification of balances relating to Securities Services from Transaction Banking to Financial Markets including prior-period numbers. There is no change in the total income

3 In Dec 2018, it was decided to discontinue the ship operating lease business. Any future profits and losses will be reported as restructuring. Prior periods have not been restated

Earnings per ordinary share

	1H'20 $m	1H'19 $m	Change %	2Q'20 $m	2Q'19 $m	Change %	1Q'20 $m	Change %
Profit for the period attributable to equity holders	**1,066**	1,496	(29)	**549**	678	(19)	517	6
Non-controlling interests	**(18)**	(19)	5	**(11)**	(9)	(22)	(7)	(57)
Dividend payable on preference shares and AT1 classified as equity	**(232)**	(221)	(5)	**(199)**	(187)	(6)	(33)	nm[1]
Profit for the period attributable to ordinary shareholders	**816**	1,256	(35)	**339**	482	(30)	477	(29)
Items normalised:								
Provision for regulatory matters	**(14)**	204	nm[1]	**–**	18	nm[1]	(14)	nm[1]
Restructuring	**90**	14	nm[1]	**(2)**	46	nm[1]	92	nm[1]
Profit from associates and joint ventures	**–**	(23)	nm[1]	**–**	(11)	nm[1]	–	nm[1]
Net gain on sale of businesses	**(6)**	–	nm[1]	**(6)**	–	nm[1]	–	nm[1]
Goodwill impairment	**258**	–	nm[1]	**–**	–	nm[1]	258	nm[1]
Tax on normalised items	**(6)**	172	nm[1]	**(3)**	171	nm[1]	(3)	–
Underlying profit	**1,138**	1,623	(30)	**328**	706	(54)	810	(60)
Basic – Weighted average number of shares (millions)	**3,168**	3,304	nm[1]	**3,150**	3,296	nm[1]	3,186	nm[1]
Diluted – Weighted average number of shares (millions)	**3,204**	3,348	nm[1]	**3,190**	3,351	nm[1]	3,218	nm[1]
Basic earnings per ordinary share (cents)	**25.8**	38.0	(12.2)	**10.8**	14.6	(3.8)	15.0	(4.2)
Diluted earnings per ordinary share (cents)	**25.5**	37.5	(12.0)	**10.6**	14.4	(3.8)	14.8	(4.2)
Underlying basic earnings per ordinary share (cents)	**35.9**	49.1	(13.2)	**10.4**	21.4	(11.0)	25.4	(15.0)
Underlying diluted earnings per ordinary share (cents)	**35.5**	48.5	(12.9)	**10.3**	21.1	(10.8)	25.2	(14.9)

1 Not meaningful

Return on tangible equity

	1H'20 $m	1H'19 $m	Change %	2Q'20 $m	2Q'19 $m	Change %	1Q'20 $m	Change %
Average parent company shareholders' equity	**44,567**	45,462	(2)	**44,623**	45,450	(2)	44,511	–
Less Preference share premium	**(1,494)**	(1,494)	–	**(1,494)**	(1,494)	–	(1,494)	–
Less Average intangible assets	**(5,025)**	(5,097)	1	**(4,960)**	(5,111)	3	(5,090)	3
Average ordinary shareholders' tangible equity	**38,048**	38,871	(2)	**38,169**	38,845	(2)	37,927	1
Profit for the period attributable to equity holders	**1,066**	1,496	(29)	**549**	678	(19)	517	6
Non-controlling interests	**(18)**	(19)	5	**(11)**	(9)	(22)	(7)	(57)
Dividend payable on preference shares and AT1 classified as equity	**(232)**	(221)	(5)	**(199)**	(187)	(6)	(33)	nm[1]
Profit for the period attributable to ordinary shareholders	**816**	1,256	(35)	**339**	482	(30)	477	(29)
Items normalised:								
Provision for regulatory matters	**(14)**	204	nm[1]	**–**	18	nm[1]	(14)	nm[1]
Restructuring	**90**	14	nm[1]	**(2)**	46	nm[1]	92	nm[1]
Profit from associates and joint ventures	**–**	(23)	nm[1]	**–**	(11)	nm[1]	–	nm[1]
Goodwill impairment	**258**	–	nm[1]	**–**	–	nm[1]	258	nm[1]
Net gain on sale of businesses	**(6)**	–	nm[1]	**(6)**	–	nm[1]	–	nm[1]
Tax on normalised items	**(6)**	172	nm[1]	**(3)**	171	nm[1]	(3)	–
Underlying profit for the period attributable to ordinary shareholders	**1,138**	1,623	(30)	**328**	706	(54)	810	(60)
Underlying return on tangible equity	**6.0%**	8.4%	(240) bps	**3.5%**	7.3%	(380) bps	8.6%	(510) bps
Statutory return on tangible equity	**4.3%**	6.5%	(220) bps	**3.6%**	5.0%	(140) bps	5.1%	(150) bps

1 Not meaningful

Net tangible asset value per share

	30.06.2020 $m	30.06.2019 $m	Change %	31.12.2019 $m	Change %	31.03.2020 $m	Change %
Parent company shareholders' equity	**45,058**	45,067	–	44,835	–	44,185	2
Less Preference share premium	**(1,494)**	(1,494)	–	(1,494)	–	(1,494)	–
Less Intangible assets	**(5,029)**	(5,111)	2	(5,290)	5	(4,890)	(3)
Net shareholders tangible equity	**38,535**	38,462	–	38,051	1	37,801	2
Ordinary shares in issue, excluding own shares ('m)	**3,148**	3,255	(3)	3,191	(1)	3,147	–
Net tangible asset value per share (c)	**1,224**	1,182	42.0	1,192	32.0	1,201	2

Underlying versus statutory results reconciliations

Reconciliations between underlying and statutory results are set out in the tables below:

Operating income by client segment

	1H'20					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Underlying operating income	3,987	2,537	740	300	483	8,047
Restructuring[1]	31	–	16	–	(1)	46
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Statutory operating income	4,018	2,537	756	300	488	8,099

1 Refer Note 2 for further details

	1H'19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Underlying operating income	3,534	2,603	811	306	442	7,696
Restructuring[1]	131	–	2	1	–	134
Statutory operating income	3,665	2,603	813	307	442	7,830

1 Refer Note 2 for further details

Operating income by region

	1H'20					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Underlying operating income	3,144	2,376	1,255	1,095	177	8,047
Restructuring[1]	52	–	6	–	(12)	46
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Statutory operating income	3,196	2,376	1,261	1,095	171	8,099

1 Refer Note 2 for further details

	1H'19					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Underlying operating income	3,080	2,136	1,340	794	346	7,696
Restructuring[1]	47	(1)	–	–	88	134
Statutory operating income	3,127	2,135	1,340	794	434	7,830

1 Refer Note 2 for further details

Profit before taxation (PBT)

	1H'20						
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	8,047	–	46	6	–	–	8,099
Operating expenses	(4,713)	14	(49)	–	–	–	(4,748)
Operating profit/(loss) before impairment losses and taxation	3,334	14	(3)	6	–	–	3,351
Credit impairment	(1,567)	–	(9)	–	–	–	(1,576)
Other impairment	112	–	(77)	–	(258)	–	(223)
Profit from associates and joint ventures	76	–	(1)	–	–	–	75
Profit/(loss) before taxation	1,955	14	(90)	6	(258)	–	1,627

	1H'19						
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	7,696	–	134	–	–	–	7,830
Operating expenses	(4,969)	(204)	(125)	–	–	–	(5,298)
Operating profit/(loss) before impairment losses and taxation	2,727	(204)	9	–	–	–	2,532
Credit impairment	(254)	–	–	–	–	–	(254)
Other impairment	(21)	–	(23)	–	–	–	(44)
Profit from associates and joint ventures	157	–	–	–	–	23	180
Profit/(loss) before taxation	2,609	(204)	(14)	–	–	23	2,414

Profit before taxation (PBT) by client segment

	1H'20					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Operating income	**3,987**	**2,537**	**740**	**300**	**483**	**8,047**
External	**4,012**	**2,103**	**700**	**202**	**1,030**	**8,047**
Inter-segment	**(25)**	**434**	**40**	**98**	**(547)**	**–**
Operating expenses	**(1,985)**	**(1,780)**	**(421)**	**(239)**	**(288)**	**(4,713)**
Operating profit before impairment losses and taxation	**2,002**	**757**	**319**	**61**	**195**	**3,334**
Credit impairment	**(985)**	**(430)**	**(137)**	**(5)**	**(10)**	**(1,567)**
Other impairment	**115**	**(1)**	**–**	**–**	**(2)**	**112**
Profit from associates and joint ventures	**–**	**–**	**–**	**–**	**76**	**76**
Underlying profit before taxation	**1,132**	**326**	**182**	**56**	**259**	**1,955**
Provision for regulatory matters	**–**	**–**	**–**	**–**	**14**	**14**
Restructuring	**(56)**	**(3)**	**(18)**	**(3)**	**(10)**	**(90)**
Net gain on businesses disposed/held for sale	**–**	**–**	**–**	**–**	**6**	**6**
Goodwill impairment	**–**	**–**	**–**	**–**	**(258)**	**(258)**
Statutory profit before taxation	**1,076**	**323**	**164**	**53**	**11**	**1,627**

	1H'19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,534	2,603	811	306	442	7,696
External	3,633	2,140	863	171	889	7,696
Inter-segment	(99)	463	(52)	135	(447)	–
Operating expenses	(2,102)	(1,825)	(445)	(253)	(344)	(4,969)
Operating profit before impairment losses and taxation	1,432	778	366	53	98	2,727
Credit impairment	(116)	(154)	(29)	47	(2)	(254)
Other impairment	(19)	–	–	–	(2)	(21)
Profit from associates and joint ventures	–	–	–	–	157	157
Underlying profit before taxation	1,297	624	337	100	251	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	23	(1)	–	(1)	(35)	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	23	23
Statutory profit before taxation	1,320	623	337	99	35	2,414

Underlying versus statutory results reconciliations continued

Profit before taxation (PBT) by region

	1H'20					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,144	2,376	1,255	1,095	177	8,047
Operating expenses	(1,780)	(1,247)	(793)	(661)	(232)	(4,713)
Operating profit/(loss) before impairment losses and taxation	1,364	1,129	462	434	(55)	3,334
Credit impairment	(289)	(838)	(370)	(80)	10	(1,567)
Other impairment	(15)	165	(2)	2	(38)	112
Profit from associates and joint ventures	74	–	–	–	2	76
Underlying profit/(loss) before taxation	1,134	456	90	356	(81)	1,955
Provision for regulatory matters	–	–	–	–	14	14
Restructuring	(43)	(7)	(9)	(10)	(21)	(90)
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Goodwill impairment	–	–	–	–	(258)	(258)
Statutory profit/(loss) before taxation	1,091	449	81	346	(340)	1,627

	1H'19					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,080	2,136	1,340	794	346	7,696
Operating expenses	(1,826)	(1,292)	(850)	(715)	(286)	(4,969)
Operating profit before impairment losses and taxation	1,254	844	490	79	60	2,727
Credit impairment	(70)	(84)	(49)	(66)	15	(254)
Other impairment	(8)	–	–	–	(13)	(21)
Profit from associates and joint ventures	153	–	–	–	4	157
Underlying profit before taxation	1,329	760	441	13	66	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	(3)	(16)	(2)	(15)	22	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	23	–	–	–	23
Statutory profit/(loss) before taxation	1,326	767	439	(2)	(116)	2,414

Return on tangible equity (RoTE)

	1H'20					
	Corporate & Institutional Banking %	Retail Banking %	Commercial Banking %	Private Banking %	Central & other items %	Total %
Underlying RoTE	8.3	7.3	5.8	8.5	(2.7)	6.0
Provision for regulatory matters	–	–	–	–	0.5	0.1
Restructuring						
Of which: Income	0.3	–	0.7	–	–	0.2
Of which: Expenses	(0.2)	(0.1)	(0.7)	(0.6)	(0.3)	(0.3)
Of which: Credit impairment	–	–	(0.5)	–	–	–
Of which: Other impairment	(0.7)	–	(0.3)	–	–	(0.4)
Net gain on businesses disposed /held for sale	–	–	–	–	0.2	–
Goodwill impairment	–	–	–	–	(8.3)	(1.4)
Tax on normalised items	0.1	0.1	0.2	0.2	(0.6)	0.1
Statutory RoTE	7.8	7.3	5.2	8.1	(11.2)	4.3

	1H'19[1]					
	Corporate & Institutional Banking %	Retail Banking %	Commercial Banking %	Private Banking %	Central & other items %	Total %
Underlying RoTE	9.8	14.8	9.7	15.7	(2.0)	8.4
Provision for regulatory matters	–	–	–	–	(5.4)	(1.1)
Restructuring						
Of which: Income	1.4	–	0.1	–	–	0.7
Of which: Expenses	(0.9)	–	(0.1)	(0.2)	(0.9)	(0.6)
Of which: Other impairment	(0.2)	–	–	–	–	(0.1)
Goodwill impairment	–	–	–	–	–	–
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	0.6	0.1
Tax on normalised items	(0.1)	(0.1)	–	0.1	(4.4)	(0.9)
Statutory RoTE	10.0	14.7	9.7	15.6	(12.1)	6.5

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments

Earnings per ordinary share (EPS)

	1H'20							
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Profit from joint venture $million	Net gain on sale of businesses $million	Goodwill impairment $million	Tax on normalised items $million	Statutory $million
Profit for the year attributable to ordinary shareholders	1,138	14	(90)	–	6	(258)	6	816
Basic – Weighted average number of shares (millions)	3,168							3,168
Basic earnings per ordinary share (cents)	35.9							25.8

	1H'19							
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Profit from joint venture $million	Net gain on sale of businesses $million	Goodwill impairment $million	Tax on normalised items $million	Statutory $million
Profit for the year attributable to ordinary shareholders	1,623	(204)	(14)	23	–	–	(172)	1,256
Basic – Weighted average number of shares (millions)	3,304							3,304
Basic earnings per ordinary share (cents)	49.1							38.0

Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The following are key alternative performance measures used by the Group to assess financial performance and financial position.

Measure	Definition
Constant currency basis	A performance measure on a constant currency basis is presented such that comparative periods are adjusted for the current year's functional currency rate. The following balances are presented on a constant currency basis when described as such: • Operating income • Operating expenses • Profit before tax • RWAs or Risk-weighted assets
Underlying	A performance measure is described as underlying if the statutory result has been adjusted for restructuring and other items representing profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period, and items which management and investors would ordinarily identify separately when assessing performance period-by-period. A reconciliation between underlying and statutory performance is contained in Note 2 to the financial statements. The following balances and measures are presented on an underlying basis when described as such: • Operating income • Operating expense • Profit before tax • Earnings per share (basic and diluted) • Cost-to-income ratio • Jaws • RoTE or Return on tangible equity
Advances-to-deposits/customer advances-to-deposits (ADR) ratio	The ratio of total loans and advances to customers relative to total customer accounts, excluding approved balances held with central banks, confirmed as repayable at the point of stress. A low advances-to-deposits ratio demonstrates that customer accounts exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
Cost-to-income ratio	The proportion of total operating expenses to total operating income.
Cover ratio	The ratio of impairment provisions for each stage to the gross loan exposure for each stage.
Cover ratio after collateral / cover ratio including collateral	The ratio of impairment provisions for stage 3 loans and realisable value of collateral held against these non-performing loan exposures to the gross loan exposure of stage 3 loans.
Gross yield	Statutory interest income divided by average interest earning assets.
Jaws	The difference between the rates of change in revenue and operating expenses. Positive jaws occurs when the percentage change in revenue is higher than, or less negative than, the corresponding rate for operating expenses.
Loan loss rate	Total credit impairment for loans and advances to customers over average loans and advances to customers.
Net tangible asset value per share	Ratio of net tangible assets (total tangible assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
Net yield	Gross yield less rate paid.
NIM or Net interest margin	Net interest income adjusted for interest expense incurred on amortised cost liabilities used to fund the Financial Markets business, divided by average interest-earning assets excluding financial assets measured at fair value through profit or loss.
RAR per FTE or Risk adjusted revenue per full-time equivalent	Risk adjusted revenue (RAR) is defined as underlying operating income less underlying impairment over the past 12 months. RAR is then divided by the 12 month rolling average full-time equivalent (FTE) to determine RAR per FTE.
Rate paid	Statutory interest expense adjusted for interest expense incurred on amortised cost liabilities used to fund financial instruments held at fair value through profit or loss, divided by average interest bearing liabilities.
RoE or Return on equity	The ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders' equity for the reporting period.
RoTE or Return on ordinary shareholders' tangible equity	The ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average tangible equity, being ordinary shareholders' equity less the average goodwill and intangible assets for the reporting period. Where a target RoTE is stated, this is based on profit and equity expectations for future periods.
TSR or Total shareholder return	The total return of the Group's equity (share price growth and dividends) to investors.

Group Chief Risk Officer's review

Demonstrating resilience in extraordinary times

We operate across a uniquely diverse footprint, and global disruption driven by the COVID-19 pandemic has created an unprecedented set of challenges for the Group, including the possibility of the deepest global recession in decades despite extraordinary levels of fiscal and monetary policy support by governments. Pandemic-related movement, travel and business restrictions have impacted multiple sectors of the global economy and highlighted the vulnerability of global supply chains, although the longer-term impact to the real economy remains to be seen. With negative global growth expected for 2020 and what is likely to be a difficult and uneven economic recovery, there is a heightened level of risk in the environment. We have also seen increased geopolitical turbulence, particularly the escalation of tensions between the US and other countries with China including the reaction to the recently passed National Security Law in Hong Kong, the full implications of which are not yet known.

Much work has been done over the last five years to better manage our risks, including introducing a more granular Risk Appetite, reducing exposure to single names and high-risk sectors and increasing the proportion of investment grade assets. Asset quality has nevertheless come under pressure in the first half of 2020, with elevated levels of credit impairment reflecting the weakening macroeconomic environment. The strong capital and liquidity positions we have built up over recent years mean that we are well positioned to continue to support our clients through this difficult period, including committing $1 billion of financing on preferential terms to companies that are providing goods and services to help in the fight against COVID-19. We continue to actively monitor and assess the evolution of events, drawing on our stress testing capabilities and portfolio and sector reviews.

In the first half of the year we refreshed our Operational Risk and Information and Cyber Security Risk Type Frameworks, and have actively engaged with partnerships and initiatives to build our understanding of new and evolving risks. The crisis has required us to re-examine our systems and processes as we adapt to new ways of working, and we have taken steps to maintain stable operations by investing significantly in expanding our remote working capabilities and operational resilience. We recognise that the risks of the new ways of working extend beyond technology, and we remain committed to supporting and educating our people in maintaining the highest standards of conduct as we progress through 2020 and beyond. Our continued investment and focus on our risk management capabilities will help the Group to navigate these headwinds and ensure that we remain a sustainable, innovative, resilient and client-centric bank.

Our key risk priorities

We face these challenges from a fundamentally strong position. However, the banking industry is rapidly changing and we must continue to evolve to stay relevant in the markets in which we operate. As well as managing the impact of the COVID-19 pandemic, we remain focused on the following key priorities for 2020.

Continuing to strengthen the Group's risk culture: Embedding a healthy risk culture is a core objective across all areas of the Group. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action to address all existing and emerging risks. Our Enterprise Risk Management Framework (ERMF) has been embedded and rolled out to all countries. It sets out the guiding principles for our people, enabling us to have integrated and holistic risk conversations across the Group and the three lines of defence. Senior management promote a healthy risk culture by demonstrably valuing and rewarding risk-based thinking across each line of defence, encouraging risk awareness, challenging the status quo and creating a transparent, safe and open environment for employees to communicate risk concerns.

Enhancing Information and Cyber Security (ICS) capabilities: We continue to implement enhanced ICS capabilities across all businesses and functions. Our recently refreshed ICS Risk Type Framework includes a threat-led methodology that allows us to assess proactively the risk from cyber threats and attack methods, and to deploy prioritised controls to remain cyber resilient. We evaluate the evolving cyber threat landscape and ensure that protecting our clients and their assets remains at the centre of our thinking. We recognise the elevated ICS risk resulting from the COVID-19 pandemic, particularly from large-scale remote working across the organisation. To reduce this impact, we have taken mitigating actions including reprioritising key controls deployment to focus on our most critical assets, re-allocating resources to focus on the highest risk reduction projects and maintaining high priority status in the change management process for new ICS requirements.

Managing Climate Risk: Managing financial and non-financial risks arising from climate change remains one of our core priorities. We have continued to forge partnerships to enhance our understanding of physical and transition risks and develop our approach to measure and manage climate risk. Following on from the 2019 Taskforce for Climate-related Financial Disclosures report, we have established a partnership with Munich Re to conduct physical risk assessments for our own operations and clients across segments and markets. In addition, we are supporting Imperial College London to undertake research and solution development, which will advance understanding of climate risks both internally and across the industry, including their integration in macroeconomic and climate scenarios. We are preparing for the Bank of England's 2021 Biennial Exploratory Scenario, and actively engaging to provide thought leadership, including contributing to open source solutions such as the 2 Degrees Investing Initiative through feedback from early pilots, as well as investing in capabilities to quantify the financial risks to clients from a low-carbon transition. Over the course of 2020 and 2021, we will engage with our clients to improve awareness of climate risk across our footprint and understand their adaptation and mitigation plans so we can help them in their transition to a low carbon future. Our sustainable finance business will ensure that we can play our part in supporting a sustainable recovery from COVID-19.

+ More details on the Group's approach to Climate Risk can be found on sc.com/sustainability

Manage financial crime risks: We continue to deliver against our mission of 'partnering to lead in the fight against financial crime' through our ongoing deployment of upgraded systems for anti-money laundering, sanctions, fraud and customer due diligence and by continuing to de-risk through education via our Correspondent Banking Academies. We are also delivering on our plan to be data-driven and improve effectiveness through optimisation using tools such as Quantexa for automated transactional analysis. Our Financial Crime and Compliance team contributes to industry thinking on reform and information-sharing partnerships in several markets, as well as working with international fora such as the Wolfsberg Group. The COVID-19 pandemic has presented new risks as well as heightening existing threats, as criminals look to exploit the uncertainty and instability created by the virus. Collaboration is a key focus and we are participating in intelligence-sharing partnerships with law enforcement agencies, as well as peer banking institutions, to build collective understanding of COVID-19 related financial crime threats. We are also actively engaging with groups such as the Cyber Defence Alliance and the National Cyber-Forensics and Training Alliance, as well as collaborating internally across our global teams to investigate our potential exposure, share operational and strategic intelligence and raise staff awareness to help protect clients and customers. An increase in the number of vulnerable individuals and companies will expand the potential for fraud, money laundering and corruption. Our teams continue to identify and address new risks, implement new control measures and share lessons learned across our footprint.

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

Strengthen our conduct environment: We continue in 2020 to enhance Conduct Risk management and build out approaches to risk identification. A set of assessment questions has been developed to guide and standardise the analysis and enhance the quality of Conduct Risk management through Conduct Plans, with a focus on key conduct areas such as product governance, strategy and governance. Conduct Plans are a key part of our framework as they document the identified Conduct Risks along with the action plans in place to mitigate them. Ownership of Conduct Plans is with the first line of defence, with review and challenge from the Conduct, Financial Crime and Compliance (CFCC) function. We have had a particular focus on identifying and mitigating potential Conduct Risk arising from the impact of COVID-19. Where appropriate, Conduct Plans have been updated to include such action plans. Given the expected difficult and uneven nature of the COVID-19 recovery, the Group will remain vigilant to risks as we progress through the economic cycle.

Enhance our Risk and CFCC infrastructure: Improved risk aggregation, centralised data and advanced analytical capabilities are allowing an agile response to the changing external environment. The integration of our risk aggregation tools with front office data has enabled near real-time bespoke exposure reporting and we have enhanced our regular stress testing scenarios to include the impact of COVID-19. With the use of agile delivery methods and collaboration tools, these changes have been implemented quickly and by remote teams. Our control capability has continued to strengthen, partnering with fintechs to implement next-generation tools for trade communications surveillance and financial crime monitoring. By using natural language processing and machine learning, we generate higher-quality alerts, reduce false positives and conduct more targeted human investigations, creating a safer environment for our clients. We have also developed capabilities in areas such as Anti Money Laundering, identity verification, credit modelling and digital signatures through partnerships developed by our internal innovation centre, SC Ventures. In Retail Banking, the use of more sophisticated data mining and predictive analytics tools with automated machine learning capabilities has accelerated development and deployment of risk and forecasting models. New offshore hubs have been established to centralise specialist knowledge in data engineering and visualisation, model development, validation, stress testing and governance.

Enhance our Model Risk management: Along with the elevation of Model Risk to a Principal Risk Type, we have simplified and strengthened our Model Risk Policy and published a framework which introduces Model Risk Appetite metrics, establishes the Group Model Inventory and sets out clear roles and responsibilities across the first and second lines of defence. There are plans in place to further strengthen several areas including Model Risk standards, risk reporting and training. The Model Risk Management Strategic Enhancement Programme was launched in 2019 and represents a substantial investment in the target operating model, data and infrastructure, model delivery, and policy and governance. The focus is on delivering a sustainable risk management framework with clear success criteria, and the subsequent transition to day-to-day business operations.

Our risk profile and performance

The first half of 2020 has seen a significant impact from the economic environment on our loan portfolio, primarily reflecting the impact of COVID-19 on the global economy. There is a weaker outlook in many of the markets in which we operate; however, we have taken a number of steps to mitigate the effect on our portfolios and risk profile, informed by stress testing of various COVID-19 related scenarios, and deep-dives on specific portfolios.

Actions taken over the past few years mean that the quality of our asset portfolios has improved significantly since 2015. As a result, key measures such as early alerts, non-performing loans and credit impairment were significantly better as of 31 December 2019, prior to the impact of COVID-19. The proportion of investment grade corporate exposures has also seen a marked improvement in that period, although it has reduced from 61 per cent to 57 per cent in the first half of the year due to a reduction in repos and downgrades in the Aviation and Oil & Gas sectors. While some of these metrics have seen reversals over the last six months, the work done in previous years has ensured that we are well positioned to absorb some deterioration in our portfolios.

Our stress testing results have shown that the Group has adequate capital and liquidity to withstand a deep macro-financial stress. The peak to trough fall in the Group's Common Equity Tier 1 (CET1) capital ratio for the Bank of England's Annual Cyclical Scenario stress test (ACS) has improved in recent years: from 600bps in 2017 to 520bps in 2019. This is despite an increase in the severity of the scenario and reflects our consistent and concerted actions to improve the quality of the balance sheet and our risk profile to ensure sustainable growth. In the first half of 2020 the resilience to stress has been underlined by internal stress testing that explores downside risks related to the COVID-19 outlook. These have demonstrated that the Group has ample capital and liquidity.

The Group has taken a number of management actions since the start of the year, including enhancing our monitoring of facility drawdowns, improving the Group's position through reducing exposures where required or strengthening our collateral positions in the Commercial Banking and Corporate & Institutional Banking portfolios. The Group has continued to support clients we believe are experiencing temporary issues due to COVID-19. We have placed selected clients on our watchlist categories for close monitoring, and have conducted extensive portfolio and sector reviews, particularly for areas with higher vulnerability to COVID-19 and volatile crude oil markets, such as our Aviation and Oil & Gas exposures. This has led to a $9.1 billion increase in early alerts in the first half of the year.

In Retail Banking, various short-term relief measures have been implemented and we have increased engagement with our customers to find alternative financing options where available. As of 30 June 2020, approximately 8 per cent of total Retail exposure has had relief measures approved, of which 71 per cent is compulsory (regulatory approved) and 79 per cent is fully secured. Through the use of customer surveys and analysis of the COVID-19 impact and delinquency trends, we have identified a higher risk cohort of Business Banking customers which are being actively managed. 80 per cent of the Business Banking portfolio is fully secured by property or government guarantees. We have also made longer-term improvements in Retail Banking through tightening our underwriting standards and rolling out enhanced digital capabilities across our footprint.

There has been an increase in exposure to our Top 20 corporate clients as a percentage of Tier 1 Capital to 61 per cent (2019: 56 per cent). This is primarily driven by an increase in exposure to a few investment grade clients. The Group's portfolios remain predominantly short-tenor and continue to be diversified across industry sectors, products, and geographies.

Credit grade 12 balances have decreased slightly to $1.5 billion (2019: $1.6 billion) due to outflows to non-performing loans which were partially offset by inflows from early alerts, half of which were due to the impact of COVID-19. Gross stage 3 loans and advances to customers were up 19 per cent to $8.8 billion (2019: $7.4 billion), primarily in Corporate & Institutional Banking. This was driven by three new downgrades in the ASEAN & South Asia and Africa & Middle East regions. These credit-impaired loans represent 3.1 per cent of gross loans and advances, an increase of 40 basis points compared with 31 December 2019.

The stage 3 cover ratio decreased to 60 per cent (2019: 68 per cent) due to write-offs of fully provided balances, as well as new downgrades which incurred lower levels of provisions but were partially covered by tangible collateral. The cover ratio after collateral decreased to 80 per cent (2019: 85 per cent) as some of the new inflows were also covered by non-tangible collateral such as guarantees and insurance, which are not captured in this metric.

Our Retail Banking portfolio remains stable and resilient, with 96 per cent of loans in stage 1, the same proportion as the previous year. The majority of Retail products continue to be fully secured loans which are stable at 85 per cent. The overall average loan-to-value of the mortgage portfolio remains low at 45 per cent. The unsecured portfolio continues to make up a small proportion of total Retail exposure.

Credit impairment

	6 months ended 30.06.20 $million[1]	6 months ended 31.12.19 $million	6 months ended 30.06.19 $million
Corporate & Institutional Banking	**991**	358	117
Commercial Banking	**137**	94	28
Retail Banking	**431**	182	154
Private Banking	**5**	16	(47)
Central & Others	**3**	2	2
Credit impairment charge	**1,567**	652	254
Restructuring charge/(credit)	**9**	2	0
Total credit impairment charge	**1,576**	654	254

1 Credit impairment of $7 million in Central and other items is included in Corporate & Institutional Banking

The Group took a total underlying credit impairment charge of $1,567 million in the first half of 2020, a significant increase compared with the same period in the previous year (H1 2019: $254 million). This included $668 million of stage 1 and 2 impairments, of which approximately half was attributable to the modelled outcomes, and the remainder due to a management overlay to reflect deterioration in the macroeconomic outlook not captured in the model and the impact of country lock-downs and relief measures in Retail Banking. Stage 3 impairments were $727 million higher, with increases observed across all segments. Corporate & Institutional Banking accounted for three-quarters of stage 3 impairment, which was driven by three clients.

The macro-economic environment remains challenging for the majority of the markets in our footprint and we are cognisant of the potential longer-term impact, especially once relief measures are eased. We continue to assess these situations on an ongoing basis, utilising our stress testing framework and portfolio reviews to analyse the potential impact and appropriate risk management actions.

Average Group value at risk (VaR) in the first half of 2020 was 157 per cent higher than the previous six months at $82 million (H2 2019: $32 million), driven by the extreme COVID-19 market volatility which particularly impacted the Treasury Markets portfolio. Trading activities remain primarily client driven. There were three regulatory VaR backtesting exceptions in the first half of 2020, all of which occurred in March as a result of COVID-19 volatility. This takes the rolling 12-month total to five Group level IMA exceptions which is in the 'amber zone'. However the PRA has granted approval to entirely offset the increase in IMA capital requirement due to COVID-19 backtesting exceptions against IMA RNIV capital requirements through to the third quarter of 2020.

Despite challenges brought by COVID-19, the Group has remained resilient and kept a strong liquidity position. The Group liquidity coverage ratio increased to 149 per cent (2019: 144 per cent) driven by a reduction in net outflows due to a change in our funding mix. Total deposits increased driven by growth in stable current and savings account balances which was offset by a decrease in term deposits, as we sought to manage liquidity more efficiently. While asset growth has slowed, the Group continues to focus on improving the quality of its funding mix and remains committed to supporting its clients during these uncertain times. The increase in overall deposits also drove a decrease in the Group's advances-to-deposits ratio which reduced to 62.7 per cent (2019: 64.2 per cent).

The Group's Common Equity Tier 1 ratio increased by 50 basis points to 14.3 per cent as profits, distribution restrictions and the sale of its equity interest in Permata more than offset COVID-19 related RWA impacts from increased credit migration, higher derivative activity and the drawdown of revolving credit facilities.

> Further details of the risk performance for the first six months of 2020 are set out in the Risk profile section (pages 44 to 95)

Key indicators

	30.06.20 $million	31.12.19 $million	30.06.19[2] $million
Group total business[1]			
Stage 1 loans ($ billion)	**250.3**	246.1	245.7
Stage 2 loans ($ billion)	**23.7**	20.8	16.1
Stage 3 loans, credit-impaired ($ billion)	**8.8**	7.4	7.8
Stage 3 cover ratio	**60%**	68%	68%
Stage 3 cover ratio (after collateral)	**80%**	85%	85%
Corporate & Institutional Banking and Commercial Banking			
Investment grade corporate net exposures as a percentage of total corporate net exposures	**57%**	61%	57%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers	**63%**	62%	61%
Early alert portfolio net exposures ($ billion)	**14.4**	5.3	4.1
Credit grade 12 net exposures ($ billion)	**1.5**	1.6	1.4
Aggregate top 20 corporate net exposures as a percentage of Tier 1 capital	**61%**	56%	62%
Collateralisation of sub-investment grade net exposures maturing in more than 1 year	**46%**	45%	47%
Retail Banking			
Loan-to-value ratio of retail mortgages	**45%**	45%	44%

1 These numbers represent total loans and advances to customers

2 Stage 3 balance, provision and cover ratios have been restated to reflect interest due but unpaid together with equivalent credit impairment charge

Our risk management approach

We continue to focus on embedding the ERMF across the organisation and we have made progress on the overall effectiveness. This allows us to identify and manage risks holistically, as well as strengthening our ability to understand, articulate and control the nature and level of the risks we take while still effectively serving our clients.

Principal and cross-cutting risks

Principal risks are those risks that are inherent in our strategy and business model. These are formally defined in our ERMF which provides a structure for monitoring and control of these risks through the Board-approved Risk Appetite. We will not compromise adherence to our Risk Appetite in order to pursue revenue growth or higher returns. The table below provides an overview of the Group's principal risks and cross-cutting risks and how these are managed. The principal risks have not changed since the time of publication of our 2019 Annual Report and further details can be found on pages 212 to 227 of our 2019 Annual Report.

Principal Risk Types[1, 2]	How these are managed
Credit Risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country Risk	The Group manages its Country Risk exposures following the principle of diversification across geographies and controls the business activities in line with the level of Jurisdiction Risk
Traded Risk	The Group should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Group's franchise
Capital and Liquidity Risk	The Group should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support
Operational Risk	The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Reputational Risk	The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight
Compliance Risk	The Group has no appetite for breaches in laws and regulations, while recognising that regulatory noncompliance cannot be entirely avoided the Group strives to reduce this to an absolute minimum
Conduct Risk	The Group has no appetite for negative Conduct Risk outcomes arising from negligent or wilful actions by the Group or individuals recognising that while incidents are unwanted, they cannot be entirely avoided
Information and Cyber Security Risk	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank
Financial Crime Risk	The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided
Model Risk[2]	The Group has no appetite for material adverse implications arising from misuse of models or errors in the development or implementation of models, whilst accepting model uncertainty.
Climate Risk[2,3]	The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement

1 Risks arising from execution capability, governance, reporting, operational resilience (including third party vendor services, and system availability) are managed by the Operational Risk Type Framework. For further details please refer to page 221 of the 2019 Annual Report

2 Details about our approach to Model Risk and Climate Risk are not found on pages 212 to 227 of our 2019 Annual Report. Summaries of Model Risk and Climate Risk can instead be found primarily on pages 94 and 231 of our 2019 Annual Report respectively. Further details about our risk management approach to these risks will be included in our 2020 Annual Report

3 In addition to principal risks, the Group also recognises Climate Risk as a cross-cutting risk that manifests through other principal risks

Our emerging risks

Emerging risks refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to have a material impact on our business. As part of our continuous risk identification process, we have updated the Group's emerging risks from those disclosed in the 2019 Annual Report.

The following items have been removed as emerging risks:

- 'Regulatory changes' and 'Regulatory reviews and investigations, legal proceedings' – These are intrinsic risks for operating in the banking industry and have been removed
- 'Japan-Korea diplomatic dispute' – The risk has been removed due to the manageable immediate impact to the Group's portfolio

The following items have been amended or added as new emerging risks:

- 'Rise of populism and nationalism' – The recent rise in populism and nationalism is being exacerbated by the COVID-19 pandemic and related supply chain challenges. There is a risk that shared global problems will become more difficult to resolve
- 'Rising sovereign default risk' – The combination of economic downturns, capital flight, commodity price collapses, political instability resulting from the social consequences of COVID-19 and a pervasive 'risk off' sentiment in the markets may make it difficult for some countries to refinance their debts

The table below summarises our current list of emerging risks, outlining the risk trend changes since the end of 2019, the reasons for the changes and the mitigating actions we are taking based on our current knowledge and assumptions. This reflects the latest internal assessment of material risks that the Group faces as identified by senior management. This list is not designed to be exhaustive and there may be additional risks which materialise or have an adverse effect on the Group. Our mitigation approach for these risks may not be successful in eliminating them, but rather shows the Group's attempt to reduce or manage the risk. As certain risks develop and materialise over time, management will take appropriate incremental steps based on the materiality of the impact of the risk to the operations of the Group.

Emerging risks	Risk trend since December 2019[1]	Key risk trend drivers	How these are mitigated
Novel coronavirus and the emergence of new diseases	⇧	COVID-19 has spread globally. Measures to contain the virus, such as travel bans and restrictions, curfews, quarantines and shut-downs, have led to increased volatility in financial markets and commodity prices and severe economic downturns in many countries	• Exposures that could result in material credit impairment charges and risk-weighted assets inflation under stress tests are regularly reviewed and actively managed • To support our clients the Group has enacted comprehensive support schemes for retail and corporate customers, including loan and interest repayment holidays, covenant relief, fee waivers or cancellations, loan extensions and new facilities • The Group's priority remains the health and safety of our clients and employees and the continuation of normal operations by leveraging our robust Business Continuity Plans which include enabling the vast majority of our staff to work remotely where possible
Extended tensions between the US and China driven by geopolitical and trade concerns and differences over Hong Kong	⇧	There is increasing risk due to the escalation of tensions between the US and China in part due to the growing trade, security, social and political tensions in Hong Kong and the passing of the Hong Kong National Security Law	• A sharp slowdown in US–China and, more broadly, world trade and global growth is a feature of the Group stress scenarios including the Internal Capital Adequacy Assessment Process (ICAAP) and the annual Bank of England (BoE) stress testing exercise • Detailed portfolio reviews are conducted on an ongoing basis and action is taken where necessary
Geopolitical events, in particular: the rise of populism and nationalism, Middle East geopolitical tensions and negotiations on future EU-UK relations	⇧	There are increasing concerns on global geopolitical implications following the rise of populism and nationalism. The risk relating to negotiations on the future relationship between the EU and the UK has also increased. The risk in the Middle East has reduced as Saudi Arabia attempts to exit the conflict in Yemen and the region manages reduced oil prices and the COVID-19 outbreak	• We monitor and assess geopolitical events and act as appropriate to ensure that we minimise the impact to the Group and our clients • There is continuous monitoring at a country, regional and Group level to identify emerging risks and evaluate their management • We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events • These stress tests provide visibility to key vulnerabilities so that management can implement timely interventions
Rising sovereign default risk	⇧	COVID-19 has exacerbated already deteriorating market conditions causing liquidity and potentially solvency issues for a number of the world's poorest countries	• Exposures that may result in material credit impairment and increased risk-weighted assets are closely monitored and actively managed • We conduct stress tests and portfolio reviews at a country and business level to assess the impact of extreme but plausible events and manage the portfolio accordingly • We actively utilise Credit Risk mitigation techniques including credit insurance and collateral • We actively track the participation of our footprint countries in the Debt Service Suspension Initiative and the associated exposure
Climate related transition and physical risks[2]	⇔	The risk remains at similar levels as at the end of 2019	• We have developed a Climate Risk framework to deliver a consistent Group-wide approach to Climate Risk management. We are also a member of the Risk Management Working Group under the Bank of England's Climate Financial Risk Forum • The Group announced that it will only support clients who actively transition their business to generate less than 10 per cent of earnings from thermal coal by 2030 • The Group has a public target to provide $75 billion by 2024 to finance sustainable infrastructure, renewables and clean technology to support the transition to a low carbon transition, and becoming net zero emission from our own operations by 2030

Emerging risks	Risk trend since December 2019[1]	Key risk trend drivers	How these are mitigated
Interbank Offered Rate (IBOR) discontinuation and transition	⇔	The risk remains at similar levels as at the end of 2019	• The Group has set up a global IBOR Transition Programme to consider all aspects of the transition and how risks from the transition can be mitigated. A Management Team member is the Senior Manager responsible for the IBOR Transition Programme • From an industry and regulatory perspective, the Group is actively participating in and contributing to different risk-free rates (RFR) working groups, industry associations and business forums focusing on different aspects of the IBOR to RFR transition
New technologies and digitisation (including business disruption risk, responsible use of Artificial Intelligence and Obsolescence Risk)	⇔	The risk remains at similar levels as at the end of 2019. Client expectations and the way they interact with the Group may change as a result of COVID-19, potentially accelerating the adoption of digital solutions	• We monitor emerging trends, opportunities and risk developments in the technology space which may have implications on the banking sector • We have rolled out enhanced digital capabilities in Retail Banking, particularly around onboarding, sales and marketing • We are engaged in building our capabilities to ensure that we remain relevant and are able to capitalise rapidly on technology trends • We continue to make headway in harnessing new technologies, and we are investing in machine-learning solutions that rapidly analyse large datasets and fine-tune the accuracy of our financial crime tools • We are actively targeting the reduction of obsolescent/ end-of-support technology following a technology and innovation-led approach • Our SC Ventures business continues to invest in new technology channels, creating new ways of engaging with clients
Increased data privacy and security risks from strategic and wider use of data	⇧	Regulatory requirements and client expectations relating to data management and privacy are increasing across our markets, including the ethical use of data. There is a risk of increased cyber threats associated with a largely remote workforce in response to the COVID-19 outbreak	• We actively monitor regulatory developments in relation to data management, data protection and privacy • We have established a dedicated Data and Privacy team to build data management and privacy expertise across the Group • A Data and Privacy programme has been implemented to enhance the data management and privacy controls including the ethical use of data • We actively monitor cyber threats and risks, and have implemented heightened technical and organisational measures designed to prevent, detect and respond to threats while ensuring compliance with data ownership and consent requirements

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

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

Summary

2020 has seen unprecedented global upheaval, with the vast majority of the world's markets experiencing historic shocks to their economic, health and social landscapes. This has created distinct challenges in terms of risk management as we support our clients, colleagues and communities while ensuring our portfolios remain robust and resilient in the face of widespread volatility. While idiosyncratic risk is unavoidable, particularly in the current economic climate, enabling sustainable and responsible business remains at the top of our agenda.

Mark Smith

Group Chief Risk Officer

30 July 2020

Risk review

The Group also discloses additional regulatory disclosures prepared in accordance with EBA guidelines under Part Eight of the CRR (see Standard Chartered PLC Pillar3 Half Year 2020 Report, due to be published on 6 August 2020 and which will be available at https://www.sc.com/en/investors/financial-results/).

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

- From the start of the 'Credit Risk review' section (page 46) to the end of 'Other Principal risk' in the same section (page 95), excluding:

Risk section	Page
Loans and advances by client segment credit quality analysis	55
Credit Quality by geographic region	57
Analysis of stage 2 balances	64
Forborne and other modified loans by region	68
Credit-impaired (stage 3) loans and advances by geographic region	69
Credit Quality by industry	74
Industry and Retail Products analysis by geographic region	76
Vulnerable sectors	77
Country Risk	85
Risks not in VaR	87
Backtesting	87
Liquidity coverage ratio (LCR)	89
Stressed coverage	89
Net stable funding ratio (NSFR)	90
Liquidity pool	90
Encumbrance	91
Interest Rate Risk in the Banking Book	95
Operational risk	95
Other Principal risks	95

- From the start of 'CRD IV capital base' (page 97) to the end of 'Movement in total capital' excluding capital ratios and risk-weighted assets (RWA) (page 99)

Credit Risk

Basis of preparation

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

Loans and advances to customers and banks held at amortised cost in this 'Risk profile' section include reverse repurchase agreement balances held at amortised cost, per Note 15 Reverse repurchase and repurchase agreements including other similar secured lending and borrowing.

Credit Risk overview

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

Impairment model

IFRS 9 requires an impairment model that requires the recognition of expected credit losses (ECL) on all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

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

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

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

The framework used to determine a significant increase in Credit risk is set out below.

Stage 1	Stage 2	Stage 3
• 12-month ECL • Performing	• Lifetime expected credit loss • Performing but has exhibited significant increase in Credit Risk (SICR)	• Credit-impaired • Non-performing

IFRS 9 principles and approaches

The main methodology principles and approach adopted by the Group are set out in the following table.

Title	Description	Supplementary Information	Page
Approach to determining expected credit losses	For material loan portfolios, the Group has adopted a statistical modelling approach for determining expected credit losses that makes extensive use of credit modelling. While these models leveraged existing advanced Internal Ratings Based (IRB) models, for determining regulatory expected losses where these were available, there are significant differences between the two approaches. Details of significant post model adjustments are set out on page 80.		80
Incorporation of forward-looking information	The determination of expected credit loss includes various assumptions and judgements in respect of forward-looking macroeconomic information. Refer to page 80 for incorporation of forward-looking information, forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity and sensitivity of expected credit loss calculation to macroeconomic variables.	Incorporation of forward-looking information and impact of non-linearity	80
		Forecast of key macroeconomic variables underlying the expected credit loss calculation	80
		Management overlay and sensitivity to macroeconomic variables	83
Significant increase in Credit risk (SICR)	Expected credit loss for financial assets will transfer from a 12-month basis (stage 1) to a lifetime basis (stage 2) when there is a SICR relative to that which was expected at the time of origination, or when the asset becomes credit-impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty.		
Assessment of credit-impaired financial assets	Credit-impaired (stage 3) financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay. This definition is consistent with internal Credit Risk management and the regulatory definition of default. Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit-related modifications of contractual cashflows due to significant financial difficulty (forbearance) where the Group has granted concessions that it would not ordinarily consider. Following a clarification issued by IFRIC in March 2019, when financial assets are transferred from stage 3 to stage 2, any contractual interest earned while the asset was in stage 3 is recognised within the credit impairment line. Although this differs from the Group's previous approach of recognising a residual amount of this within interest income, there is no material impact on the classification of amounts reported in the income statement in the current or prior period. Further, the gross asset balances for stage 3 financial instruments have been increased to reflect contractual interest due but not paid with a corresponding increase in credit impairment provisions. These changes have been disclosed within the Credit Risk section. There has been no net impact on the balance sheet or on shareholders' equity.		

Title	Description	Supplementary Information	Page
Transfers between stages	Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms. Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in Credit Risk. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in Credit Risk no longer applies (and as long as none of the other transfer criteria apply).	Movement in loan exposures and expected credit losses	58
Modified financial assets	Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cashflows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument. If the modification is credit related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's credit risk has increased significantly since origination by comparing the remaining lifetime PD based on the modified terms to the remaining lifetime PD, based on the original contractual terms.	Forbearance and other modified loans	67
Governance and application of expert credit judgement in respect of expected credit losses	The models used in determining ECL are reviewed and approved by the Group Credit Model Assessment Committee and have been validated by Group Model Validation, which is independent of the business. A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds, then an assessment of whether an ECL adjustment is required to correct for the identified model issue is completed. The determination of expected credit losses requires a significant degree of management judgement which had an impact on governance processes, with the output of the expected credit models assessed by the IFRS 9 Impairment Committee.		

Maximum exposure to credit risk (within EY review scope)

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 30 June 2020, before and after taking into account any collateral held or other credit risk mitigation.

The Group's on-balance sheet maximum exposure to credit risk increased by $23 billion to $717 billion (31 December 2019: $694 billion). The Group's off balance sheet maximum exposure had reduced slightly to $186 billion (31 December 2019: $188 billion).

This was spread across several products, with other assets up $6 billion driven by unsettled trades due to normal settlement timing differences. Fair value instruments increased $5.5 billion and derivatives were up $5 billion. Loans and advances to banks and customers increased $4.7 billion, $3.5 billion of which related to reverse repurchase agreements.

	30.06.20				31.12.19			
		Credit risk management				Credit risk management		
	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On-balance sheet								
Cash and balances at central banks	52,925			52,925	52,728			52,728
Loans and advances to banks[1, 8]	50,499	1,893		48,606	53,549	1,341		52,208
of which – reverse repurchase agreements and other similar secured lending[7]	1,893	1,893		–	1,341	1,341		–
Loans and advances to customers[1, 8]	276,313	126,671		149,642	268,523	122,115		146,408
of which – reverse repurchase agreements and other similar secured lending[7]	4,383	4,383		–	1,469	1,469		–
Investment securities – Debt securities, alternative Tier 1 and other eligible bills[2]	145,327			145,327	143,440			143,440
Fair value through profit or loss[3, 7]	95,807	59,002	–	36,805	90,349	57,604		32,745
Loans and advances to banks	2,336			2,336	3,528			3,528
Loans and advances to customers	10,453			10,453	6,896			6,896
Reverse repurchase agreements and other similar lending[7]	59,002	59,002		–	57,604	57,604		–
Investment securities – Debt securities, alternative Tier 1 and other eligible bills[2]	24,016			24,016	22,321			22,321
Derivative financial instruments[4, 7]	52,227	9,565	37,441	5,221	47,212	7,824	28,659	10,729
Accrued income	1,949			1,949	2,358			2,358
Assets held for sale	157			157	90			90
Other assets[5]	42,183			42,183	36,161			36,161
Total balance sheet	717,387	197,131	37,441	482,815	694,410	188,884	28,659	476,867
Off-balance sheet[6]								
Contingent liabilities	42,234	–	–	42,234	42,432	–	–	42,432
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	140,120	–	–	140,120	141,194	–	–	141,194
Documentary credits and short-term trade-related transactions	3,793	–	–	3,793	4,282	–	–	4,282
Total off-balance sheet	186,147	–	–	186,147	187,908	–	–	187,908
Total	903,534	197,131	37,441	668,962	882,318	188,884	28,659	664,775

1 An analysis of credit quality is set out in the credit quality analysis section (page 51). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 71)

2 Excludes equity and other investments of $407 million (31 December 2019: $291 million). Further details are set out in Note 13 Financial Instruments

3 Excludes equity and other investments of $2,552 million (31 December 2019: $2,469 million). Further details are set out in Note 13 Financial Instruments

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

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

6 Excludes ECL allowances which are reported under Provisions for liabilities and charges

7 Collateral capped at maximum exposure (over-collateralised)

8 Adjusted for over-collateralisation, which has been determined with reference to the drawn and undrawn component as this best reflects the effect on the amount arising from expected credit losses

Analysis of financial instrument by stage (within EY review scope)

This table shows financial instruments and off-balance sheet commitments by stage, along with the total credit impairment loss provision against each class of financial instrument.

The proportion of financial instruments held within stage 1 fell to 93 per cent (31 December 2019: 94 per cent). Stage 2 financial instruments overall were stable at 5 per cent (2019: 5 per cent) but stage 2 loans and advances to customers increased to 8.4 per cent (2019: 7.6 per cent) reflecting the increase in loans classified as non-purely precautionary early alert and the impact of the deteriorating macroeconomic environment. This was partly offset by a decline in stage 2 debt securities, which fell to 2 per cent compared with 3 per cent as at 31 December 2019.

Stage 3 financial instruments were stable at 1 per cent of the Group total. Stage 3 loans and advances to customers increased by $1.4 billion primarily relating to three clients in ASEAN & South Asia and Africa & Middle East regions. The stage 3 cover ratio (excluding collateral) fell to 60 per cent (31 December 2019: 68 per cent).

	30.06.20											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Cash and balances at central banks	52,925	–	52,925	–	–	–	–	–	–	52,925	–	52,925
Loans and advances to banks (amortised cost)	50,146	(3)	50,143	349	(2)	347	13	(4)	9	50,508	(9)	50,499
Loans and advances to customers (amortised cost)	250,278	(476)	249,802	23,739	(780)	22,959	8,809	(5,257)	3,552	282,826	(6,513)	276,313
Debt securities, alternative Tier 1 and other eligible bills	142,617	(49)		2,707	(37)		53	(30)		145,377	(116)	
Amortised cost	15,888	(16)	15,872	248	(4)	244	53	(30)	23	16,189	(50)	16,139
FVOCI[2]	126,729	(33)		2,459	(33)		–	–		129,188	(66)	
Accrued income (amortised cost)[4]	1,949	–	1,949	–	–	–	–	–	–	1,949	–	1,949
Assets held for sale[4]	157	–	157	–	–	–	–	–	–	157	–	157
Other assets	42,184	(1)	42,183	–	–	–	7	(7)	–	42,191	(8)	42,183
Undrawn commitments[3]	134,605	(44)		9,280	(72)		28	(1)		143,913	(117)	
Financial guarantees[3]	37,408	(16)		4,205	(39)		621	(182)		42,234	(237)	
Total	712,269	(589)		40,280	(930)		9,531	(5,481)		762,080	(7,000)	

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

2 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

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

4 Stage 1 ECL is not material

	31.12.19											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million	Gross balance[1] $million	Total credit impairment $million	Net carrying value $million
Cash and balances at central banks	52,728	–	52,728	–	–	–	–	–	–	52,728	–	52,728
Loans and advances to banks (amortised cost)	52,634	(5)	52,629	924	(4)	920	–	–	–	53,558	(9)	53,549
Loans and advances to customers (amortised cost)	246,149	(402)	245,747	20,759	(377)	20,382	7,398	(5,004)	2,394	274,306	(5,783)	268,523
Debt securities, alternative Tier 1 and other eligible bills	138,782	(50)		4,644	(23)		75	(45)		143,501	(118)	
Amortised cost	13,678	(10)	13,668	277	(6)	271	75	(45)	30	14,030	(61)	13,969
FVOCI[2]	125,104	(40)		4,367	(17)		–	–		129,471	(57)	
Accrued income (amortised cost)[4]	2,358	–	2,358	–	–	–	–	–	–	2,358	–	2,358
Assets held for sale[4]	90	–	90	–	–	–	–	–	–	90	–	90
Other assets[4]	36,161	(3)	36,158	–	–	–	164	(161)	3	36,325	(164)	36,161
Undrawn commitments[3]	136,179	(43)		9,277	(38)		20	–		145,476	(81)	
Financial guarantees[3]	38,660	(14)		3,183	(16)		589	(206)		42,432	(236)	
Total	703,741	(517)		38,787	(458)		8,246	(5,416)		750,774	(6,391)	

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

2 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

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

4 Stage 1 ECL is not material

Credit quality analysis

Credit quality by client segment (within EY review scope)

For the Corporate & Institutional Banking and Commercial Banking portfolios, exposures are analysed by credit grade (CG), which plays a central role in the quality assessment and monitoring of risk. All loans are assigned a CG, which is reviewed periodically and amended in light of changes in the borrower's circumstances or behaviour. CGs 1 to 12 are assigned to stage 1 and stage 2 (performing) clients or accounts, while CGs 13 and 14 are assigned to stage 3 (defaulted) clients. The mapping of credit quality is as follows.

Mapping of credit quality

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

	Corporate & Institutional Banking and Commercial Banking			Private Banking[1]	Retail Banking
Credit quality description	**Internal grade mapping**	**S&P external ratings equivalent**	**Regulatory PD range (%)**	**Internal ratings**	**Number of days past due**
Strong	1A to 5B	AAA to BB+	0 to 0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	6A to 11C	BB to B-/CCC	0.425 to 15.75	Class II and Class III	Loans past due till 29 days
Higher risk	Grade 12	CCC/C	15.751 to 100.00	GSAM managed	Past due loans 30 days and over till 90 days

1 For Private Banking, classes of risk represent the type of collateral held. Class I represents facilities with liquid collateral, such as cash and marketable securities. Class II represents unsecured/partially secured facilities and those with illiquid collateral, such as equity in private enterprises. Class III represents facilities with residential or commercial real estate collateral. Class IV covers margin trading facilities

The table overleaf sets out the gross loans and advances held at amortised cost, expected credit loss provisions and expected credit loss coverage by business segment and stage. Expected credit loss coverage represents the expected credit loss reported for each segment and stage as a proportion of the gross loan balance for each segment and stage.

Stage 1 (within EY review scope)

Stage 1 gross loans and advances to customers increased by $4.1 billion, or 2 per cent compared with 31 December 2019 and represents 88 per cent of loans and advances to customers (31 December 2019: 90 per cent). Most of the growth was concentrated in the ASEAN & South Asia region. The stage 1 coverage ratio remained at 0.2 per cent compared with 31 December 2019.

81 per cent (31 December 2019: 83 per cent) of loans in Corporate & Institutional Banking and Commercial Banking were held in stage 1, with those rated as strong increasing marginally to 57 per cent (31 December 2019: 56 per cent) as the Group continues to focus on the origination of investment-grade lending. Within Corporate & Institutional Banking and Commercial Banking, overall stage 1 loans grew by $0.8 billion, with an $8 billion increase in lending to governments offset by reductions across several sectors as clients were placed on non-purely precautionary early alert and transferred to stage 2.

Retail Banking stage 1 loans remains stable at 96 per cent (2019: 96 per cent).

Stage 2 (within EY review scope)

Stage 2 loans and advances to customers gross balances increased by $3.0 billion, compared with 31 December 2019, with the proportion of stage 2 loans remaining at 8 per cent. Coverage increased to 3.3 per cent compared with 1.8 per cent as at 31 December 2019, as provisions increased as a result of the deteriorating macroeconomic environment and continuing uncertainties as to the timing and pace of economic recovery.

Corporate & Institutional Banking and Commercial Banking loans increased by $2.6 billion, compared with 31 December 2019, due to increased levels of non-purely precautionary early alerts, primarily in industries that have been adversely impacted by the COVID-19 pandemic and falls in the oil price. Coverage increased to 2.7 per cent from 1.3 per cent.

Retail Banking stage 2 loans remains stable at 3 per cent of total Retail portfolio.

Retail Banking stage 2 cover ratio increased to 6.9 per cent compared to 5.7 per cent in 2019 due to increased provisions in unsecured portfolios and heightened risks for portfolios covered by moratoria schemes.

Stage 2 loans to banks classified as ‘Higher risk’ decreased by $0.2 billion due to repayments.

Stage 2 undrawn commitments were stable at $9.3 billion, although the proportion rated as ‘Strong’ reduced from 43 per cent to 40 per cent.

Stage 3 (within EY review scope)

Stage 3 loans and advances to customers increased by $1.4 billion, or 19 per cent, to $8.8 billion compared to 31 December 2019, with overall stage 3 provisions increasing by $0.3 billion. The stage 3 cover ratio has decreased to 60 per cent (2019: 68 per cent) due to write offs in Corporate & Institutional Banking, as well as downgrades which incurred lower levels of provisions but were partially covered by tangible collateral, guarantees and credit insurance.

In Corporate & Institutional Banking and Commercial Banking, gross stage 3 loans increased by $1.2 billion compared with 31 December 2019. Provisions increased by $0.1 billion from $4.5 billion to $4.6 billion.

Inflows into stage 3 for Corporate & Institutional Banking and Commercial Banking in the first half of 2020 were significantly higher compared with the second half of 2019, primarily due to three clients in ASEAN & South Asia and Africa & Middle East.

Retail stage 3 loans increased by $0.2 billion to $1.1 billion as COVID-19 related lockdowns impacted collections and recoveries activities, particularly in ASEAN & South Asia.

Loans and advances by client segment (within EY review scope)

	30.06.20								
		Customers							
Amortised cost	Banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Customer Total $million	Undrawn commit-ments $million	Financial Guarantees $million
Stage 1	50,146	97,794	101,523	20,916	12,599	17,446	250,278	134,605	37,408
– Strong	41,317	61,090	100,456	6,097	9,232	17,213	194,088	115,218	25,727
– Satisfactory	8,829	36,704	1,067	14,819	3,367	233	56,190	19,387	11,681
Stage 2	349	15,765	3,515	4,256	199	4	23,739	9,280	4,205
– Strong	31	4,347	2,630	307	195	–	7,479	3,682	1,065
– Satisfactory	301	10,469	406	3,400	4	–	14,279	5,255	2,845
– Higher risk	17	949	479	549	–	4	1,981	343	295
Of which (stage 2):									
– Less than 30 days past due	–	272	406	119	–	–	797		
– More than 30 days past due	35	58	479	34	4	–	575		
Stage 3, credit-impaired financial assets	13	5,364	1,067	2,004	372	2	8,809	28	621
Gross balance[1]	50,508	118,923	106,105	27,176	13,170	17,452	282,826	143,913	42,234
Stage 1	(3)	(62)	(371)	(31)	(11)	(1)	(476)	(44)	(16)
– Strong	–	(37)	(228)	(4)	(8)	–	(277)	(22)	(9)
– Satisfactory	(3)	(25)	(143)	(27)	(3)	(1)	(199)	(22)	(7)
Stage 2	(2)	(424)	(242)	(114)	–	–	(780)	(72)	(39)
– Strong	–	(74)	(99)	(8)	–	–	(181)	(24)	(7)
– Satisfactory	(2)	(312)	(74)	(83)	–	–	(469)	(41)	(27)
– Higher risk	–	(38)	(69)	(23)	–	–	(130)	(7)	(5)
Of which (stage 2):									
– Less than 30 days past due	–	(13)	(74)	(8)	–	–	(95)		
– More than 30 days past due	–	(22)	(69)	(16)	–	–	(107)		
Stage 3, credit-impaired financial assets	(4)	(3,129)	(492)	(1,476)	(158)	(2)	(5,257)	(1)	(182)
Total credit impairment	(9)	(3,615)	(1,105)	(1,621)	(169)	(3)	(6,513)	(117)	(237)
Net carrying value	50,499	115,308	105,000	25,555	13,001	17,449	276,313		
Stage 1	0.0%	0.1%	0.4%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%
– Strong	0.0%	0.1%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%
– Satisfactory	0.0%	0.1%	13.4%	0.2%	0.1%	0.4%	0.4%	0.1%	0.1%
Stage 2	0.6%	2.7%	6.9%	2.7%	0.0%	0.0%	3.3%	0.8%	0.9%
– Strong	0.0%	1.7%	3.8%	2.6%	0.0%	0.0%	2.4%	0.6%	0.7%
– Satisfactory	0.7%	3.0%	18.2%	2.4%	0.0%	0.0%	3.3%	0.8%	0.9%
– Higher risk	0.0%	4.0%	14.4%	4.2%	0.0%	0.0%	6.6%	2.0%	1.7%
Of which (stage 2):									
– Less than 30 days past due	0.0%	4.8%	18.2%	6.7%	0.0%	0.0%	11.9%		
– More than 30 days past due	0.0%	37.9%	14.4%	47.1%	0.0%	0.0%	18.6%		
Stage 3, credit-impaired financial assets	30.8%	58.3%	46.1%	73.7%	42.5%	100.0%	59.7%	3.6%	29.3%
Cover ratio	0.0%	3.0%	1.0%	6.0%	1.3%	0.0%	2.3%	0.1%	0.6%
Fair value through profit or loss									
Performing	19,939	48,951	182	2,650	–	15	51,798	–	–
– Strong	16,807	26,961	179	2,008	–	9	29,157	–	–
– Satisfactory	3,132	21,988	2	615	–	6	22,611	–	–
– Higher risk	–	2	1	27	–	–	30	–	–
Defaulted (CG13-14)	–	45	–	9	–	–	54	–	–
Gross balance (FVTPL)[2]	19,939	48,996	182	2,659	–	15	51,852	–	–
Net carrying value (incl FVTPL)	70,438	164,304	105,182	28,214	13,001	17,464	328,165		

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of $4,383 million under Customers and of $1,893 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of $41,399 million under Customers and of $17,603 million under Banks, held at fair value through profit or loss

	31.12.19								
		Customers[3]							
Amortised cost	Banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Customer Total $million	Undrawn commit-ments $million	Financial Guarantees $million
Stage 1	52,634	94,226	103,899	23,683	14,249	10,092	246,149	136,179	38,660
– Strong	41,053	58,623	101,246	6,941	10,145	9,961	186,916	114,981	25,631
– Satisfactory	11,581	35,603	2,653	16,742	4,104	131	59,233	21,198	13,029
Stage 2	924	13,454	3,029	3,985	284	7	20,759	9,277	3,183
– Strong	225	2,711	2,231	208	280	–	5,430	4,012	1,025
– Satisfactory	476	9,652	462	3,493	4	–	13,611	4,898	1,951
– Higher risk	223	1,091	336	284	–	7	1,718	367	207
Of which (stage 2):									
– Less than 30 days past due	2	145	462	58	–	–	665		
– More than 30 days past due	23	175	336	86	4	–	601		
Stage 3, credit-impaired financial assets	–	4,173	846	2,013	366	–	7,398	20	589
Gross balance[1]	53,558	111,853	107,774	29,681	14,899	10,099	274,306	145,476	42,432
Stage 1	(5)	(78)	(289)	(24)	(10)	(1)	(402)	(43)	(14)
– Strong	–	(29)	(182)	(1)	(8)	–	(220)	(22)	(8)
– Satisfactory	(5)	(49)	(107)	(23)	(2)	(1)	(182)	(21)	(6)
Stage 2	(4)	(143)	(173)	(60)	(1)	–	(377)	(38)	(16)
– Strong	(2)	(33)	(88)	(5)	(1)	–	(127)	(7)	(3)
– Satisfactory	(2)	(51)	(45)	(40)	–	–	(136)	(14)	(8)
– Higher risk	–	(59)	(40)	(15)	–	–	(114)	(17)	(5)
Of which (stage 2):									
– Less than 30 days past due	–	(3)	(45)	(2)	–	–	(50)		
– More than 30 days past due	–	(4)	(40)	(5)	–	–	(49)		
Stage 3, credit-impaired financial assets	–	(2,980)	(374)	(1,503)	(147)	–	(5,004)	–	(206)
Total credit impairment	(9)	(3,201)	(836)	(1,587)	(158)	(1)	(5,783)	(81)	(236)
Net carrying value	53,549	108,652	106,938	28,094	14,741	10,098	268,523		
Stage 1	0.0%	0.1%	0.3%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%
– Strong	0.0%	0.0%	0.2%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
– Satisfactory	0.0%	0.1%	4.0%	0.1%	0.0%	0.8%	0.3%	0.1%	0.0%
Stage 2	0.4%	1.1%	5.7%	1.5%	0.4%	0.0%	1.8%	0.4%	0.5%
– Strong	0.9%	1.2%	3.9%	2.4%	0.4%	0.0%	2.3%	0.2%	0.3%
– Satisfactory	0.4%	0.5%	9.7%	1.1%	0.0%	0.0%	1.0%	0.3%	0.4%
– Higher risk	0.0%	5.4%	11.9%	5.3%	0.0%	0.0%	6.6%	4.7%	2.4%
Of which (stage 2):									
– Less than 30 days past due	0.0%	2.1%	9.7%	3.4%	0.0%	0.0%	7.5%		
– More than 30 days past due	0.0%	2.3%	11.9%	5.8%	0.0%	0.0%	8.2%		
Stage 3, credit-impaired financial assets	0.0%	71.4%	44.2%	74.7%	40.2%	0.0%	67.6%	0.0%	35.0%
Cover ratio	0.0%	2.9%	0.8%	5.3%	1.1%	0.0%	2.1%	0.1%	0.6%
Fair value through profit or loss									
Performing	21,797	45,104	238	845	–	2	46,189	–	–
– Strong	19,217	26,511	236	253	–	1	27,001	–	–
– Satisfactory	2,580	18,584	1	592	–	1	19,178	–	–
– Higher risk	–	9	1	–	–	–	10	–	–
Defaulted (CG13-14)	–	34	–	8	–	–	42	–	–
Gross balance (FVTPL)[2]	21,797	45,138	238	853	–	2	46,231	–	–
Net carrying value (incl FVTPL)	75,346	153,790	107,176	28,947	14,741	10,100	314,754		

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of $1,469 million under Customers and of $1,341 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of $39,335 million under Customers and of $18,269 million under Banks, held at fair value through profit or loss

3 Corporate & Institutional Banking, Commercial Banking and Retail Banking Gross and ECL numbers have been restated to reflect client transfers between the segments. The changes are in stage 1 and stage 2 only. In the Fair value through profit or loss section, the swap is between Corporate & Institutional Banking and Commercial Banking

Loans and advances by client segment credit quality analysis

Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Corporate & Institutional Banking 30.06.20 Gross Stage 1	Stage 2	Stage 3	Total	Credit impairment Stage 1	Stage 2	Stage 3	Total
Strong			61,090	4,347	–	65,437	(37)	(74)	–	(111)
1A-2B	0 – 0.045	AA– and above	8,596	257	–	8,853	–	(11)	–	(11)
3A-4A	0.046 – 0.110	A+ to A-	14,802	1,209	–	16,011	(4)	(20)	–	(24)
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	37,692	2,881	–	40,573	(33)	(43)	–	(76)
Satisfactory			36,704	10,469	–	47,173	(25)	(312)	–	(337)
6A-7B	0.426 – 1.350	BB+/BB to BB-	26,769	4,597	–	31,366	(16)	(118)	–	(134)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	6,936	3,771	–	10,707	(9)	(96)	–	(105)
10A-11C	4.001 – 15.75	B to B-/CCC	2,999	2,101	–	5,100	–	(98)	–	(98)
Higher risk			–	949	–	949	–	(38)	–	(38)
12	15.751 – 99.999	CCC/C	–	949	–	949	–	(38)	–	(38)
Defaulted			–	–	5,364	5,364	–	–	(3,129)	(3,129)
13-14	100	Defaulted	–	–	5,364	5,364	–	–	(3,129)	(3,129)
Total			97,794	15,765	5,364	118,923	(62)	(424)	(3,129)	(3,615)

Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	31.12.19[1] Gross Stage 1	Stage 2	Stage 3	Total	Credit impairment Stage 1	Stage 2	Stage 3	Total
Strong			58,623	2,711	–	61,334	(29)	(33)	–	(62)
1A-2B	0 – 0.045	AA– and above	6,638	80	–	6,718	(2)	–	–	(2)
3A-4A	0.046 – 0.110	A+ to A-	18,659	912	–	19,571	(4)	(7)	–	(11)
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	33,326	1,719	–	35,045	(23)	(26)	–	(49)
Satisfactory			35,603	9,652	–	45,255	(49)	(51)	–	(100)
6A-7B	0.426 – 1.350	BB+/BB to BB-	24,000	5,955	–	29,955	(26)	(18)	–	(44)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	8,000	2,633	–	10,633	(15)	(21)	–	(36)
10A-11C	4.001 – 15.75	B to B-/CCC	3,603	1,064	–	4,667	(8)	(12)	–	(20)
Higher risk			–	1,091	–	1,091	–	(59)	–	(59)
12	15.751 – 99.999	CCC/C	–	1,091	–	1,091	–	(59)	–	(59)
Defaulted			–	–	4,173	4,173	–	–	(2,980)	(2,980)
13-14	100	Defaulted	–	–	4,173	4,173	–	–	(2,980)	(2,980)
Total			94,226	13,454	4,173	111,853	(78)	(143)	(2,980)	(3,201)

1 Stage 1 and Stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Commercial Banking

Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Commercial Banking 30.06.20 Gross Stage 1	Stage 2	Stage 3	Total	Credit impairment Stage 1	Stage 2	Stage 3	Total
Strong			6,097	307	–	6,404	(4)	(8)	–	(12)
1A-2B	0 – 0.045	AA– and above	20	2	–	22	–	–	–	–
3A-4A	0.046 – 0.110	A+ to A-	1,755	105	–	1,860	–	(3)	–	(3)
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	4,322	200	–	4,522	(4)	(5)	–	(9)
Satisfactory			14,819	3,400	–	18,219	(27)	(83)	–	(110)
6A-7B	0.426 – 1.350	BB+/BB to BB-	6,681	503	–	7,184	(10)	(8)	–	(18)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	5,863	1,250	–	7,113	(11)	(34)	–	(45)
10A-11C	4.001 – 15.75	B to B-/CCC	2,275	1,647	–	3,922	(6)	(41)	–	(47)
Higher risk			–	549	–	549	–	(23)	–	(23)
12	15.751 – 99.999	CCC/C	–	549	–	549	–	(23)	–	(23)
Defaulted			–	–	2,004	2,004	–	–	(1,476)	(1,476)
13-14	100	Defaulted	–	–	2,004	2,004	–	–	(1,476)	(1,476)
Total			20,916	4,256	2,004	27,176	(31)	(114)	(1,476)	(1,621)

Risk review continued

Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	31.12.19[1] Gross Stage 1	Gross Stage 2	Gross Stage 3	Gross Total	Credit impairment Stage 1	Credit impairment Stage 2	Credit impairment Stage 3	Credit impairment Total
Strong			6,941	208	–	7,149	(1)	(5)	–	(6)
1A-2B	0 – 0.045	AA– and above	285	–	–	285	–	–	–	–
3A-4A	0.046 – 0.110	A+ to A-	2,500	10	–	2,510	–	–	–	–
4B-5B	0.111 – 0.425	BBB+ to BBB-/BB+	4,156	198	–	4,354	(1)	(5)	–	(6)
Satisfactory			16,742	3,493	–	20,235	(23)	(40)	–	(63)
6A-7B	0.426 – 1.350	BB+/BB to BB-	7,030	840	–	7,870	(5)	(1)	–	(6)
8A-9B	1.351 – 4.000	BB-/B+ to B+/B	7,032	1,355	–	8,387	(11)	(13)	–	(24)
10A-11C	4.001 – 15.75	B to B-/CCC	2,680	1,298	–	3,978	(7)	(26)	–	(33)
Higher risk			–	284	–	284	–	(15)	–	(15)
12	15.751 – 99.999	CCC/C	–	284	–	284	–	(15)	–	(15)
Defaulted			–	–	2,013	2,013	–	–	(1,503)	(1,503)
13-14	100	Defaulted	–	–	2,013	2,013	–	–	(1,503)	(1,503)
Total			23,683	3,985	2,013	29,681	(24)	(60)	(1,503)	(1,587)

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Corporate & Institutional Banking and to Retail Banking

Retail Banking

Credit grade	30.06.20 Gross Stage 1	Gross Stage 2	Gross Stage 3	Gross Total	Credit impairment Stage 1	Credit impairment Stage 2	Credit impairment Stage 3	Credit impairment Total
Strong	100,456	2,630	–	103,086	(228)	(99)	–	(327)
Secured	85,027	2,226	–	87,253	(34)	(24)	–	(58)
Unsecured	15,429	404	–	15,833	(194)	(75)	–	(269)
Satisfactory	1,067	406	–	1,473	(143)	(74)	–	(217)
Secured	711	314	–	1,025	–	–	–	–
Unsecured	356	92	–	448	(143)	(74)	–	(217)
Higher risk	–	479	–	479	–	(69)	–	(69)
Secured	–	314	–	314	–	(7)	–	(7)
Unsecured	–	165	–	165	–	(62)	–	(62)
Defaulted	–	–	1,067	1,067	–	–	(492)	(492)
Secured	–	–	590	590	–	–	(235)	(235)
Unsecured	–	–	477	477	–	–	(257)	(257)
Total	101,523	3,515	1,067	106,105	(371)	(242)	(492)	(1,105)

Credit grade	31.12.19 Gross Stage 1	Gross Stage 2	Gross Stage 3	Gross Total	Credit impairment Stage 1	Credit impairment Stage 2	Credit impairment Stage 3	Credit impairment Total
Strong	101,246	2,231	–	103,477	(182)	(88)	–	(270)
Secured	85,301	1,923	–	87,224	(11)	(12)	–	(23)
Unsecured	15,945	308	–	16,253	(171)	(76)	–	(247)
Satisfactory	2,653	462	–	3,115	(107)	(45)	–	(152)
Secured	1,691	358	–	2,049	(1)	(3)	–	(4)
Unsecured	962	104	–	1,066	(106)	(42)	–	(148)
Higher risk	–	336	–	336	–	(40)	–	(40)
Secured	–	193	–	193	–	(3)	–	(3)
Unsecured	–	143	–	143	–	(37)	–	(37)
Defaulted	–	–	846	846	–	–	(374)	(374)
Secured	–	–	413	413	–	–	(143)	(143)
Unsecured	–	–	433	433	–	–	(231)	(231)
Total	103,899	3,029	846	107,774	(289)	(173)	(374)	(836)

Credit quality by geographic region

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

Loans and advances to customers

	30.06.20				
Amortised cost	**Greater China & North Asia $million**	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Gross (stage 1)	127,194	74,189	23,677	25,218	250,278
Provision (stage 1)	(189)	(187)	(89)	(11)	(476)
Gross (stage 2)	8,164	7,013	5,799	2,763	23,739
Provision (stage 2)	(184)	(302)	(233)	(61)	(780)
Gross (stage 3)[2]	864	3,767	3,192	986	8,809
Provision (stage 3)	(346)	(2,195)	(2,093)	(623)	(5,257)
Net loans[1]	135,503	82,285	30,253	28,272	276,313

	31.12.19				
Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross (stage 1)	126,438	71,045	23,906	24,760	246,149
Provision (stage 1)	(165)	(146)	(79)	(12)	(402)
Gross (stage 2)	7,547	6,461	5,541	1,210	20,759
Provision (stage 2)	(115)	(127)	(117)	(18)	(377)
Gross (stage 3)[2]	716	3,084	2,585	1,013	7,398
Provision (stage 3)	(360)	(2,087)	(1,899)	(658)	(5,004)
Net loans[1]	134,061	78,230	29,937	26,295	268,523

1 Amounts net of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

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

Loans and advances to banks

	30.06.20				
Amortised cost	**Greater China & North Asia $million**	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Gross (stage 1)	21,220	14,640	5,907	8,379	50,146
Provision (stage 1)	–	(2)	–	(1)	(3)
Gross (stage 2)	28	34	34	253	349
Provision (stage 2)	–	(1)	–	(1)	(2)
Gross (stage 3)[2]	–	–	6	7	13
Provision (stage 3)	–	–	(2)	(2)	(4)
Net loans[1]	21,248	14,671	5,945	8,635	50,499

	31.12.19				
Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross (stage 1)	19,181	15,458	5,039	12,956	52,634
Provision (stage 1)	(1)	(2)	(1)	(1)	(5)
Gross (stage 2)	136	300	312	176	924
Provision (stage 2)	(2)	(1)	(1)	–	(4)
Gross (stage 3)[2]	–	–	–	–	–
Provision (stage 3)	–	–	–	–	–
Net loans[1]	19,314	15,755	5,349	13,131	53,549

1 Amounts net of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

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

Movement in gross exposures and credit impairment for loans and advances, debt securities, undrawn commitments and financial guarantees (within EY review scope)

The tables overleaf set out the movement in gross exposures and credit impairment by stage in respect of amortised cost loans to banks and customers, undrawn committed facilities, undrawn cancellable facilities, debt securities classified at amortised cost and FVOCI and financial guarantees. The tables are presented for the Group, and the Corporate & Institutional Banking, Commercial Banking and Retail Banking segments.

Methodology

The movement lines within the tables are an aggregation of monthly movements over the year and will therefore reflect the accumulation of multiple trades during the year. The credit impairment charge in the income statement comprises the amounts within the boxes in the table below less recoveries of amounts previously written off. Discount unwind is reported in net interest income and related to stage 3 financial instruments only.

The approach for determining the key line items in the tables is set out below.

- **Transfers** – transfers between stages are deemed to occur at the beginning of a month based on prior month closing balances
- **Net remeasurement from stage changes** – the remeasurement of credit impairment provisions arising from a change in stage is reported within the stage that the assets are transferred to. For example, assets transferred into stage 2 are remeasured from a 12-month to a lifetime expected credit loss, with the effect of remeasurement reported in stage 2. For stage 3, this represents the initial remeasurement from specific provisions recognised on individual assets transferred into stage 3 in the year
- **Net changes in exposures** – new business written less repayments in the year. Within stage 1, new business written will attract up to 12 months of expected credit loss charges. Repayments of non-amortising loans (primarily within Corporate & Institutional Banking and Commercial Banking) will have low amounts of expected credit loss provisions attributed to them, due to the release of provisions over the term to maturity. In stages 2 and 3, the amounts principally reflect repayments although stage 2 may include new business written where clients are on non-purely precautionary early alert, are credit grade 12, or when non-investment grade debt securities are acquired
- **Changes in risk parameters** – for stages 1 and 2, this reflects changes in the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of assets during the year, which includes the impact of releasing provisions over the term to maturity. It also includes the effect of changes in forecasts of macroeconomic variables during the year. In stage 3, this line represents additional specific provisions recognised on exposures held within stage 3
- **Interest due but not paid** – change in contractual amount of interest due in stage 3 financial instruments but not paid, being the net of accruals, repayments and write-offs, together with the corresponding change in credit impairment

Changes to ECL models, which incorporates changes to model approaches and methodologies, is not reported as a separate line item as it has an impact over a number of lines and stages.

Movements during the period

Stage 1 gross exposures increased by $2.7 billion to $615 billion when compared with 31 December 2019. This was largely due to higher holdings of debt securities which increased by $3.8 billion, which was partly offset by a reduction in Corporate & Institutional Banking and Commercial Banking balances, down $8.0 billion, as result of a net outflow to stage 2 reflecting the deteriorating economic conditions and an increase in customers placed on non-purely precautionary early alert. Retail Banking stage 1 gross exposures increased by $1 billion as a net outflow to stage 2 was offset by new business and foreign exchange and other movements.

Total stage 1 provisions increased by $74 million, primarily in Retail Banking, in part due to a management overlay for the impact of COVID-19 payment reliefs and lockdowns in the ASEAN & South Asia and Africa & Middle East regions.

Stage 2 gross exposures rose by $1.5 billion, or 4 per cent, primarily driven by net inflows into stage 2 in Corporate & Institutional Banking as clients were placed on non-purely precautionary early alert where they were impacted by COVID-19. In Corporate & Institutional Banking, stage 2 exposures increased by $3.4 billion. Commercial Banking was flat as net inflows were offset by repayments. Retail Banking loans were marginally higher. These increases were partly offset by lower levels of stage 2 debt securities, which fell $1.9 billion as securities transferred back to stage 1 or were repaid.

Stage 2 provisions rose $472 million compared to 31 December 2019, $393 million of which was in Corporate & Institutional Banking and Commercial Banking as a result of net transfers into stage 2 as the macroeconomic environment deteriorated, non-purely precautionary balances increased and a $198 million management overlay that was recognised in 'Changes in risk parameters' in respect of COVID-19 related uncertainties. Retail Banking increased by $70 million as a result of net transfers into stage 2 due to deteriorating macroeconomic conditions and a management overlay for the impact of COVID-19 payment related reliefs in the ASEAN & South Asia and Africa & Middle East regions.

Across both stage 1 and 2 for all segments, the significant deterioration in macroeconomic forecasts across all markets increased provisions by $174 million in the six months to 30 June 2020, $96 million of which related to the impact of exposures transferring from stage 1 to stage 2.

There was an immaterial impact from model changes in the six months to 30 June 2020.

Stage 3 exposures increased by $1.4 billion from $8.1 billion as at 31 December 2019 to $9.5 billion as at 30 June 2020, driven by an increase of $1.2 billion in Corporate & Institutional Banking mainly pertaining to three clients in ASEAN & South Asia and Africa & Middle East regions.

All segments (within EY review scope)

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impair-ment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impair-ment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impair-ment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impair-ment $million	Total Net $million
As at 1 January 2019	592,481	(531)	591,950	42,324	(500)	41,824	9,382	(6,214)	3,168	644,187	(7,245)	636,942
Transfers to stage 1	28,552	(582)	27,970	(28,552)	582	(27,970)	–	–	–	–	–	–
Transfers to stage 2	(67,790)	157	(67,633)	67,983	(171)	67,812	(193)	14	(179)	–	–	–
Transfers to stage 3	(121)	–	(121)	(2,179)	314	(1,865)	2,300	(314)	1,986	–	–	–
Net change in exposures	60,374	(256)	60,118	(40,499)	24	(40,475)	(1,434)	307	(1,127)	18,441	75	18,516
Net remeasurement from stage changes	–	196	196	–	(171)	(171)	–	(406)	(406)	–	(381)	(381)
Changes in risk parameters	–	434	434	–	(489)	(489)	–	(787)	(787)	–	(842)	(842)
Write-offs	–	–	–	–	–	–	(1,795)	1,795	–	(1,795)	1,795	–
Interest due but unpaid	–	–	–	–	–	–	(365)	365	–	(365)	365	–
Discount unwind	–	–	–	–	–	–	–	82	82	–	82	82
Exchange translation differences and other movements[1]	(1,092)	68	(1,024)	(290)	(47)	(337)	187	(97)	90	(1,195)	(76)	(1,271)
As at 31 December 2019[2]	612,404	(514)	611,890	38,787	(458)	38,329	8,082	(5,255)	2,827	659,273	(6,227)	653,046
Income statement ECL (charge)/release[3]		374			(636)			(886)			(1,148)	
Recoveries of amounts previously written off								248			248	
Total credit impairment (charge)/release		374			(636)			(638)			(900)	
As at 1 January 2020	**612,404**	**(514)**	**611,890**	**38,787**	**(458)**	**38,329**	**8,082**	**(5,255)**	**2,827**	**659,273**	**(6,227)**	**653,046**
Transfers to stage 1	**21,141**	**(336)**	**20,805**	**(21,141)**	**336**	**(20,805)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to stage 2	**(43,764)**	**148**	**(43,616)**	**43,799**	**(148)**	**43,651**	**(35)**	**–**	**(35)**	**–**	**–**	**–**
Transfers to stage 3	**(419)**	**–**	**(419)**	**(2,625)**	**134**	**(2,491)**	**3,044**	**(134)**	**2,910**	**–**	**–**	**–**
Net change in exposures	**31,029**	**(35)**	**30,994**	**(17,914)**	**87**	**(17,827)**	**(712)**	**95**	**(617)**	**12,403**	**147**	**12,550**
Net remeasurement from stage changes	**–**	**112**	**112**	**–**	**(305)**	**(305)**	**–**	**(539)**	**(539)**	**–**	**(732)**	**(732)**
Changes in risk parameters	**–**	**(53)**	**(53)**	**–**	**(475)**	**(475)**	**–**	**(575)**	**(575)**	**–**	**(1,103)**	**(1,103)**
Write-offs	**–**	**–**	**–**	**–**	**–**	**–**	**(950)**	**950**	**–**	**(950)**	**950**	**–**
Interest due but unpaid	**–**	**–**	**–**	**–**	**–**	**–**	**154**	**(154)**	**–**	**154**	**(154)**	**–**
Discount unwind	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37**	**37**	**–**	**37**	**37**
Exchange translation differences and other movements[1]	**(5,337)**	**90**	**(5,247)**	**(626)**	**(101)**	**(727)**	**(59)**	**101**	**42**	**(6,022)**	**90**	**(5,932)**
As at 30 June 2020[2]	**615,054**	**(588)**	**614,466**	**40,280**	**(930)**	**39,350**	**9,524**	**(5,474)**	**4,050**	**664,858**	**(6,992)**	**657,866**
Income statement ECL (charge)/release[3]		**24**			**(693)**			**(1,019)**			**(1,688)**	
Recoveries of amounts previously written off								**110**			**110**	
Total credit impairment (charge)/release[4]		**24**			**(693)**			**(909)**			**(1,578)**	

1 Includes fair value adjustments and amortisation on debt securities

2 Excludes Cash and balances at central banks, Accrued income, Assets held for sale and Other assets

3 Does not include $2 million release (31 December 2019: $8 million provision) relating to Other assets

4 Statutory basis

Of which – movement of debt securities, alternative tier one and other eligible bills (within EY review scope)

	Stage 1			Stage 2			Stage 3			Total		
Amortised cost and FVOCI	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million
As at 1 January 2019	118,713	(27)	118,686	6,909	(31)	6,878	498	(472)	26	126,120	(530)	125,590
Transfers to stage 1	2,747	(38)	2,709	(2,747)	38	(2,709)	–	–	–	–	–	–
Transfers to stage 2	(2,359)	16	(2,343)	2,359	(16)	2,343	–	–	–	–	–	–
Transfers to stage 3	–	–	–	(1)	–	(1)	1	–	1	–	–	–
Net change in exposures	19,314	(52)	19,262	(1,237)	(9)	(1,246)	–	–	–	18,077	(61)	18,016
Net remeasurement from stage changes	–	27	27	–	(4)	(4)	–	–	–	–	23	23
Changes in risk parameters	–	27	27	–	(5)	(5)	–	7	7	–	29	29
Write-offs	–	–	–	–	–	–	(170)	170	–	(170)	170	–
Interest due but unpaid	–	–	–	–	–	–	(247)	247	–	(247)	247	–
Exchange translation differences and other movements[1]	367	(3)	364	(639)	4	(635)	(7)	3	(4)	(279)	4	(275)
As at 31 December 2019	138,782	(50)	138,732	4,644	(23)	4,621	75	(45)	30	143,501	(118)	143,383
Income statement ECL (charge)/release		2			(18)			7			(9)	
Recoveries of amounts previously written off								–			–	
Total credit impairment (charge)/release		2			(18)			7			(9)	
As at 1 January 2020	**138,782**	**(50)**	**138,732**	**4,644**	**(23)**	**4,621**	**75**	**(45)**	**30**	**143,501**	**(118)**	**143,383**
Transfers to stage 1	**1,600**	**(14)**	**1,586**	**(1,600)**	**14**	**(1,586)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to stage 2	**(420)**	**11**	**(409)**	**420**	**(11)**	**409**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net change in exposures	**2,422**	**(26)**	**2,396**	**(662)**	**(9)**	**(671)**	**–**	**–**	**–**	**1,760**	**(35)**	**1,725**
Net remeasurement from stage changes	**–**	**30**	**30**	**–**	**(10)**	**(10)**	**–**	**–**	**–**	**–**	**20**	**20**
Changes in risk parameters	**–**	**7**	**7**	**–**	**(5)**	**(5)**	**–**	**(6)**	**(6)**	**–**	**(4)**	**(4)**
Write-offs	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Interest due but unpaid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange translation differences and other movements[1]	**233**	**(7)**	**226**	**(95)**	**7**	**(88)**	**(22)**	**21**	**(1)**	**116**	**21**	**137**
As at 30June 2020	**142,617**	**(49)**	**142,568**	**2,707**	**(37)**	**2,670**	**53**	**(30)**	**23**	**145,377**	**(116)**	**145,261**
Income statement ECL (charge)/release		**11**			**(24)**			**(6)**			**(19)**	
Recoveries of amounts previously written off												
Total credit impairment (charge)/release		**11**			**(24)**			**(6)**			**(19)**	

1 Includes fair value adjustments and amortisation on debt securities

Corporate & Institutional Banking (within EY review scope)

Amortised cost and FVOCI	Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net $million	Total Gross balance $million	Total Total credit impairment $million	Total Net $million
As at 1 January 2019[2]	269,648	(141)	269,507	18,431	(226)	18,205	5,385	(3,378)	2,007	293,464	(3,745)	289,719
Transfers to stage 1	16,555	(145)	16,410	(16,555)	145	(16,410)	–	–	–	–	–	–
Transfers to stage 2	(43,141)	39	(43,102)	43,326	(51)	43,275	(185)	12	(173)	–	–	–
Transfers to stage 3	–	–	–	(1,095)	122	(973)	1,095	(122)	973	–	–	–
Net change in exposures	18,368	(124)	18,244	(22,387)	25	(22,362)	(840)	205	(635)	(4,859)	106	(4,753)
Net remeasurement from stage changes	–	41	41	–	(70)	(70)	–	(219)	(219)	–	(248)	(248)
Changes in risk parameters	–	187	187	–	(145)	(145)	–	(368)	(368)	–	(326)	(326)
Write-offs	–	–	–	–	–	–	(658)	658	–	(658)	658	–
Interest due but unpaid	–	–	–	–	–	–	(48)	48	–	(48)	48	–
Discount unwind	–	–	–	–	–	–	–	38	38	–	38	38
Exchange translation differences and other movements[2]	115	23	138	764	14	778	(16)	(45)	(61)	863	(8)	855
As at 31 December 2019	261,545	(120)	261,425	22,484	(186)	22,298	4,733	(3,171)	1,562	288,762	(3,477)	285,285
Income statement ECL (charge)/release[1]		104			(190)			(382)			(468)	
Recoveries of amounts previously written off								–			–	
Total credit impairment (charge)/release		104			(190)			(382)			(468)	
As at 1 January 2020	**261,545**	**(120)**	**261,425**	**22,484**	**(186)**	**22,298**	**4,733**	**(3,171)**	**1,562**	**288,762**	**(3,477)**	**285,285**
Transfers to stage 1	**12,021**	**(69)**	**11,952**	**(12,021)**	**69**	**(11,952)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to stage 2	**(29,094)**	**61**	**(29,033)**	**29,126**	**(61)**	**29,065**	**(32)**	**–**	**(32)**	**–**	**–**	**–**
Transfers to stage 3	**(330)**	**–**	**(330)**	**(1,876)**	**42**	**(1,834)**	**2,206**	**(42)**	**2,164**	**–**	**–**	**–**
Net change in exposures	**14,498**	**(7)**	**14,491**	**(11,350)**	**57**	**(11,293)**	**(363)**	**61**	**(302)**	**2,785**	**111**	**2,896**
Net remeasurement from stage changes	**–**	**18**	**18**	**–**	**(128)**	**(128)**	**–**	**(447)**	**(447)**	**–**	**(557)**	**(557)**
Changes in risk parameters	**–**	**1**	**1**	**–**	**(261)**	**(261)**	**–**	**(283)**	**(283)**	**–**	**(543)**	**(543)**
Write-offs	**–**	**–**	**–**	**–**	**–**	**–**	**(472)**	**472**	**–**	**(472)**	**472**	**–**
Interest due but unpaid	**–**	**–**	**–**	**–**	**–**	**–**	**(18)**	**18**	**–**	**(18)**	**18**	**–**
Discount unwind	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18**	**18**	**–**	**18**	**18**
Exchange translation differences and other movements	**(2,122)**	**18**	**(2,104)**	**(475)**	**(33)**	**(508)**	**(81)**	**66**	**(15)**	**(2,678)**	**51**	**(2,627)**
As at 30 June 2020	**256,518**	**(98)**	**256,420**	**25,888**	**(501)**	**25,387**	**5,973**	**(3,308)**	**2,665**	**288,379**	**(3,907)**	**284,472**
Income statement ECL (charge)/release[1]		**12**			**(332)**			**(669)**			**(989)**	
Recoveries of amounts previously written off								**5**			**5**	
Total credit impairment (charge)/release		**12**			**(332)**			**(664)**			**(984)**	

1 Does not include $2 million release (31 December 2019: $6 million provision) relating to Other assets

2 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Commercial Banking

Retail Banking (within EY review scope)

Amortised cost and FVOCI	Stage 1			Stage 2			Stage 3			Total		
	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million
As at 1 January 2019[1]	134,154	(313)	133,841	8,963	(132)	8,831	832	(394)	438	143,949	(839)	143,110
Transfers to stage 1	5,301	(355)	4,946	(5,301)	355	(4,946)	–	–	–	–	–	–
Transfers to stage 2	(8,279)	82	(8,197)	8,279	(82)	8,197	–	–	–	–	–	–
Transfers to stage 3	(117)	1	(116)	(517)	165	(352)	634	(166)	468	–	–	–
Net change in exposures	9,303	(15)	9,288	(6,020)	49	(5,971)	(290)	–	(290)	2,993	34	3,027
Net remeasurement from stage changes	–	122	122	–	(86)	(86)	–	(81)	(81)	–	(45)	(45)
Changes in risk parameters	–	153	153	–	(398)	(398)	–	(327)	(327)	–	(572)	(572)
Write-offs	–	–	–	–	–	–	(586)	586	–	(586)	586	–
Interest due but unpaid	–	–	–	–	–	–	–	–	–	–	–	–
Discount unwind	–	–	–	–	–	–	–	28	28	–	28	28
Exchange translation differences and other movements[1]	(566)	26	(540)	(79)	(50)	(129)	256	(20)	236	(389)	(44)	(433)
As at 31 December 2019	139,796	(299)	139,497	5,325	(179)	5,146	846	(374)	472	145,967	(852)	145,115
Income statement ECL (charge)/release		260			(435)			(408)			(583)	
Recoveries of amounts previously written off								247			247	
Total credit impairment (charge)/release		260			(435)			(161)			(336)	
As at 1 January 2020	139,796	(299)	139,497	5,325	(179)	5,146	846	(374)	472	145,967	(852)	145,115
Transfers to stage 1	4,063	(204)	3,859	(4,063)	204	(3,859)	–	–	–	–	–	–
Transfers to stage 2	(5,675)	60	(5,615)	5,675	(60)	5,615	–	–	–	–	–	–
Transfers to stage 3	(88)	–	(88)	(435)	86	(349)	523	(86)	437	–	–	–
Net change in exposures	5,085	(3)	5,082	(887)	25	(862)	(172)	–	(172)	4,026	22	4,048
Net remeasurement from stage changes	–	54	54	–	(127)	(127)	–	(52)	(52)	–	(125)	(125)
Changes in risk parameters	–	(59)	(59)	–	(163)	(163)	–	(209)	(209)	–	(431)	(431)
Write-offs	–	–	–	–	–	–	(330)	330	–	(330)	330	–
Interest due but unpaid	–	–	–	–	–	–	94	(94)	–	94	(94)	–
Discount unwind	–	–	–	–	–	–	–	10	10	–	10	10
Exchange translation differences and other movements	(2,388)	66	(2,322)	(160)	(35)	(195)	106	(18)	88	(2,442)	13	(2,429)
As at 30 June 2020	140,793	(385)	140,408	5,455	(249)	5,206	1,067	(493)	574	147,315	(1,127)	146,188
Income statement ECL (charge)/release		(8)			(265)			(261)			(534)	
Recoveries of amounts previously written off								103			103	
Total credit impairment (charge)/release		(8)			(265)			(158)			(431)	

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers from Commercial Banking

Commercial Banking (within EY review scope)

	Stage 1			Stage 2			Stage 3			Total		
Amortised cost and FVOCI	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million	Gross balance $million	Total credit impairment $million	Net $million
As at 1 January 2019[1]	34,338	(39)	34,299	7,255	(109)	7,146	2,368	(1,803)	565	43,961	(1,951)	42,010
Transfers to stage 1	3,082	(42)	3,040	(3,082)	42	(3,040)	–	–	–	–	–	–
Transfers to stage 2	(11,878)	20	(11,858)	11,886	(22)	11,864	(8)	2	(6)	–	–	–
Transfers to stage 3	(4)	–	(4)	(465)	26	(439)	469	(26)	443	–	–	–
Net change in exposures	9,186	(70)	9,116	(8,864)	(38)	(8,902)	(263)	96	(167)	59	(12)	47
Net remeasurement from stage changes	–	5	5	–	(11)	(11)	–	(107)	(107)	–	(113)	(113)
Changes in risk parameters	–	69	69	–	58	58	–	(124)	(124)	–	3	3
Write-offs	–	–	–	–	–	–	(380)	380	–	(380)	380	–
Interest due but unpaid	–	–	–	–	–	–	(87)	87	–	(87)	87	–
Discount unwind	–	–	–	–	–	–	–	13	13	–	13	13
Exchange translation differences and other movements[1]	(886)	19	(867)	(689)	(13)	(702)	(37)	(35)	(72)	(1,612)	(29)	(1,641)
As at 31 December 2019	33,838	(38)	33,800	6,041	(67)	5,974	2,062	(1,517)	545	41,941	(1,622)	40,319
Income statement ECL (charge)/release		4			9			(135)			(122)	
Recoveries of amounts previously written off								1			1	
Total credit impairment (charge)/release		4			9			(134)			(121)	
As at 1 January 2020	**33,838**	**(38)**	**33,800**	**6,041**	**(67)**	**5,974**	**2,062**	**(1,517)**	**545**	**41,941**	**(1,622)**	**40,319**
Transfers to stage 1	**3,400**	**(49)**	**3,351**	**(3,400)**	**49**	**(3,351)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to stage 2	**(7,959)**	**15**	**(7,944)**	**7,962**	**(15)**	**7,947**	**(3)**	**–**	**(3)**	**–**	**–**	**–**
Transfers to stage 3	**(1)**	**–**	**(1)**	**(232)**	**5**	**(227)**	**233**	**(5)**	**228**	**–**	**–**	**–**
Net change in exposures	**1,932**	**(2)**	**1,930**	**(4,227)**	**14**	**(4,213)**	**(105)**	**33**	**(72)**	**(2,400)**	**45**	**(2,355)**
Net remeasurement from stage changes	**–**	**10**	**10**	**–**	**(40)**	**(40)**	**–**	**(40)**	**(40)**	**–**	**(70)**	**(70)**
Changes in risk parameters	**–**	**(5)**	**(5)**	**–**	**(46)**	**(46)**	**–**	**(72)**	**(72)**	**–**	**(123)**	**(123)**
Write-offs	**–**	**–**	**–**	**–**	**–**	**–**	**(149)**	**149**	**–**	**(149)**	**149**	**–**
Interest due but unpaid	**–**	**–**	**–**	**–**	**–**	**–**	**70**	**(70)**	**–**	**70**	**(70)**	**–**
Discount unwind	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**7**	**–**	**7**	**7**
Exchange translation differences and other movements	**(376)**	**23**	**(353)**	**(113)**	**(45)**	**(158)**	**(50)**	**30**	**(20)**	**(539)**	**8**	**(531)**
As at 30 June 2020	**30,834**	**(46)**	**30,788**	**6,031**	**(145)**	**5,886**	**2,058**	**(1,485)**	**573**	**38,923**	**(1,676)**	**37,247**
Income statement ECL (charge)/release		**3**			**(72)**			**(79)**			**(148)**	
Recoveries of amounts previously written off								**2**			**2**	
Total credit impairment (charge)/release		**3**			**(72)**			**(77)**			**(146)**	

1 Stage 1 and stage 2 Gross and ECL numbers have been restated to reflect client transfers to and from Corporate & Institutional Banking and to Retail Banking

Analysis of stage 2 balances

The table below analyses stage 2 gross exposures and associated expected credit provisions by the key driver that caused the exposures to be classified as stage 2 as at 30 June 2020. This may not be the same driver that caused the initial transfer into stage 2. Where multiple drivers apply, the exposure is allocated based on the table order. For example, a loan may have breached the PD thresholds and could also be on non-purely precautionary early alert; in this instance, the exposure is reported under 'Increase in PD'.

	30.06.20											
	Corporate & Institutional Banking		Retail Banking		Commercial Banking		Private Banking		Central & Other		Total	
	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %
Increase in PD	47%	60%	90%	73%	59%	61%	–	–	85%	50%	55%	63%
Non-purely precautionary early alert	32%	23%	–	–	25%	20%	–	–	–	–	25%	14%
Higher risk (CG12)	3%	13%	–	–	6%	17%	–	–	10%	50%	3%	11%
Sub-investment grade	2%	1%	–	–	1%	0%	–	–	0%	0%	2%	1%
30 days past due	–	–	8%	26%	–	–	–	–	–	–	1%	9%
Others	16%	3%	2%	1%	9%	2%	100%	100%	5%	0%	14%	2%
Total stage 2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	31.12.19											
	Corporate & Institutional Banking		Retail Banking		Commercial Banking		Private Banking		Central & Other		Total	
	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %	Gross %	ECL %
Increase in PD	49%	52%	94%	76%	67%	57%	–	–	43%	31%	60%	62%
Non-purely precautionary early alert	22%	12%	–	–	9%	8%	–	–	–	–	14%	6%
Higher risk (CG12)	6%	28%	–	–	5%	26%	–	–	–	–	3%	15%
Sub-investment grade	1%	3%	–	–	4%	2%	–	–	53%	63%	5%	4%
30 days past due	–	–	4%	22%	–	–	–	–	–	–	1%	9%
Others	22%	5%	2%	2%	15%	7%	100%	100%	4%	6%	17%	4%
Total stage 2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The majority of exposures and the associated expected credit loss provisions are in stage 2 due to increases in the probability of default, although this is lower in Corporate & Institutional Banking and Commercial Banking than as at 31 December 2019 as more clients were placed on non-purely precautionary early alert in 2020. 26 per cent of the provisions held against stage 2 Retail Banking exposures arise from the application of the 30 days past due backstop, although this represents only 8 per cent of exposures.

For debt securities originated prior to 1 January 2018, those with a sub-investment grade rating were allocated into stage 2. For debt securities originated after 1 January 2018, significant increase in credit risk is assessed based on the relative and absolute increases in PD.

'Others' incorporates exposures where origination data is incomplete and the exposures are allocated into stage 2. Significant increase in credit risk for Private Banking clients is assessed by referencing the nature and level of collateral against which credit is extended.

Credit impairment charge (within EY review scope)

The total underlying credit impairment charge increased by $1,313 million to $1,567 million (H1 2019: $254 million). Stage 1 and 2 impairments increased by $586 million. Around half of the increase was attributable to modelled outcomes, which included $174 million relating to the deterioration in macroeconomic forecasts. The remainder of the increase was due to a management overlay to reflect deterioration in the macroeconomic outlook not captured in the modelled outcome and the impact of moratoria schemes in Retail Banking. Impairments of stage 3 assets increased by $727 million, three-quarters of which was in Corporate & Institutional Banking and primarily from three clients. Stage 3 impairments in Retail Banking increased by $89 million as COVID-19 related lockdowns impacted collection and recovery activities, particularly in the unsecured portfolios in ASEAN & South Asia.

Corporate & Institutional Banking credit impairment was $874 million higher at $991 million (H1 2019: $117 million) due to increased stage 1 and 2 impairments as a result of the deterioration in macroeconomic forecasts and increased transfers into stage 2 from a significant increase in non-purely precautionary early alerts. Accounts graded as 'Higher risk' were $0.3 billion lower as compared to 31 December 2019 due to outflows to stage 3. Stage 3 provisions were also significantly higher due to charges on three clients in ASEAN & South Asia and Africa & Middle East.

Commercial Banking credit impairment increased to $137 million (H1 2019: $28 million). This is mainly due to higher stage 3 impairments during the period from ASEAN & South Asia and higher stage 1 and 2 impairments as a result of the deterioration of macroeconomic forecasts.

Retail Banking impairment was $277 million higher at $431 million, with increased stage 1 and 2 ECL provisions due to the deteriorating macroeconomic environment and a management overlay to take account of the increased credit risks which may arise after the moratoria schemes expire, particularly in ASEAN & South Asia.

Private Banking impairment is at $5 million, with an increase of $52 million as compared to H1 2019. This is due to a significant provision release on a stage 3 client in ASEAN & South Asia in H1 2019.

Central & Other segment impairments was a charge of $3 million (H1 2019: charge of $2 million) mainly driven by debt security instruments managed by Treasury.

Restructuring (within EY review scope)

There was a net $9 million impairment from the Group's discontinued businesses.

	6 months ended 30.06.20			6 months ended 30.06.19		
	Stage 1 & 2 $million	Stage 3 $million	Total $million	Stage 1 & 2 $million	Stage 3 $million	Total[1] $million
Ongoing business portfolio						
Corporate & Institutional Banking[1]	319	672	991	1	116	117
Retail Banking	273	158	431	85	69	154
Commercial Banking	72	65	137	(7)	35	28
Private Banking	–	5	5	1	(48)	(47)
Central & Others	4	(1)	3	2	–	2
Credit impairment charge	668	899	1,567	82	172	254
Restructuring business portfolio						
Liquidation portfolio	–	–	–	–	–	–
Others	(1)	10	9	–	–	–
Credit impairment charge	(1)	10	9	–	–	–
Total credit impairment charge	667	909	1,576	82	172	254

1 P&L for period ending 30.06.20 Credit impairment of $7 million in Central and other items is included in Corporate & Institutional Banking

COVID-19 relief measures

COVID-19 payment-related relief measures are in place across most of our markets, particularly focused on Retail and Business Banking customers. These schemes are generally initiated by country regulators and governments. These measures include principal and/or interest moratoria and term extensions and are generally available to eligible borrowers (those that are current or less than 30 days past due, unless local regulators have specified different criteria). Certain schemes may be restricted to those in industries significantly impacted by COVID-19, such as aviation or consumer services, but are not borrower-specific in nature.

Relief measures are generally mandated or supported by regulators and governments and are available to all eligible customers who request it. However in a number of countries, particularly in ASEAN & South Asia and Africa & Middle East, compulsory (regulatory approved) moratoria reliefs are applied to all eligible loans unless a customer has specifically asked to opt out.

In most major Retail Banking markets, the period of relief provided is between 6 and 12 months. In some smaller markets, reliefs are in place for 3 months.

COVID-19 related tenor extensions have also been made available to Corporate & Institutional Banking and Commercial Banking clients, primarily for periods between 3 to 9 months, if they are expected to return to normal payments within 12 months.

Assessment for expected credit losses

COVID-19 payment reliefs that are generally available to a market or industry as a whole and are not borrower-specific in nature have not, on their own, resulted in an automatic change in stage (that is, individual customers are not considered to have experienced a significant increase in credit risk or an improvement in credit risk) nor have they been considered to be forborne.

A customer's stage and past due status reflects their status immediately prior to the granting of the relief, with past due amounts assessed based on the new terms as set out in the temporary payment reliefs.

If a customer requires additional support after the expiry of the initial payment relief period, these will be considered at a borrower level, after taking into account their individual circumstances. Depending on the type of subsequent support provided, these customers may be classified within stage 2 or stage 3.

Where client level government guarantees are in place, these do not affect staging but are taken into account when determining the level of credit impairment.

Impact from temporary changes to loan contractual terms

Approximately $14 billion of outstanding loan balances have been subject to payment relief measures. This represents 4 per cent of the Group's gross loans and advances to banks and customers.

The granting of COVID-19 payment-related relief measures may cause a time value of money loss for the Group where interest is not permitted to be compounded (that is, interest charged on interest) or where interest is not permitted to be charged or accrued during the relief period. As set out above, such reliefs do not impact a customer's stage and are not considered to be forborne even though a time value of money loss arises. As the relief periods are relatively short-term in nature, and a small percentage of the total loans outstanding, this has not resulted in a material impact for the Group.

The table below sets out the extent to which payment reliefs are in place across the Group's loan portfolio based on the gross carrying amount of loan applications received and approved up to 30 June 2020.

For Retail Banking, around 71 per cent of approved loans are in markets where compulsory (regulatory approved) relief measures are granted, the majority of which are in ASEAN & South Asia where the reliefs are due to expire in Q3 2020. One third of customers chose to opt-out from the payment holidays (which primarily accounts for the difference between applications received and applications approved) or decided to pay despite being on moratoria. 79 per cent of relief measures are fully secured, of which greater than two thirds are from Mortgages which is highly collateralised with average LTV of 37 per cent. 32 per cent of the total amounts approved are to Business Banking customers, concentrated in industries that have been materially disrupted, of which 71 per cent is collateralised by commercial immovable property. 87 per cent of the total amounts approved are in stage 1 and 11 per cent in stage 2, the latter mainly in Malaysia where compulsory (regulatory mandated) relief measures are in place. 69 per cent of stage 2 accounts under relief measures are collateralised by immovable property.

In Corporate & Institutional Banking and Commercial Banking, around 60 per cent of the amounts approved are for tenor extensions of 90 days or less. Around 20 per cent of the reliefs granted are to clients in vulnerable sectors. $1.2 billion of the approved amounts have been repaid at 30 June 2020.

	Applications			Greater China & North Asia		ASEAN & South Asia		Africa & Middle East	
Segment	Received $million	Approved $million	% of portfolio[2]	Approved $million	% of portfolio[2]	Approved $million	% of portfolio[2]	Approved $million	% of portfolio[2]
Credit card	114	106	2%	1	0%	76	4%	29	12%
Personal loans	961	905	10%	16	0%	499	45%	390	22%
Mortgages & auto	6,719	5,056	6%	462	1%	4,143	25%	451	19%
Business Banking	3,369	2,807	36%	105	3%	2,663	67%	39	27%
Wealth management	5	5	0%	–	–	5	0%	–	–
Total Retail Banking	11,168	8,879	8%	584	1%	7,386	28%	909	17%
Corporate & Institutional Banking[1]		1,802	1%	389		991		155	
Commercial Banking[1]		3,804	14%	1,573		1,601		542	
Total		14,485	4%	2,546		9,978		1,606	

1 In Corporate & Institutional Banking $268 million of approved reliefs relate to Europe & Americas and $88 million in Commercial Banking

2 Percentage of portfolio represents the approved amounts as a percentage of the gross loans and advances to banks and customers by product and segment and total loans and advances to banks and customers at 30 June 2020

Problem credit management and provisioning

Forborne and other modified loans by client segment (within EY review scope)

A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties.

The table below presents loans with forbearance measures by segment.

Amortised cost	Corporate & Institutional Banking $million (30.06.20)	Retail Banking $million (30.06.20)	Commercial Banking $million (30.06.20)	Total $million (30.06.20)
All loans with forbearance measures	1,335	332	759	2,426
Credit impairment (stage 1 and 2)	(2)	–	(1)	(3)
Credit impairment (stage 3)	(693)	(160)	(525)	(1,378)
Net carrying value	640	172	233	1,045
Included within the above table				
Gross performing forborne loans	102	24	84	210
Modification of terms and conditions[1]	29	24	84	137
Refinancing[2]	73	–	–	73
Impairment provisions	(2)	–	(1)	(3)
Modification of terms and conditions[1]	(1)	–	(1)	(2)
Refinancing[2]	(1)	–	–	(1)
Net performing forborne loans	100	24	83	207
Collateral	19	16	13	48
Gross non-performing forborne loans	1,233	308	675	2,216
Modification of terms and conditions[1]	1,126	308	619	2,053
Refinancing[2]	107	–	56	163
Impairment provisions	(693)	(160)	(525)	(1,378)
Modification of terms and conditions[1]	(635)	(160)	(474)	(1,269)
Refinancing[2]	(58)	–	(51)	(109)
Net non-performing forborne loans	540	148	150	838
Collateral	187	25	81	293

Amortised cost	Corporate & Institutional Banking $million (31.12.19)	Retail Banking $million (31.12.19)	Commercial Banking $million (31.12.19)	Total $million (31.12.19)
All loans with forbearance measures	1,533	344	767	2,644
Credit impairment (stage 1 and 2)	(13)	–	(4)	(17)
Credit impairment (stage 3)	(748)	(169)	(558)	(1,475)
Net carrying value	772	175	205	1,152
Included within the above table				
Gross performing forborne loans	421	19	49	489
Modification of terms and conditions[1]	421	19	44	484
Refinancing[2]	–	–	5	5
Impairment provisions	(13)	–	(4)	(17)
Modification of terms and conditions[1]	(13)	–	(4)	(17)
Refinancing[2]	–	–	–	–
Net performing forborne loans	408	19	45	472
Collateral	62	19	22	103
Gross non-performing forborne loans	1,112	325	718	2,155
Modification of terms and conditions[1]	1,071	325	696	2,092
Refinancing[2]	41	–	22	63
Impairment provisions	(748)	(169)	(558)	(1,475)
Modification of terms and conditions[1]	(717)	(169)	(544)	(1,430)
Refinancing[2]	(31)	–	(14)	(45)
Net non-performing forborne loans	364	156	160	680
Collateral	190	156	99	445

1 Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers

2 Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

Forborne and other modified loans by region

Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
			30.06.20		
Performing forborne loans	67	100	40	–	207
Stage 3 forborne loans	247	264	147	180	838
Net forborne loans	314	364	187	180	1,045

Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
			31.12.19		
Performing forborne loans	100	251	110	11	472
Stage 3 forborne loans	177	173	148	182	680
Net forborne loans	277	424	258	193	1,152

Credit-impaired (stage 3) loans and advances by client segment (within EY review scope)

Gross stage 3 loans for the Group are up 19 per cent in the period to $8.8 billion (31 December 2019: $7.4 billion), driven by an increase of $1.2 billion Corporate & Institutional Banking mainly pertaining to three clients in the ASEAN & South Asia and Africa & Middle East regions.

Stage 3 inflows in Commercial Banking reduced by 32 per cent to $0.2 billion compared to the second half of 2019 in the Africa & Middle East and Greater China & North Asia regions.

Gross stage 3 loans in Retail Banking increased by $0.2 billion to $1.1 billion (31 December 2019: $0.8 billion) as COVID-19 related lockdowns impacted collections and recoveries activities, particularly in ASEAN & South Asia.

Gross stage 3 loans in Private Banking remained stable at $0.4 billion.

Stage 3 cover ratio (within EY review scope)

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

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

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

Corporate & Institutional Banking cover ratio decreased to 58 per cent (31 December 2019: 71 per cent). This was due to three downgrades in ASEAN & South Asia and Africa & Middle East regions that had low levels of coverage, but they are partially covered by tangible collateral. Collateral increased by $0.4 billion during the period. Although the cover ratio after collateral decreased by 9 per cent to 74 per cent, some of the new inflows are covered by non-tangible collateral such as guarantees and insurance, which are not captured in this metric.

The Commercial Banking cover ratio reduced to 74 per cent from 75 per cent. The cover ratio after collateral remained stable at 88 per cent.

The Private Banking cover ratio increased to 42 per cent from 40 per cent, mainly due to incremental provisions on existing clients. Private Banking clients remain highly collateralised and cover ratio after collateral increased marginally from 98 per cent to 99 per cent.

The Retail Banking cover ratio remains broadly stable at 46 per cent. The cover ratio after collateral increased to 88 per cent from 78 per cent due to the increase in mortgages.

Amortised cost	30.06.20 Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross credit-impaired	5,379	1,067	2,004	372	8,822
Credit impairment provisions	(3,135)	(492)	(1,476)	(158)	(5,261)
Net credit-impaired	2,244	575	528	214	3,561
Cover ratio	58%	46%	74%	42%	60%
Collateral ($ million)	862	450	282	209	1,803
Cover ratio (after collateral)	74%	88%	88%	99%	80%

Amortised cost	31.12.19 Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross credit-impaired	4,173	846	2,013	366	7,398
Credit impairment provisions	(2,980)	(374)	(1,503)	(147)	(5,004)
Net credit-impaired	1,193	472	510	219	2,394
Cover ratio	71%	44%	75%	40%	68%
Collateral ($ million)	497	286	263	211	1,257
Cover ratio (after collateral)	83%	78%	88%	98%	85%

Credit-impaired (stage 3) loans and advances by geographic region

Stage 3 loans increased by $1.4 billion or 19 per cent compared with 31 December 2019. The increase was primarily driven by three clients in ASEAN & South Asia and Africa & Middle East.

Amortised cost	30.06.20 Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross credit-impaired	864	3,767	3,198	993	8,822
Credit impairment provisions	(346)	(2,195)	(2,095)	(625)	(5,261)
Net credit-impaired	518	1,572	1,103	368	3,561
Cover ratio	40%	58%	66%	63%	60%

Amortised cost	31.12.19 Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Gross credit-impaired	716	3,084	2,585	1,013	7,398
Credit impairment provisions	(360)	(2,087)	(1,899)	(658)	(5,004)
Net credit-impaired	356	997	686	355	2,394
Cover ratio	50%	68%	73%	65%	68%

Movement of credit-impaired (stage 3) loans and advances provisions by client segment (within EY review scope)

Credit impairment provisions as at 30 June was $5.3 billion, compared with $5.0 billion as at 31 December 2019, with more than half of the increase from Corporate & Institutional Banking due to new inflows and the rest from Retail Banking mainly in mortgages.

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

	30.06.20				
Amortised cost	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total[2] $million
Gross credit-impaired loans at 30 June	5,379	1,067	2,004	372	8,822
Credit impairment allowances at 1 January	2,980	374	1,503	146	5,003
Net transfers into and out of stage 3	42	86	5	–	133
New provisions charge/(release)[1]	447	52	39	1	539
Changes due to risk parameters[1]	249	209	72	5	535
Net change in exposures[1]	(28)	–	(30)	(1)	(59)
Amounts written off	(449)	(330)	(149)	–	(928)
Interest due but unpaid	(18)	94	70	8	154
Discount unwind	(18)	(10)	(7)	(2)	(37)
Exchange translation difference	(70)	17	(27)	1	(79)
Credit impairment allowances at 30 June	3,135	492	1,476	158	5,261
Net carrying value	2,244	575	528	214	3,561
Income statement charge/(release)[1]	667	261	82	5	1,015
Recoveries of amounts previously written off	(5)	(103)	(2)	–	(110)
Total income statement charge	662	158	80	5	905

	31.12.19				
Amortised cost	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total[2] $million
Gross credit-impaired loans at 31 December	4,173	846	2,013	366	7,398
Credit impairment allowances at 1 January	3,238	396	1,789	163	5,586
Net transfers into and out of stage 3	111	166	24	–	301
New provisions charge/(release)[1]	177	81	107	–	365
Changes due to risk parameters[1]	335	327	122	(26)	758
Net change in exposures[1]	(170)	–	(96)	(6)	(272)
Amounts written off	(658)	(585)	(380)	(2)	(1,625)
Interest due but unpaid	(48)	–	(87)	17	(118)
Discount unwind	(38)	(28)	(13)	(4)	(83)
Exchange translation difference	33	17	37	5	92
Credit impairment allowances at 31 December	2,980	374	1,503	147	5,004
Net carrying value	1,193	472	510	219	2,394
Income statement charge/(release)[1]	342	408	133	(32)	851
Recoveries of amounts previously written off	–	(247)	(1)	–	(248)
Total income statement charge	342	161	132	(32)	603

1 Components of the income statement charge/(release)

2 Excludes credit impairment relating to loan commitments and financial guarantees

Credit risk mitigation

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

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

Collateral (within EY review scope)

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

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was $289 billion (2019: $280 billion).

The collateral values in the table below (which covers loans and advances to banks and customers, excluding those held at fair value through profit or loss) are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. The extent of over-collateralisation has been determined with reference to both the drawn and undrawn components of exposure as this best reflects the effect of collateral and other credit enhancements on the amounts arising from expected credit losses.

The value of collateral reflects management's best estimate and is back tested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value.

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults.

Private Banking collateral is $8.5 billion, down 18 per cent compared with 2019, in line with the overall movement of the secured portfolio.

Collateral held on loans and advances (within EY review scope)

The table below details collateral held against exposures, separately disclosing stage 2 and stage 3 exposure and corresponding collateral.

	30.06.20								
	Net amount outstanding			Collateral			Net exposure		
Amortised cost	Total $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million	Total[2] $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million	Total $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million
Corporate & Institutional Banking[1]	165,807	15,688	2,244	24,983	3,089	862	140,824	12,599	1,382
Retail Banking	105,000	3,273	575	84,585	2,706	450	20,415	567	125
Commercial Banking	25,555	4,142	528	7,273	1,608	282	18,282	2,534	246
Private Banking	13,001	199	214	8,481	150	209	4,520	49	5
Central & other items	17,449	4	–	3,242	–	–	14,207	4	–
Total	326,812	23,306	3,561	128,564	7,553	1,803	198,248	15,753	1,758

	31.12.19[3]								
	Net amount outstanding			Collateral			Net exposure		
Amortised cost	Total $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million	Total[2] $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million	Total $million	Stage 2 financial assets $million	Credit-impaired financial assets (S3) $million
Corporate & Institutional Banking[1]	162,201	14,231	1,193	23,652	2,724	497	138,549	11,507	696
Retail Banking	106,938	2,856	472	81,700	2,355	286	25,238	501	186
Commercial Banking	28,094	3,925	510	6,996	1,801	263	21,098	2,124	247
Private Banking	14,741	283	219	10,306	188	211	4,435	95	8
Central & other items	10,098	7	–	802	–	–	9,296	7	–
Total	322,072	21,302	2,394	123,456	7,068	1,257	198,616	14,234	1,137

1 Includes loans and advances to banks

2 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

3 Corporate & Institutional Banking, Retail Banking and Commercial Banking net amount outstanding, collateral and net exposure numbers have been restated to reflect client transfers between the three segments

Collateral – Corporate & Institutional Banking and Commercial Banking (within EY review scope)

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $32 billion.

Collateral taken for longer-term and sub-investment grade corporate loans remains high at 46 per cent. Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment-grade collateral.

74 per cent of tangible collateral held comprises physical assets or is property based, with the remainder largely in cash and investment securities.

Non-tangible collateral, such as guarantees and standby letters of credit, is also held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this is considered when determining the probability of default and other credit-related factors. Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

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

Corporate & Institutional Banking (within EY review scope)

Amortised cost	30.06.20 $million	31.12.19[2] $million
Maximum exposure	**165,807**	162,201
Property	**8,328**	7,218
Plant, machinery and other stock	**843**	947
Cash	**2,994**	2,931
Reverse repos	**3,040**	2,000
A– to AA+	**1,072**	756
BBB– to BBB+	**569**	439
Unrated	**1,399**	805
Financial guarantees and insurance	**5,358**	7,374
Commodities	**235**	141
Ships and aircraft	**4,185**	3,041
Total value of collateral	**24,983**	23,652
Net exposure[1]	**140,824**	138,549

Commercial Banking (within EY review scope)

Amortised cost	30.06.20 $million	31.12.19[2] $million
Maximum exposure	**25,555**	28,094
Property	**4,514**	4,225
Plant, machinery and other stock	**1,158**	1,281
Cash	**761**	654
Reverse repos	**12**	8
A– to AA+	**–**	–
BBB– to BBB+	**4**	1
Unrated	**8**	7
Financial guarantees and insurance	**598**	573
Commodities	**49**	21
Ships and aircraft	**181**	234
Total value of collateral	**7,273**	6,996
Net exposure[1]	**18,282**	21,098

1 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

2 Maximum exposure, collateral and net exposure balances have been restated to reflect client transfers between Corporate & Institutional Banking and Commercial Banking

Collateral – Retail Banking and Private Banking (within EY review scope)

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

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

	30.06.20				31.12.19[3]			
Amortised cost	Fully secured $million	Partially secured $million	Unsecured $million	Total $million	Fully secured $million	Partially secured $million	Unsecured $million	Total $million
Maximum exposure	101,149	738	16,114	118,001	103,182	1,257	17,240	121,679
Loans to individuals								
Mortgages	77,824	–	–	77,824	78,560	109	5	78,674
CCPL	139	–	15,974	16,113	123	8	17,092	17,223
Auto	500	–	–	500	562	–	10	572
Secured wealth products	18,646	–	–	18,646	20,275	127	–	20,402
Other	4,040	738	140	4,918	3,662	1,013	133	4,808
Total collateral[1]				93,066				92,006
Net exposure[2]				24,935				29,673
Percentage of total loans	85%	1%	14%		85%	1%	14%	

1 Collateral values are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation

2 Amounts net of ECL

3 Maximum exposure, collateral and net exposure balances have been restated to reflect client transfers from Commercial Banking to Retail Banking

Mortgage loan-to-value ratios by geography (within EY review scope)

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

In mortgages, the value of property held as security significantly exceeds the value of mortgage loans. The average LTV of the overall mortgage portfolio is low at 45 per cent. Hong Kong, which represents 39 per cent of the Retail Banking mortgage portfolio has an average LTV of 41.1 per cent. All of our other key markets continue to have low portfolio LTVs, (Korea, Singapore and Taiwan at 42.6 per cent, 53.8 per cent and 52.3 per cent respectively).

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

	30.06.20				
Amortised cost	Greater China & North Asia % Gross	ASEAN & South Asia % Gross	Africa & Middle East % Gross	Europe & Americas % Gross	Total % Gross
Less than 50 per cent	67.2	42.7	15.8	19.4	59.2
50 per cent to 59 per cent	14.6	18.5	22.7	20.6	15.8
60 per cent to 69 per cent	8.8	22.1	20.4	40.5	12.9
70 per cent to 79 per cent	6.8	14.1	20.3	16.2	9.0
80 per cent to 89 per cent	2.0	1.9	10.1	1.3	2.1
90 per cent to 99 per cent	0.5	0.5	5.1	0.4	0.7
100 per cent and greater	0.1	0.2	5.6	1.6	0.3
Average portfolio loan-to-value	42.5	51.3	66.4	58.7	45.2
Loans to individuals – mortgages ($million)	56,603	17,268	1,999	1,954	77,824

	31.12.19				
Amortised cost	Greater China & North Asia % Gross	ASEAN & South Asia % Gross	Africa & Middle East % Gross	Europe & Americas % Gross	Total % Gross
Less than 50 per cent	67.8	43.4	21.6	10.8	59.3
50 per cent to 59 per cent	14.4	19.4	14.2	26.3	15.9
60 per cent to 69 per cent	9.2	22.5	21.0	29.4	13.2
70 per cent to 79 per cent	6.7	12.5	19.1	28.0	9.0
80 per cent to 89 per cent	1.6	1.7	11.5	4.5	2.0
90 per cent to 99 per cent	0.2	0.3	6.5	0.4	0.4
100 per cent and greater	0.1	0.2	6.2	0.6	0.3
Average portfolio loan-to-value	42.1	50.7	66.6	62.2	44.9
Loans to individuals – mortgages ($million)[1]	56,067	18,301	2,047	2,259	78,674

1 Greater China & North Asia number has been restated to reflect client transfers from Commercial Banking to Retail Banking

Credit quality by industry

Loans and advances

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

From an industry perspective, loans and advances increased by $11.9 billion compared to 31 December 2019, largely driven by an $8 billion increase in lending to Governments, with $1.9 billion increase in Commercial real estate and $1.5 billion increase in Financing, insurance and non-banking. Retail Products fell by $3.4 billion primarily within CCPL and unsecured lending as COVID-19 related lockdowns suppressed card spending and in Secured wealth products. Total stage 1 loans increased by $4.1 billion compared with 31 December 2019, and total stage 2 loans increased by $3.0 billion in total loans advances due to a significant increase in loans placed on non-purely precautionary early alert and transfers from stage 1.

	30.06.20											
	Stage 1			Stage 2			Stage 3			Total		
Amortised cost	Gross balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross balance $million	Total credit impair-ment $million	Net carrying amount $million
Industry:												
Energy	12,525	(6)	12,519	2,377	(119)	2,258	1,256	(846)	410	16,158	(971)	15,187
Manufacturing	19,363	(15)	19,348	3,447	(92)	3,355	1,316	(918)	398	24,126	(1,025)	23,101
Financing, insurance and non-banking	22,516	(8)	22,508	1,106	(4)	1,102	311	(205)	106	23,933	(217)	23,716
Transport, telecom and utilities	12,286	(9)	12,277	4,682	(98)	4,584	1,096	(467)	629	18,064	(574)	17,490
Food and household products	9,183	(11)	9,172	655	(14)	641	588	(397)	191	10,426	(422)	10,004
Commercial real estate	16,154	(22)	16,132	1,932	(40)	1,892	397	(156)	241	18,483	(218)	18,265
Mining and quarrying	5,775	(8)	5,767	1,333	(36)	1,297	254	(186)	68	7,362	(230)	7,132
Consumer durables	6,064	(4)	6,060	1,226	(27)	1,199	581	(452)	129	7,871	(483)	7,388
Construction	3,246	(7)	3,239	720	(19)	701	680	(510)	170	4,646	(536)	4,110
Trading companies & distributors	1,174	(1)	1,173	847	(3)	844	311	(235)	76	2,332	(239)	2,093
Government	22,773	(1)	22,772	361	(2)	359	235	(4)	231	23,369	(7)	23,362
Other	5,095	(3)	5,092	1,341	(83)	1,258	344	(230)	114	6,780	(316)	6,464
Retail Products:												
Mortgage	74,910	(21)	74,889	2,618	(21)	2,597	515	(177)	338	78,043	(219)	77,824
CCPL and other unsecured lending	15,734	(334)	15,400	739	(215)	524	441	(252)	189	16,914	(801)	16,113
Auto	496	–	496	4	–	4	–	–	–	500	–	500
Secured wealth products	18,138	(22)	18,116	296	(6)	290	441	(201)	240	18,875	(229)	18,646
Other	4,846	(4)	4,842	55	(1)	54	43	(21)	22	4,944	(26)	4,918
Total value (customers)[1]	250,278	(476)	249,802	23,739	(780)	22,959	8,809	(5,257)	3,552	282,826	(6,513)	276,313

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $4,383 million

Amortised cost	31.12.19[2] Stage 1 Gross balance $million	Stage 1 Total credit impairment $million	Stage 1 Net carrying amount $million	Stage 2 Gross balance $million	Stage 2 Total credit impairment $million	Stage 2 Net carrying amount $million	Stage 3 Gross balance $million	Stage 3 Total credit impairment $million	Stage 3 Net carrying amount $million	Total Gross balance $million	Total Total credit impairment $million	Total Net carrying amount $million
Industry:												
Energy	13,223	(17)	13,206	1,562	(22)	1,540	894	(758)	136	15,679	(797)	14,882
Manufacturing	20,070	(15)	20,055	3,498	(29)	3,469	970	(695)	275	24,538	(739)	23,799
Financing, insurance and non-banking	20,972	(8)	20,964	1,193	(17)	1,176	292	(183)	109	22,457	(208)	22,249
Transport, telecom and utilities	14,874	(10)	14,864	1,873	(35)	1,838	841	(599)	242	17,588	(644)	16,944
Food and household products	8,321	(8)	8,313	1,551	(18)	1,533	585	(429)	156	10,457	(455)	10,002
Commercial real estate	14,244	(18)	14,226	2,092	(33)	2,059	293	(102)	191	16,629	(153)	16,476
Mining and quarrying	6,134	(8)	6,126	1,067	(12)	1,055	320	(232)	88	7,521	(252)	7,269
Consumer durables	6,366	(5)	6,361	1,094	(15)	1,079	651	(443)	208	8,111	(463)	7,648
Construction	3,082	(5)	3,077	332	(8)	324	774	(607)	167	4,188	(620)	3,568
Trading companies & distributors	1,202	(1)	1,201	1,928	(1)	1,927	307	(218)	89	3,437	(220)	3,217
Government	14,698	(1)	14,697	702	(3)	699	–	–	–	15,400	(4)	15,396
Other	4,815	(8)	4,807	554	(10)	544	261	(218)	43	5,630	(236)	5,394
Retail Products:												
Mortgage	76,123	(10)	76,113	2,290	(12)	2,278	406	(123)	283	78,819	(145)	78,674
CCPL and other unsecured lending	16,834	(268)	16,566	620	(158)	462	404	(209)	195	17,858	(635)	17,223
Auto	570	(1)	569	2	–	2	1	–	1	573	(1)	572
Secured wealth products	19,895	(19)	19,876	336	(3)	333	354	(161)	193	20,585	(183)	20,402
Other	4,726	–	4,726	65	(1)	64	45	(27)	18	4,836	(28)	4,808
Total value (customers)[1]	246,149	(402)	245,747	20,759	(377)	20,382	7,398	(5,004)	2,394	274,306	(5,783)	268,523

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of $1,469 million

2 Stage 1 and stage 2 Gross and ECL balances have been restated to reflect client transfers from Commercial Banking to Retail Banking

Industry and Retail Products analysis of loans and advances by geographic region

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

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposures are to Financing, insurance and non-banking, Government and Manufacturing, with each constituting 15 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers.

Financing, insurance and non-banking industry clients are mostly investment-grade institutions and this lending forms part of the liquidity management of the Group. The manufacturing sector group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 4,300 clients.

Loans and advances to the energy sector remained at 10 per cent of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The Energy sector lending is spread across five sub-sectors and over 350 clients.

The Group provides loans to commercial real estate counterparties of $18.3 billion, which represents 7 per cent of total customer loans and advances. In total, $8.5 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining commercial real estate loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of the commercial real estate portfolio has increased to 47 per cent, compared with 46 per cent in 2019. The proportion of loans with an LTV greater than 80 per cent has remained at less than 1 per cent during the same period.

The Mortgage portfolio continues to be the largest portion of the Retail Products portfolio, at 66 per cent (31 December 2019: 65 per cent). CCPL and other unsecured lending is stable at 14 per cent of total Retail Products loans and advances.

Amortisecd cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
			30.06.20		
Industry:					
Energy	1,382	3,913	4,183	5,709	15,187
Manufacturing	10,751	5,775	2,732	3,843	23,101
Financing, insurance and non-banking	11,615	3,994	935	7,172	23,716
Transport, telecom and utilities	6,069	4,752	5,069	1,600	17,490
Food and household products	2,438	3,996	2,463	1,107	10,004
Commercial real estate	10,262	4,862	1,886	1,255	18,265
Mining and quarrying	2,432	2,249	814	1,637	7,132
Consumer durables	3,865	2,283	638	602	7,388
Construction	1,407	1,447	973	283	4,110
Trading companies and distributors	1,300	500	215	78	2,093
Government	2,959	15,720	4,637	46	23,362
Other	2,243	1,738	838	1,645	6,464
Retail Products:					
Mortgages	56,603	17,268	1,999	1,954	77,824
CCPL and other unsecured lending	10,449	3,609	1,968	87	16,113
Auto	–	434	66	–	500
Secured wealth products	7,435	9,641	321	1,249	18,646
Other	4,295	105	518	–	4,918
Net loans and advances to customers	135,505	82,286	30,255	28,267	276,313
Net loans and advances to banks	21,249	14,671	5,943	8,636	50,499

Amortisecd cost	Greater China & North Asia[1] $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
			31.12.19		
Industry:					
Energy	2,578	3,769	2,946	5,589	14,882
Manufacturing	11,320	6,127	3,211	3,141	23,799
Financing, insurance and non-banking	9,365	4,314	988	7,582	22,249
Transport, telecom and utilities	6,268	4,014	5,349	1,313	16,944
Food and household products	2,777	3,651	2,478	1,096	10,002
Commercial real estate	9,377	4,954	1,783	362	16,476
Mining and quarrying	2,142	2,469	965	1,693	7,269
Consumer durables	4,497	2,019	699	433	7,648
Construction	1,088	1,220	1,126	134	3,568
Trading companies and distributors	2,602	296	198	121	3,217
Government	1,490	9,907	3,926	73	15,396
Other	1,722	1,870	836	966	5,394
Retail Products:					
Mortgages	56,067	18,301	2,047	2,259	78,674
CCPL and other unsecured lending	10,633	4,239	2,258	93	17,223
Auto	–	485	87	–	572
Secured wealth products	8,159	10,473	338	1,432	20,402
Other	3,981	121	705	1	4,808
Net loans and advances to customers	134,066	78,229	29,940	26,288	268,523
Net loans and advances to banks	19,313	15,756	5,350	13,130	53,549

1 Greater China & North Asia numbers have been restated to reflect client transfers from Commercial Banking to Retail Banking

Vulnerable sectors

Total net exposure to vulnerable sectors reduced by $5.1 billion compared to 31 December 2019 and represents 29 per cent (31 December 2019: 30 per cent) of the total net exposure in Corporate & Institutional Banking and Commercial Banking. The reductions were largely due to increased levels of collateral and reduced undrawn commitments, particularly in the Aviation, Commercial Real Estate and Oil & Gas sectors. Stage 2 loans increased by 32 per cent compared to 31 December 2019, with 16 per cent (31 December 2019: 13 per cent) of loans to vulnerable sectors in stage 2. This was primarily driven by the increase in client placed on non-purely precautionary early alert and 46 per cent of the Aviation sector is now in stage 2. Stage 3 loans increased by $0.9 billion compared to 31 December 2019 primarily due to exposures in the Commodity Traders sector and Aviation.

Maximum Exposure

	30.06.20						
Amortised cost	Maximum On Balance Sheet Exposure (net of credit impairment) $million	Collateral $million	Net On Balance Sheet Exposure $million	Undrawn Commitments (net of credit impairment) $million	Financial Guarantees (net of credit impairment) $million	Net Off Balance Sheet Exposure $million	Total On & Off Balance Sheet Net Exposure $million
Industry:							
Aviation	4,509	2,213	2,296	602	509	1,111	3,407
Commodity Traders	9,610	631	8,979	2,963	3,132	6,095	15,074
Metals & Mining	5,260	831	4,429	2,529	632	3,161	7,590
Commercial Real Estate	18,265	7,413	10,852	5,911	384	6,295	17,147
Hotels & Tourism	2,873	1,135	1,738	1,550	146	1,696	3,434
Oil & Gas	8,782	2,794	5,988	8,044	5,642	13,686	19,674
Total	49,299	15,017	34,282	21,599	10,445	32,044	66,326
Total Corporate & Institutional Banking and Commercial Banking	140,863	29,789	111,074	85,112	35,679	120,791	231,865
Total Retail, Private Banking and other segments	185,949	98,775	87,174	58,684	6,318	65,002	152,176
Total Group	326,812	128,564	198,248	143,796	41,997	185,793	384,041

	31.12.19						
Amortised cost	Maximum On Balance Sheet Exposure (net of credit impairment) $million	Collateral $million	Net On Balance Sheet Exposure $million	Undrawn Commitments (net of credit impairment) $million	Financial Guarantees (net of credit impairment) $million	Net Off Balance Sheet Exposure $million	Total On & Off Balance Sheet Net Exposure $million
Industry:							
Aviation	3,659	1,186	2,473	1,131	556	1,687	4,160
Commodity Traders	10,386	326	10,060	3,942	2,869	6,811	16,871
Metals & Mining	5,436	381	5,055	3,002	374	3,376	8,431
Commercial Real Estate	16,476	5,892	10,584	6,773	388	7,161	17,745
Hotels & Tourism	2,397	800	1,597	1,634	146	1,780	3,377
Oil & Gas	8,041	1,241	6,800	8,301	5,760	14,061	20,861
Total	46,395	9,826	36,569	24,783	10,093	34,876	71,445
Total Corporate & Institutional Banking and Commercial Banking	136,746	26,352	110,394	90,340	36,591	126,931	237,325
Total Retail, Private Banking and other segments	185,326	97,104	88,222	55,055	5,605	60,660	148,882
Total Group	322,072	123,456	198,616	145,395	42,196	187,591	386,207

Loans and advances by stage

	30.06.20											
	Stage 1			Stage 2			Stage 3			Total		
Amortised Cost	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million
Industry:												
Aviation	2,216		2,216	2,100	(25)	2,075	256	(38)	218	4,572	(63)	4,509
Commodity Traders	8,890	(14)	8,876	525	(11)	514	760	(540)	220	10,175	(565)	9,610
Metals & Mining	4,193	(4)	4,189	1,003	(31)	972	240	(141)	99	5,436	(176)	5,260
Commercial Real Estate	16,154	(22)	16,132	1,932	(40)	1,892	397	(156)	241	18,483	(218)	18,265
Hotels & Tourism	1,926	(2)	1,924	927	(45)	882	92	(25)	67	2,945	(72)	2,873
Oil & Gas	6,750	(5)	6,745	1,773	(80)	1,693	574	(230)	344	9,097	(315)	8,782
Total	40,129	(47)	40,082	8,260	(232)	8,028	2,319	(1,130)	1,189	50,708	(1,409)	49,299
Total Corporate & Institutional Banking and Commercial Banking	118,710	(93)	118,617	20,021	(538)	19,483	7,368	(4,605)	2,763	146,099	(5,236)	140,863
Total Retail, Private Banking and other segments	181,714	(386)	181,328	4,067	(244)	3,823	1,454	(656)	798	187,235	(1,286)	185,949
Total Group	300,424	(479)	299,945	24,088	(782)	23,306	8,822	(5,261)	3,561	333,334	(6,522)	326,812

	31.12.19											
	Stage 1			Stage 2			Stage 3			Total		
Amortised Cost	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million	Gross Balance $million	Total credit impair-ment $million	Net carrying amount $million
Industry:												
Aviation	3,426	(1)	3,425	236	(8)	228	6		6	3,668	(9)	3,659
Commodity Traders	8,693	(10)	8,683	1,663	(6)	1,657	401	(355)	46	10,757	(371)	10,386
Metals & Mining	4,422	(5)	4,417	875	(10)	865	292	(138)	154	5,589	(153)	5,436
Commercial Real Estate	14,244	(18)	14,226	2,092	(33)	2,059	293	(102)	191	16,629	(153)	16,476
Hotels & Tourism	2,012	(4)	2,008	384	(2)	382	35	(28)	7	2,431	(34)	2,397
Oil & Gas	6,854	(10)	6,844	1,031	(15)	1,016	441	(260)	181	8,326	(285)	8,041
Total	39,651	(48)	39,603	6,281	(74)	6,207	1,468	(883)	585	47,400	(1,005)	46,395
Total Corporate & Institutional Banking and Commercial Banking	117,909	(102)	117,807	17,439	(203)	17,236	6,186	(4,483)	1,703	141,534	(4,788)	136,746
Total Retail, Private Banking and other segments	180,874	(305)	180,569	4,244	(178)	4,066	1,212	(521)	691	186,330	(1,004)	185,326
Total Group	298,783	(407)	298,376	21,683	(381)	21,302	7,398	(5,004)	2,394	327,864	(5,792)	322,072

Credit quality – loans and advances

Credit Grade	Aviation Gross $million	Commodity Traders Gross $million	Metals & Mining Gross $million	Commercial Real Estate Gross $million	Hotel & Tourism Gross $million	Oil & Gas Gross $million	Total Gross $million
	30.06.20						
Strong	1,512	5,128	1,559	8,554	996	4,816	22,565
Satisfactory	2,670	4,167	3,488	9,528	1,854	3,531	25,238
Higher risk	134	120	149	11	3	176	593
Defaulted	256	760	240	390	92	574	2,312
Total Gross Balance	4,572	10,175	5,436	18,483	2,945	9,097	50,708
Strong	(7)	(12)	–	(25)	(3)	(5)	(52)
Satisfactory	(11)	(12)	(21)	(33)	(44)	(68)	(189)
Higher risk	(7)	(1)	(14)	–	–	(4)	(26)
Defaulted	(38)	(540)	(141)	(160)	(25)	(238)	(1,142)
Total Credit Impairment	(63)	(565)	(176)	(218)	(72)	(315)	(1,409)
Strong	0.5%	0.2%	0.0%	0.3%	0.3%	0.1%	0.2%
Satisfactory	0.4%	0.3%	0.6%	0.3%	2.4%	1.9%	0.7%
Higher risk	5.2%	0.8%	9.4%	0.0%	0.0%	2.3%	4.4%
Defaulted	14.8%	71.1%	58.8%	41.0%	27.2%	41.5%	49.4%
Cover Ratio	1.4%	5.6%	3.2%	1.2%	2.4%	3.5%	2.8%

Credit Grade	Aviation Gross $million	Commodity Traders Gross $million	Metals & Mining Gross $million	Commercial Real Estate Gross $million	Hotel & Tourism Gross $million	Oil & Gas Gross $million	Total Gross $million
	31.12.19						
Strong	2,635	5,104	1,270	8,338	983	3,706	22,036
Satisfactory	967	5,217	3,853	7,929	1,411	4,040	23,417
Higher risk	60	35	174	121	2	139	531
Defaulted	6	401	292	241	35	441	1,416
Total Gross Balance	3,668	10,757	5,589	16,629	2,431	8,326	47,400
Strong	–	(6)	–	(47)	(1)	(2)	(56)
Satisfactory	(3)	(10)	(8)	(23)	(5)	(22)	(71)
Higher risk	(6)	–	(7)	(16)	–	(1)	(30)
Defaulted	–	(355)	(138)	(67)	(28)	(260)	(848)
Total Credit Impairment	(9)	(371)	(153)	(153)	(34)	(285)	(1,005)
Strong	0.0%	0.1%	0.0%	0.6%	0.1%	0.1%	0.3%
Satisfactory	0.3%	0.2%	0.2%	0.3%	0.4%	0.5%	0.3%
Higher risk	10.0%	0.0%	4.0%	13.2%	0.0%	0.7%	5.6%
Defaulted	0.0%	88.5%	47.3%	27.8%	80.0%	59.0%	59.9%
Cover Ratio	0.2%	3.4%	2.7%	0.9%	1.4%	3.4%	2.1%

Loans and Advances by Region (net of credit impairment)

Amortised cost	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
	30.06.20				
Industry:					
Aviation	1,449	497	1,559	1,004	4,509
Commodity Traders	1,855	3,222	973	3,560	9,610
Metals & Mining	1,318	2,026	913	1,003	5,260
Commercial Real Estate	10,262	4,862	1,886	1,255	18,265
Hotels & Tourism	790	1,082	561	440	2,873
Oil & Gas	1,020	2,576	2,370	2,816	8,782
Total	16,694	14,265	8,262	10,078	49,299

Amortised cost	31.12.19 Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Aviation	1,392	224	1,373	670	3,659
Commodity Traders	2,082	3,513	1,276	3,515	10,386
Metals & Mining	1,366	1,950	837	1,283	5,436
Commercial Real Estate	9,377	4,954	1,783	362	16,476
Hotels & Tourism	543	1,092	547	215	2,397
Oil & Gas	1,123	2,130	2,022	2,766	8,041
Total	15,883	13,863	7,838	8,811	46,395

IFRS 9 methodology

Refer to pages 182 and 183 in the 2019 Annual Report for the 'Approach for determining expected credit losses', 'Application of lifetime' and pages 187 – 189 for 'Significant increase in credit risk (SICR)', 'Assessment of credit impaired assets' and 'Governance and application of export credit judgement in respect of expected credit losses'. There have been no changes to the Group's approach in determining SICR compared to 31 December 2019.

Post model adjustments

Where a model's performance breaches the monitoring thresholds or validation standards, then an assessment is completed to determine whether an ECL Post Model Adjustment (PMA) is required to correct for the identified model issue. As at 30 June 2020, PMAs for these model performance issues have been applied for 14 models out of the 181 in total. In aggregate, the PMAs decrease the Group's impairment provisions by $87 million (5 per cent of modelled provisions).

The unprecedented volatility in the macroeconomic forecasts seen in the first half of 2020 has meant that a number of the Group's IFRS9 ECL models are now operating outside the boundaries to which they were calibrated. As a result, the Group has made a number of adjustments to the modelled output to ensure the resulting modelled ECL remains unbiased and appropriately reflects the Group's credit risks in the current environment. The adjustments are based on a combination of portfolio level credit risk analysis (retail) and an evaluation of ECL coverage at an exposure level (wholesale).

Key assumptions and judgements in determining expected credit loss (within EY review scope)

Incorporation of forward-looking information

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

To capture the effect of changes to the economic environment, the PDs and LGDs used to calculate ECL incorporate forward-looking information in the form of forecasts of the values of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients.

The 'Base Forecast' of the economic variables and asset prices is based on management's view on the five-year outlook, supported by projections from the Group's in-house research team and outputs from a third-party model that project specific economic variables and asset prices. The research team takes consensus views into consideration and senior management review projections for some core country variables against consensus when forming their view of the outlook. For the period beyond five years, management utilises the in-house research view and third-party model outputs, which allow for a reversion to long-term growth rates or norms. All projections are updated on a quarterly basis.

Forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity

The Base Forecast – management's view of the most likely outcome – is that in 2020 the global economy will experience its worst performance since the Great Depression of 1929-31. The COVID-19 pandemic has triggered severe economic downturns with all regions of the world affected. Global economic activity is expected to trough in the second quarter of 2020, recovering thereafter. Against this backdrop, governments and central banks have put in place wide-ranging policies to limit the impact to people and businesses from the material decline in activity. These include large fiscal stimulus measures and exceptional monetary support, including lower interest rates and also expansion of Central Bank balance sheets through quantitative easing measures.

Once the recovery is underway, economies are expected to be close to their forward-looking long-term – or future potential – growth levels within the next two to five years, as the effects of current economic shocks dissipate. However, material downside risks remain to the base forecasts including the extent and duration of lockdowns and the efficacy of the policy response.

While the quarterly base forecasts inform the Group's strategic plan, one key requirement of IFRS 9 is that the assessment of provisions should consider multiple future economic environments. For example, the global economy may grow more quickly or more slowly than the Base Forecast, and these variations would have different implications for the provisions that the Group should hold today. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group sets provisions only on the ECL under the Base Forecast it might maintain a level of provisions that does not appropriately capture the range of potential outcomes. To address this property of skewness (or non-linearity), IFRS 9 requires reported ECL to be a probability-weighted ECL calculated over a range of possible outcomes.

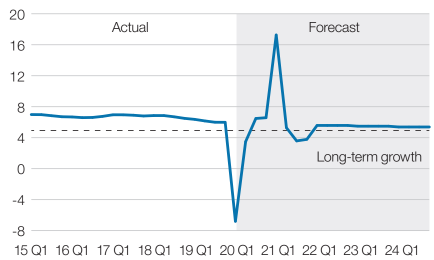
To assess the range of possible outcomes, the Group simulates a set of 50 scenarios around the Base Forecast, calculates the ECL under each of them and assigns an equal weight of 2 per cent to each scenario outcome. These scenarios are generated by a Monte Carlo simulation, which addresses the challenges of crafting many realistic alternative scenarios in the many countries in which the group operates by means of a model that produces these alternative scenarios while considering the degree of uncertainty (or volatility) historically observed around economic outcomes and how these outcomes have tended to move in relation to one another (or correlation). This naturally means that the 50 scenarios do not each have a specific narrative, although collectively they explore a range of hypothetical alternative outcomes for the global economy, including scenarios that turn out better than expected and scenarios that amplify anticipated stresses.

The table on the next page provides a summary of the Group's Base Forecast for key footprint markets, alongside the corresponding range seen across the multiple scenarios. The peak/trough amounts in the table show the highest and lowest points within the Base Forecast, and the GDP graphs illustrate the shape of the Base Forecast in relation to prior periods actuals and the long-term growth rates.

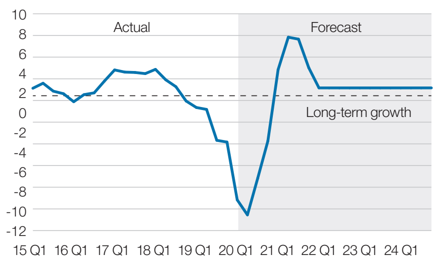
Despite the synchronised global downturn there are significant variances across countries, reflecting the differences in the evolution of the pandemic and strategies to contain it. In China, supported by policy stimulus, the recovery from the sharp contraction from earlier in the year is underway and growth is projected at 2.5 per cent in 2020 (this includes the 6.8 per cent contraction in the first quarter). India's economy is projected to contract by more than 4 per cent following a longer period of lockdown than initially expected and slow recovery. More open economies have been additionally impacted by the decline in world trade and demand. For example, Singapore GDP is expected to decline by 6 per cent and Hong Kong by 7.2 per cent. Korea was one of the first countries to be affected by the COVID-19 pandemic and effective strategies by the government there to contain the spread of the virus have limited the economic decline compared to other advanced economies.

Weak global economic activity will continue to limit commodity price gains. Oil prices are expected to average $34 in 2020, with only a gradual recovery to $44 in 2021.

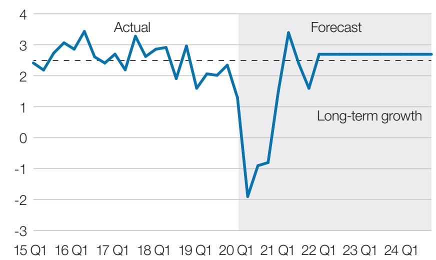
China GDP YoY%



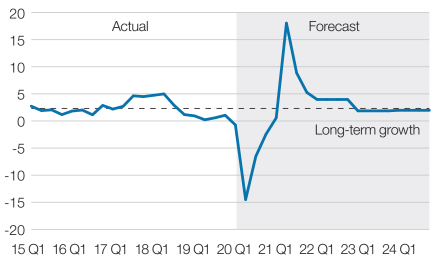
Hong Kong GDP YoY%



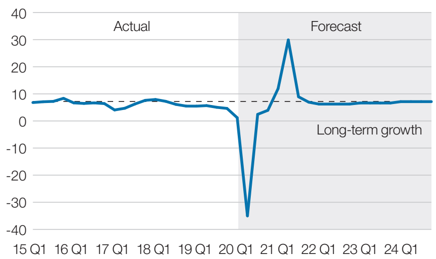
Korea GDP YoY%



Singapore GDP YoY%



India GDP YoY%



Long-term growth = forward-looking future GDP growth potential

	China		Hong Kong		Korea		Singapore		India[1]	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
GDP growth (YoY%)	2.5	7.5	(7.2)	6.0	(0.6)	2.2	(6.0)	8.2	(4.1)	13.1
Unemployment (%)	4.2	3.7	5.3	5.3	4.2	4.0	4.7	3.9	N/A	N/A
3 month interest rates (%)	1.5	1.9	1.4	0.8	1.1	1.1	0.9	0.8	3.5	3.3
Housing prices (YoY%)	5.3	5.7	(2.9)	4.8	0.7	1.9	(5.6)	5.7	(0.7)	7.5

1 India GDP follows the Fiscal Year beginning in Q2. All other variables are on a calendar year basis

2020[5]

	China				Hong Kong				Korea				Singapore				India			
	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]
GDP growth (YoY%)	5.9	17.3/3.5	3.8	7.5	1.9	7.7/ (10.4)	(1.8)	6.8	2.0	3.4/(1.9)	(0.4)	4.9	2.1	18.1/ (14.5)	(2.7)	8.9	6.0	30.0/ (35.0)	3.8	11.2
Unemployment (%)	3.8	4.3/3.7	3.6	3.8	4.1	6.1/3.2	2.7	5.9	3.9	4.8/3.6	3.3	4.5	3.5	5.5/3.0	2.4	4.8	N/A	N/A	N/A	N/A
3 month interest rates (%)	2.4	2.8/1.4	1.4	3.4	2.1	3.5/0.8	0.5	4.3	1.6	2.5/1.1	0.8	2.8	1.7	2.9/0.7	0.6	5.7	4.4	5.7/3.2	3.0	6.2
House prices (YoY%)	6.4	7.6/4.8	(32.6)	32.5	3.9	8.5/(4.9)	(5.5)	14.3	2.3	2.8/0.3	(0.0)	4.8	3.8	14.8/ (13.0)	(8.6)	13.6	6.0	9.4/(2.6)	(0.1)	12.7

2019

	China				Hong Kong				Korea				Singapore				India			
	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]
GDP growth (YoY%)	5.8	6.3/5.5	4.4	7.4	1.6	2.5/(4.8)	(2.7)[4]	4.4	2.6	2.9/2.1	0.6	4.8	2.1	2.5/0.9	(1.4)	5.9	6.9	7.2/6.1	5.0	9.0
Unemployment (%)	3.6	3.6/3.6	3.6	3.7	3.5	3.6/3.1	2.7	4.3	3.6	4.0/3.2	3.0	4.2	3.0	3.2/3.0	2.3	3.8	N/A	N/A	N/A	N/A
3 month interest rates (%)	2.6	2.8/2.3	1.8	3.6	2.4	3.5/1.2	0.9	4.3	1.7	2.5/1.2	0.8	2.9	2.0	2.9/1.3	1.1	3.1	5.2	5.6/4.8	4.3	6.1
House prices (YoY%)	6.3	7.6/4.2	4.2	8.3	3.6	5.7/(5.1)	(6.5)	14.6	2.6	2.8/0.7	0.5	4.8	3.4	4.4/0.4	(2.7)	9.7	7.8	8.1/6.9	2.4	13.2

	2020[5]				2019			
	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]	5 yr average base forecast	Base forecast peak/ trough	Low[2]	High[3]
Crude price Brent, $ pb	49.9	61.5/23.0	27.9	80.7	71	76/66	42	102

1 N/A – Not available

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

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

4 This value is higher than the trough in the base forecast because it is measured over the five-year range; if the 10th percentile had been read off the first half of 2020, it would have been -5.7

5 Base forecasts are evaluated from Q2 2020 to Q2 2025. The forward-looking simulation starts from Q3 2020. Accordingly, if the base forecast registers extreme value in Q2 2020 from which it recovers by Q3 2020, it is possible for the base forecasts to exhibit a more extreme value than the simulated range

The final probability-weighted ECL reported by the Group is a simple average of the ECL for each of the 50 scenarios, together with the ECL from the base forecast. The impact of these scenarios and the management overlay (together referred to as non-linearity) is set out in the table below.

	Including non-linearity $million	Base forecast $million	Difference %
Total expected credit loss at 30 June 2020[1]	1,686	1,349	25.0
Total expected credit loss at 31 December 2019[1]	1,108	1,079	2.7

1 Total modelled ECL comprises stage 1 and stage 2 balances of $1,519 million (31 December 2019: $975 million) and $167 million (31 December 2019: $133 million) of modelled ECL on stage 3 loans

The average expected credit loss under multiple scenarios (which incorporates the management overlay below) is 25.0 per cent higher than the expected credit loss calculated using only the most likely scenario (the Base Forecast). Portfolios that are more sensitive to non-linearity include those with greater leverage and/or a longer tenor, such as Project and Shipping Finance and credit card portfolios. Other portfolios display minimal non-linearity owing to limited responsiveness to macroeconomic impacts for structural reasons such as significant collateralisation as with the Retail Banking mortgage portfolios.

Management overlay – COVID-19

As at 30 June 2020, the Group held a $316 million management overlay relating to uncertainties as a result of the COVID-19 pandemic, $198 million of which relates to Corporate & Institutional Banking and Commercial Banking and $118 million to Retail Banking.

Corporate & Institutional Banking and Commercial Banking

The amount of loans placed on non-purely precautionary early alert increased significantly over the first half of 2020 as the impact of COVID-19 was evaluated on the Group's portfolio. However, the impact of the rapid deterioration in the economic environment in the first six months of 2020 has not yet been fully observed in customers' financial performance and there has not been a significant increase in the level of stage 3 loans relating to COVID-19 as at 30 June 2020. To take account of the heightened credit risk and the continuing uncertainties in the pace and timing of economic recovery, a judgemental overlay has been taken by estimating the impact of further deterioration to the non-purely precautionary early alert portfolio.

Retail Banking

A number of components contribute to the judgemental overlay for Retail Banking. Within Business Banking, the Group has evaluated those sectors that have been adversely impacted by COVID-19, both through internal credit processes as well as through a 'Voice of Customer' survey to understand how customers have been affected. The Group has also considered the extent to which lockdowns have impacted collections and recoveries, and the extent to which payment reliefs may mask underlying credit risks, particularly in those markets in ASEAN & South Asia where blanket moratoria are in place. For those markets, the Group has estimated the impact of increased delinquencies and flows to defaults when the moratoria are lifted as well, as the extent to which customers in stage 1 may have experienced a significant increase in credit risk if not for the moratoria. The Group assessment also considered employee banking relationships with high-impact sectors, such as airlines, and the impact on Mortgages in Africa & the Middle East which generally have high LTVs.

Stage 3

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

Sensitivity of expected credit loss calculation to macroeconomic variables (within EY review scope)

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, which implies that no single analysis can fully demonstrate the sensitivity of the ECL to changes in the macroeconomic variables. The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables which might have the greatest impact on overall ECL. These encompassed single variable and multi-variable exercises, using simple up/down variation and extracts from actual calculation data, as well as bespoke scenario design and assessments.

The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential – that is, likely to result in an impact of at least 1 per cent of the Group's ECL. The Group believes this is plausible as the number of variables used in the ECL calculation is large. This does not mean that macroeconomic variables are uninfluential; rather, that the Group believes that consideration of macroeconomics should involve whole scenarios, as this aligns with the multi-variable nature of the calculation.

The Group faces downside risks in the operating environment related to the uncertainties surrounding the effect of COVID-19 on the macroeconomic outlook. To explore this, a sensitivity analysis of ECL was undertaken to explore the effect of slower economic recoveries across the Group's footprint markets. Two variants were considered – one with moderately slower recovery than the baseline and a second more severe scenario. In these scenarios the assumption is that the measures taken in the first half of the year to stem the spread of the coronavirus are insufficient as economies exhibit increasing numbers of cases. As a result, lockdown measures are implemented or re-introduced in all footprint countries. Economic activity is restricted to covering basic needs and smaller businesses continue to suffer, with unemployment figures rising. Cross-border trade is significantly reduced or halted. Government debt jumps in an effort to stimulate the economy and keep cash flowing to the private sector. Taken together, it takes longer for fiscal and monetary stimulus to bring activity and employment back to the levels prevailing prior to the onset of COVID-19.

	Baseline		Moderate scenario		Severe scenario	
	Five year average	Peak/Trough	Five year average	Peak/Trough	Five year average	Peak/Trough
China GDP	5.9	17.3/3.5	4.6	10.2/(2.3)	3.3	6.6/(9.0)
China unemployment	3.8	4.3/3.7	4.4	5.9/3.7	5.1	8.0/3.7
China property prices	6.4	7.6/4.8	4.5	7.9/(11.2)	2.6	10.0/(27.4)
Hong Kong GDP	1.9	7.7/(10.4)	1.3	5.1/(10.7)	0.8	3.2/(11.0)
Hong Kong unemployment	4.1	6.1/3.2	4.4	6.4/3.2	4.6	7.1/3.2
Hong Kong property prices	3.9	8.5/(4.9)	2.8	11.7/(17.5)	2.2	16.1/(30.8)
US GDP	1.2	17.8/(15.8)	0.1	12.1/(18.6)	(0.8)	11.2/(21.9)
Singapore GDP	2.1	18.1/(14.5)	1.8	14.6/(14.5)	1.6	11.1/(14.5)
India GDP	6.0	30.0/(35.0)	4.8	33.1/(35.0)	3.6	36.1/(35.0)
World GDP	3.1	9.6/(8.1)	1.9	8.2/(10.5)	1.2	6.9/(15.2)
Crude Oil	49.9	61.5/23.0	47.4	61.5/20.2	44.9	61.5/17.4

The modelled ECL provisions would be approximately $740 million higher under the moderate scenario and $2.4 billion higher under the severe scenario than the baseline ECL provisions (which excluded the impact of multiple economic scenarios and management overlays which may already capture some of the risks in these scenarios). The proportion of stage 2 assets would increase from 6 per cent to 12 per cent under the severe downside scenario. This includes the impact of exposures transferring to stage 2 from stage 1 but does not consider an increase in stage 3 defaults. There was no material change in modelled stage 3 provisions as these primarily relate to unsecured Retail Banking exposures for which the LGD is not sensitive to changes in the macroeconomic forecasts. Under the severe scenario the majority of the increase was in Corporate & Institutional Banking and Commercial Banking with the main corporate portfolios in China, Hong Kong and Singapore impacted. Around 20 per cent of the increase was in Retail Banking, with the main portfolios impacted being the Group's credit card portfolios in Hong Kong and Singapore. Note that these scenarios are not incorporated into the Group's determination of ECL provisions and the actual outcome of any scenario may be materially different due to, amongst other factors, the effect of management actions to mitigate potential increases in risk and changes in the underlying portfolio.

Modelled provisions (within EY review scope)

	Moderate downside increase $m	Severe downside increase $m
Corporate & Institutional Banking	300	1,366
Retail Banking	220	493
Commercial Banking	196	520
Private Banking	1	34
Central & other items	23	34
Total	**740**	**2,447**

Proportion of assets in stage 2[1] (within EY review scope)

	Base Forecast scenario %	Moderate downside scenario %	Severe downside scenario %
Corporate & Institutional Banking	9.0%	15.1%	19.7%
Retail Banking	3.7%	4.0%	5.6%
Commercial Banking	15.5%	35.1%	42.9%
Private Banking	1.5%	6.0%	6.0%
Central & other items	1.7%	1.8%	5.6%
Total	**6.2%**	**9.4%**	**12.2%**

1 Excludes cash and balances at central banks, accrued income, assets held for sale and other assets

Country Risk

The Group monitors Gross Country Risk (GCR), which is an aggregate of two distinct risk types:

- Transfer and Convertibility Risk (TCR), which is the potential for losses on cross-border or foreign currency obligations arising from the possibility that a government is unable or unwilling to make foreign currency available for remittance out of the country
- Local Currency Risk (LCR), which is the potential for losses on local currency obligations arising from operating in a volatile domestic economic and political environment

The profile of the Group's largest Gross Country Risk exposures as at 30 June 2020 is consistent with its strategic focus on core franchise countries. Changes in the pace of economic activity and portfolio management activity had an impact on the growth of Country Risk exposure for certain markets.

There has been a significant increase in exposure to the United States, due to increased purchases of US government bonds, and higher lending, particularly to non-financial corporates.

There has been a reduction in exposure to Hong Kong, primarily due to lower holdings of domestic government securities. This was partially offset by increases in nostros balances with the central bank and growth in the lending portfolio.

The significant increase in exposure to South Korea is on account of higher nostros balances with the central bank and increased holding of domestic government bonds.

The significant increase in exposure to Singapore is due to higher nostros balances kept with the Monetary Authority of Singapore and increased cross-border lending. This was partially offset by reductions in retail exposure and trade finance.

Exposure to China increased slightly due to the increase in nostros balances offsetting the reduction in trade finance and retail exposure.

There was a significant decrease in exposure to the United Kingdom during the first half of the year due to reductions in cross-border trade finance, particularly with financial institutions, and lower nostros balances.

Exposure to India increased slightly, with increases in lending to non-financial corporates offsetting the reductions across trade finance and the retail portfolio.

Exposure to the United Arab Emirates increased due to higher cross-border lending and increased trade finance volumes. This was partially offset by a reduction in domestic government securities.

There has been a slight increase in exposure to Japan due to higher purchases of domestic government securities, particularly in offshore booking centres. This was partially offset by a lower nostros balance kept with the central bank.

Overall exposure to Taiwan increased during the first half of the year due to an increase in money market deposits kept with domestic banks, offsetting the reduction in trade finance.

The table below, which is based on the Group's internal Country Risk reporting requirements, shows the 10 largest country/market exposures across the Group.

	30.06.20			31.12.19		
	TCR $million	LCR $million	GCR $million	TCR $million	LCR $million	GCR $million
United States	33,310	58,241	91,551	25,966	58,930	84,896
Hong Kong	21,141	62,581	83,722	21,361	63,214	84,575
South Korea	15,797	57,350	73,147	17,809	49,351	67,160
Singapore	21,470	37,737	59,207	18,304	34,046	52,350
China	37,767	20,550	58,317	36,469	20,977	57,446
United Kingdom	22,906	16,802	39,708	27,563	16,782	44,345
India	15,146	20,628	35,774	14,008	20,305	34,313
United Arab Emirates	18,577	5,700	24,277	16,461	6,145	22,606
Japan	14,126	6,847	20,973	9,341	10,393	19,734
Taiwan	5,553	15,198	20,751	2,733	14,827	17,560

Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the Group in financial markets. Under the Enterprise Risk Management Framework, the Traded Risk Framework brings together Market Risk, Counterparty Credit Risk, Issuer Risk, XVA, Algorithmic Trading and Pension Risk. Traded Risk Management is the core risk management function supporting market-facing businesses, predominantly Financial Markets and Treasury Markets.

Market Risk (within EY review scope)

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

- Trading book:
  - The Group provides clients access to financial markets, facilitation of which entails taking moderate Market Risk positions. All trading teams support client activity. There are no proprietary trading teams. Hence, income earned from Market Risk-related activities is primarily driven by the volume of client activity rather than risk-taking
- Non-trading book:
  - The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to Structural Foreign Exchange Risk which is reflected in reserves

A summary of our current policies and practices regarding Market Risk management is provided in the Principal Risks section of our 2019 Annual Report (page 215).

The primary categories of Market Risk for the Group are:

- Interest Rate Risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Foreign Exchange Rate Risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options
- Commodity Risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture as well as commodity baskets
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Market Risk changes (within EY review scope)

The average level of total trading and non-trading value at risk (VaR) in the first half of 2020 was $82.4 million, 157 per cent higher than the second half of 2019 ($32.1 million) and 192 per cent higher than the first half of 2019 ($28.2 million). The actual level of total trading and non-trading VaR as at the end of the first half of 2020 was $124.6 million, 262 per cent higher than in the second half of 2019 ($34.4 million) and 302 per cent higher than the first half of 2019 ($31.0 million). The increase in total average VaR was driven by the extreme market volatility following the outbreak of COVID-19 and the collapse in oil prices. The main contributor to the increase in VaR was the widening of credit spreads observed in March 2020 which impacted the non-trading book. The historical scenarios driving VaR are all from March 2020, hence VaR is expected to remain elevated until at least March 2021.

For the trading book, the average level of VaR in the first half of 2020 was $13.0 million, 19 per cent higher than in the second half of 2019 ($10.9 million), and 17 per cent higher than in the first half of 2019 ($11.1 million). Trading activities have remained relatively unchanged and client-driven.

Daily value at risk (VaR at 97.5%, one day) (within EY review scope)

	6 months ended 30.06.20				6 months ended 31.12.19				6 months ended 30.06.19			
Trading and non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest Rate Risk[3]	**75.7**	**117.9**	**29.0**	**115.0**	30.9	35.2	24.8	34.2	26.8	29.5	24.1	26.7
Foreign Exchange Risk	**4.5**	**7.2**	**3.0**	**6.6**	3.9	7.5	2.3	5.1	4.6	8.5	2.7	3.7
Commodity Risk	**1.5**	**2.6**	**0.7**	**1.6**	1.4	2.1	1.0	1.4	1.2	2.2	0.8	1.2
Equity Risk	**2.4**	**2.7**	**1.9**	**2.0**	3.7	4.6	2.5	2.5	3.3	4.6	2.5	4.5
Total[4]	**82.4**	**132.7**	**28.8**	**124.6**	32.1	37.1	27.9	34.4	28.2	31.4	24.1	31.0

	6 months ended 30.06.20				6 months ended 31.12.19				6 months ended 30.06.19			
Trading[5]	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest Rate Risk[3]	**9.4**	**13.9**	**6.5**	**11.6**	7.5	9.1	6.3	7.0	8.6	11.8	6.3	7.3
Foreign Exchange Risk	**4.5**	**7.2**	**3.0**	**6.6**	3.9	7.5	2.3	5.1	4.6	8.5	2.7	3.7
Commodity Risk	**1.5**	**2.6**	**0.7**	**1.6**	1.4	2.1	1.0	1.4	1.2	2.2	0.8	1.2
Equity Risk	**–**	**–**	**–**	**–**	–	–	–	–	–	0.1	–	–
Total[4]	**13.0**	**21.3**	**8.3**	**17.4**	10.9	13.0	8.8	10.0	11.1	14.0	9.2	11.0

Non-trading	6 months ended 30.06.20 Average $million	High[1] $million	Low[1] $million	Actual[2] $million	6 months ended 31.12.19 Average $million	High[1] $million	Low[1] $million	Actual[2] $million	6 months ended 30.06.19 Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest Rate Risk[3]	**68.0**	**109.6**	**27.3**	**87.3**	28.7	33.3	23.1	33.3	23.6	25.0	21.2	23.3
Equity Risk[6]	**2.4**	**2.7**	**1.9**	**2.1**	3.7	4.6	2.5	2.5	3.3	4.6	2.5	4.5
Total[4]	**68.8**	**109.7**	**27.7**	**89.1**	29.6	33.4	25.6	32.0	23.7	27.4	20.6	26.5

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days

2 Actual one-day VaR at period-end date

3 Interest Rate Risk VaR includes Credit Spread Risk arising from securities accounted for as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI)

4 The total VaR shown in the tables above is not equal to the sum of the component risks due to offsets between them

5 Trading book for Market Risk is defined in accordance with the EU Capital Requirements Regulation (CRD IV/CRR) Part 3 Title I Chapter 3, which restricts the positions permitted in the trading book

6 Non-trading Equity Risk VaR includes only listed equities

Risks not in VaR

In the first half of 2020, the main Market Risk not reflected in VaR was the potential depeg risk from currencies currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. The other material Market Risk not reflected in VaR was associated with basis risks where historical market price data for VaR is sometimes more limited and therefore proxied. Additional capital is set aside to cover such 'risks not in VaR'. For further details on Market Risk capital, see the section on Market Risk in Standard Chartered PLC Pillar 3 Disclosures for 30 June 2020.

Backtesting

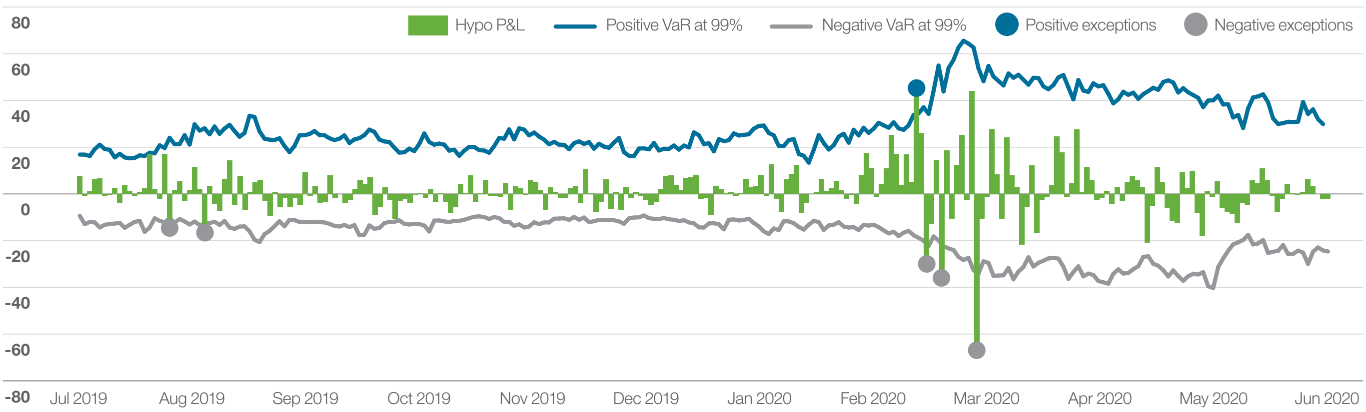
In the first half of 2020, there were three regulatory backtesting exceptions at Group level (in the second half of 2019, there were two regulatory backtesting exceptions at Group level). All three exceptions occurred in the period of extreme market volatility triggered by the COVID-19 pandemic.

- 10 March: When markets rallied following the announcement of measures to stimulate the US economy
- 13 March: When markets rallied as the Federal Reserve provided details of US Treasury purchases, and cut interest rates
- 24 March: When markets rallied as US Congress finalised a $2 trillion package to stimulate the economy, also impacting gold prices

In total, there have been five Group exceptions in the previous 250 business days which is within the 'amber zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision, Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements, January 1996).

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

Half year 2020 Backtesting Chart
Internal Model Approach regulatory trading book at Group Level
Hypothetical Profit and Loss (P&L) versus VaR (99 percent, one day)



Average daily income earned from Market Risk-related activities[1] (within EY review scope)

The average level of total trading daily income in the first half of 2020 was $14.0 million, 65 per cent higher than the second half of 2019 ($8.5 million) and 54 per cent higher than the first half of 2019 ($9.1 million), driven by extreme market volatility following the outbreak of COVID-19 and the resulting increase in trading activity and wider spreads.

Trading	6 months ended 30.06.20 $million	6 months ended 31.12.19 $million	6 months ended 30.06.19 $million
Interest Rate Risk	7.0	3.7	3.5
Foreign Exchange Risk	6.0	4.0	4.9
Commodity Risk	1.0	0.8	0.7
Equity Risk	–	–	–
Total	**14.0**	8.5	9.1
Non-trading			
Interest Rate Risk	1.8	1.9	1.6
Equity Risk	(0.1)	1.0	(0.2)
Total	**1.7**	2.9	1.4

1 Reflects total product income, which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from Market Risk-related activities. XVA income is included under Interest Rate Risk

Counterparty Credit Risk

Counterparty Credit Risk is the potential for loss in the event of the default of a derivative counterparty, after taking into account the value of eligible collaterals and risk mitigation techniques. The Group's counterparty credit exposures are included in the Credit Risk section.

Derivative financial instruments Credit Risk mitigation

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

In addition, the Group enters into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions are in the counterparty's favour and exceed an agreed threshold.

Liquidity and Funding Risk

Liquidity and Funding Risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

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

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

Since the beginning of the year, there were no significant changes in Treasury policies as disclosed in the 2019 Annual Report.

Despite the challenges brought by COVID-19, the Group has been resilient and kept a strong liquidity position. Overall the Group has increased its level of deposits, in particular good-quality current and savings account balances. The Group continues to focus on improving the quality of its funding mix and remains committed to supporting its clients during these uncertain times.

The Group has relatively low levels of sterling and euro funding and exposures within the context of the overall Group balance sheet. The result of the UK referendum to leave the EU has therefore not had a material first order liquidity impact to date. A new subsidiary has been established in Germany (Standard Chartered Bank AG) to grow our continental Europe franchise.

Liquidity and Funding Risk metrics

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

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

Liquidity coverage ratio (LCR)

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

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

At the reporting date, the Group LCR was 149 per cent (2019: 144 per cent) with a prudent surplus to both Board-approved risk appetite and regulatory requirements. The ratio increased 5 per cent year-to-date due to a reduction in net outflows, caused mainly by a change in the funding mix, with an increase in stable current and saving accounts balances and a decrease in term deposits, as we sought to manage liquidity more efficiently. We also held adequate liquidity across our footprint to meet all local prudential LCR requirements where applicable.

	30.06.20 $million	31.12.19 $million
Liquidity buffer	156,842	158,415
Total net cash outflows	105,165	110,269
Liquidity coverage ratio	149%	144%

Stressed coverage

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

Our approach to managing liquidity and funding is reflected in the following Board-level Risk Appetite Statement:

"The Group should hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support."

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

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

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

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

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, Off-balance Sheet Funding Risk, Cross-currency Funding Risk, Intraday Risk, Franchise Risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios as at 30 June 2020, i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario as at 30 June 2020 showed that the Group maintained liquidity resources to survive greater than 60 days, as per our Board Risk Appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

Standard Chartered Bank's credit ratings as at 30 June 2020 were A+ with negative outlook (Fitch), A with stable outlook (S&P) and A1 with stable outlook (Moody's). A downgrade in the Group's long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. As at 30 June 2020, the estimated contractual outflow of a two-notch long-term ratings downgrade is $1.3 billion.

External wholesale borrowing

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

Advances-to-deposits ratio (within EY review scope)

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

The advances-to-deposits ratio decreased slightly to 62.7 per cent over the first half of 2020 (2019: 64.2 per cent).

Loans and advances to customers increased to $269 billion driven mainly by growth in Financial Markets, Corporate Lending and Corporate Finance. The increase in Corporate Lending and Corporate Finance reflects increased draw-downs on revolving credit facilities that coincided with the global spread of COVID-19 in March and April.

Customer deposits increased to $429 billion, with an increase in operating account balances within Cash Management and Retail Banking current accounts, partly offset by a reduction in Retail Banking time deposits. The strong growth in current and saving account balances allowed us to run down some term deposits to manage liquidity more efficiently.

	30.06.20 $million	31.12.19 $million
Total loans and advances to customers[1,2]	268,788	264,841
Total customer accounts[3]	428,849	412,303
Advances-to-deposits ratio	62.7%	64.2%

1 Excludes reverse repurchase agreement and other similar secured lending of $4,383 million and includes loans and advances to customers held at fair value through profit and loss of $10,453 million

2 Loans and advances to customers for the purpose of the advances-to-deposits ratio excludes $13,595 million of approved balances held with central banks, confirmed as repayable at the point of stress (31 December 2019: $9,109 million)

3 Includes customer accounts held at fair value through profit or loss of $7,696 million (31 December 2019: $6,947 million)

Net stable funding ratio (NSFR)

On 23 November 2016, the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (the NSFR) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295). The NSFR is due to become a binding regulatory requirement in June 2021 with a minimum of 100 per cent. Pending implementation of the final rules, the Group continues to monitor NSFR in line with the Basel Committee on Banking Supervision's final recommendation (BCBS295).

The NSFR is a balance sheet metric which requires institutions to maintain a stable funding profile in relation to the characteristics of their assets and off-balance sheet activities over a one-year horizon. It is the ratio between the amount of available stable funding (ASF) and the amount of required stable funding (RSF). ASF factors are applied to balance sheet liabilities and capital, based on their perceived stability and the amount of stable funding they provide. Likewise, RSF factors are applied to assets and off-balance sheet exposures according to the amount of stable funding they require. At the last reporting date, the Group NSFR remained above 100 per cent.

Liquidity pool

The liquidity value of the Group's LCR eligible liquidity pool at the reporting date was $157 billion. The figures in the table below account for haircuts, currency convertibility and portability constraints, and therefore are not directly comparable with the consolidated balance sheet. The pool is held to offset stress outflows as defined in European Commission Delegated Regulation 2015/61. The liquidity pool in Greater China and North Asia decreased by $2 billion (3 per cent) during the first half of the year. The amount that can be ported from the region to the group reduced compared to December 2019 due to changes to lending limits by the Chinese regulator (Large Exposures Regime).

	30.06.20				
	Greater China & North East Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	10,795	15,700	1,024	29,112	56,631
Central banks, governments/public sector entities	27,752	8,686	1,977	39,760	78,175
Multilateral development banks and international organisations	4,903	723	498	6,697	12,821
Other	–	–	14	1,652	1,666
Total Level 1 securities	43,450	25,109	3,513	77,221	149,293
Level 2A securities	2,144	2,167	52	2,637	7,000
Level 2B securities	–	243	–	306	549
Total LCR eligible assets	45,594	27,519	3,565	80,164	156,842

	31.12.19				
	Greater China & North East Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	15,109	11,535	1,265	24,326	52,235
Central banks, governments/public sector entities	31,735	7,952	2,201	39,136	81,024
Multilateral Development Banks and international organisations	2,761	1,183	160	7,448	11,552
Other	–	–	14	1,104	1,118
Total Level 1 securities	49,605	20,670	3,640	72,014	145,929
Level 2 A securities	4,824	1,928	63	3,217	10,032
Level 2 B securities	–	343	–	2,111	2,454
Total LCR eligible assets	54,429	22,941	3,703	77,342	158,415

Encumbrance

Encumbered assets

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

Unencumbered – readily available for encumbrance

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

Unencumbered – other assets capable of being encumbered

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

Unencumbered – cannot be encumbered

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

Derivatives, reverse repurchase assets and stock lending

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

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

	30.06.20									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securiti-sations $million	Other $million	Total $million	Assets positioned at the central bank (i.e. pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	52,925	–	–	–	8,652	44,273	–	–	–	52,925
Derivative financial instruments	52,227	–	–	–	–	–	–	52,227	–	52,227
Loans and advances to banks	70,438	–	–	–	–	40,387	9,716	19,496	839	70,438
Loans and advances to customers	328,165	–	1,227	1,227	–	–	267,792	45,782	13,364	326,938
Investment securities	172,302	–	11,470	11,470	1,601	109,526	45,752	–	3,953	160,832
Other assets	46,925	–	16,789	16,789	–	–	18,990	–	11,146	30,136
Current tax assets	737	–	–	–	–	–	–	–	737	737
Prepayments and accrued income	2,354	–	–	–	–	–	1,160	–	1,194	2,354
Interests in associates and joint ventures	2,000	–	–	–	–	–	–	–	2,000	2,000
Goodwill and intangible assets	5,029	–	–	–	–	–	–	–	5,029	5,029
Property, plant and equipment	6,747	–	–	–	–	–	436	–	6,311	6,747
Deferred tax assets	822	–	–	–	–	–	–	–	822	822
Assets classified as held for sale	914	–	–	–	–	–	–	–	914	914
Total	741,585	–	29,486	29,486	10,253	194,186	343,846	117,505	46,309	712,099

	31.12.19									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securiti-sations $million	Other $million	Total $million	Assets positioned at the central bank (i.e. pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/ stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	52,728	–	–	–	9,843	42,885	–	–	–	52,728
Derivative financial instruments	47,212	–	–	–	–	–	–	47,212	–	47,212
Loans and advances to banks	75,346	326	73	399	–	40,600	13,341	19,610	1,396	74,947
Loans and advances to customers	314,754	298	1,082	1,380	–	–	259,061	40,804	13,509	313,374
Investment securities	168,521	–	7,919	7,919	1,284	108,209	47,399	–	3,710	160,602
Other assets	42,022	–	16,080	16,080	–	–	14,516	–	11,426	25,942
Current tax assets	539	–	–	–	–	–	–	–	539	539
Prepayments and accrued income	2,700	–	–	–	–	–	1,530	–	1,170	2,700
Interests in associates and joint ventures	1,908	–	–	–	–	–	–	–	1,908	1,908
Goodwill and intangible assets	5,290	–	–	–	–	–	–	–	5,290	5,290
Property, plant and equipment	6,220	–	–	–	–	–	444	–	5,776	6,220
Deferred tax assets	1,105	–	–	–	–	–	–	–	1,105	1,105
Assets classified as held for sale	2,053	–	–	–	–	–	–	–	2,053	2,053
Total	720,398	624	25,154	25,778	11,127	191,694	336,291	107,626	47,882	694,620

The Group received $85,713 million (31 December 2019: $85,415 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this, the Group sold or repledged $43,193 million (31 December 2019: $44,530 million) under repurchase agreements.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities (within EY review scope)

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

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are fair value through other comprehensive income are used by the Group principally for liquidity management purposes.

As at the reporting date, assets remain predominantly short-dated, with 58 per cent maturing in under one year. Our less than three-month cumulative net funding gap increased from the previous year, largely due to an increase in customer accounts as the Group focused on improving the quality of its deposit base. In practice, these deposits are recognised as stable and have behavioural profiles that extend beyond their contractual maturities.

	30.06.20								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	44,273	–	–	–	–	–	–	8,652	52,925
Derivative financial instruments	8,211	4,334	5,993	5,911	2,619	5,348	10,501	9,310	52,227
Loans and advances to banks[1,2]	33,570	16,111	10,855	3,998	3,344	1,488	953	119	70,438
Loans and advances to customers[1,2]	87,673	40,216	24,537	16,321	13,559	18,526	39,391	87,942	328,165
Investment securities	11,713	13,915	12,611	15,224	10,433	32,352	47,337	28,717	172,302
Other assets	24,974	16,262	1,295	168	665	142	61	21,961	65,528
Total assets	210,414	90,838	55,291	41,622	30,620	57,856	98,243	156,701	741,585
Liabilities									
Deposits by banks[1,3]	32,054	1,628	2,624	379	443	162	423	1	37,714
Customer accounts[1,4]	374,720	46,102	25,703	9,645	7,539	2,027	1,625	2,103	469,464
Derivative financial instruments	7,675	4,253	5,673	5,597	3,072	5,966	11,750	6,840	50,826
Senior debt	671	110	610	2,177	1,900	707	14,510	12,226	32,911
Other debt securities in issue[1]	1,695	11,160	7,689	1,538	934	361	29	497	23,903
Other liabilities	23,170	19,560	2,376	701	720	939	636	11,942	60,044
Subordinated liabilities and other borrowed funds	–	17	–	–	–	1,002	4,664	11,143	16,826
Total liabilities	439,985	82,830	44,675	20,037	14,608	11,164	33,637	44,752	691,688
Net liquidity gap	(229,571)	8,008	10,616	21,585	16,012	46,692	64,606	111,949	49,897

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see Note 13 Financial instruments (pages 122 to 137)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of $65.3 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $7.5 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of $40.6 billion

	31.12.19								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	42,885	–	–	–	–	–	–	9,843	52,728
Derivative financial instruments	6,643	5,751	3,835	2,714	1,860	3,955	9,439	13,015	47,212
Loans and advances to banks[1,2]	33,133	19,030	11,069	5,150	3,464	1,701	1,366	433	75,346
Loans and advances to customers[1,2]	86,927	37,322	20,849	10,088	12,640	21,517	38,624	86,787	314,754
Investment securities	11,968	11,837	17,180	11,789	7,070	34,859	44,488	29,330	168,521
Other assets	20,689	18,223	1,433	105	75	264	133	20,915	61,837
Total assets	202,245	92,163	54,366	29,846	25,109	62,296	94,050	160,323	720,398
Liabilities									
Deposits by banks[1,3]	31,873	2,931	1,079	361	528	174	486	–	37,432
Customer accounts[1,4]	349,992	50,546	25,552	10,270	9,545	2,622	1,553	2,653	452,733
Derivative financial instruments	7,086	5,922	4,249	2,990	2,031	5,007	10,069	11,130	48,484
Senior debt	325	1,373	2,870	607	495	3,083	11,248	11,318	31,319
Other debt securities in issue[1]	5,612	12,234	8,766	895	1,449	280	56	924	30,216
Other liabilities	17,701	17,206	3,039	600	908	1,866	835	11,191	53,346
Subordinated liabilities and other borrowed funds	–	17	754	–	–	–	5,523	9,913	16,207
Total liabilities	412,589	90,229	46,309	15,723	14,956	13,032	29,770	47,129	669,737
Net liquidity gap	(210,344)	1,934	8,057	14,123	10,153	49,264	64,280	113,194	50,661

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see Note 13 Financial instruments (pages 122 to 137)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of $60.4 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $7.8 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of $40.4 billion

Behavioural maturity of financial assets and liabilities

The cashflows presented in the previous section reflect the cashflows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cashflow. In practice, certain assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

Maturity of financial liabilities on an undiscounted basis (within EY review scope)

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

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

	30.06.20								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	31,996	1,644	2,635	386	480	170	427	1	37,739
Customer accounts	374,994	46,315	26,093	9,750	7,703	2,114	1,672	2,408	471,049
Derivative financial instruments[1]	48,850	9	279	71	253	265	901	198	50,826
Debt securities in issue	2,376	11,256	8,389	3,740	3,136	1,677	15,965	14,717	61,256
Subordinated liabilities and other borrowed funds	–	–	233	26	371	1,668	6,234	16,232	24,764
Other liabilities	21,331	19,438	2,244	703	809	940	641	11,993	58,099
Total liabilities	479,547	78,662	39,873	14,676	12,752	6,834	25,840	45,549	703,733

	31.12.19								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	33,034	2,977	1,112	381	588	189	502	–	38,783
Customer accounts	350,679	50,908	26,552	10,415	9,839	2,694	1,625	3,127	455,839
Derivative financial instruments[1]	47,000	5	18	170	314	355	512	110	48,484
Debt securities in issue	5,951	13,615	11,886	1,559	2,210	3,882	12,431	13,557	65,091
Subordinated liabilities and other borrowed funds	–	–	1,009	26	395	641	7,140	15,124	24,335
Other liabilities	15,341	16,870	3,046	601	865	1,876	885	12,376	51,860
Total liabilities	452,005	84,375	43,623	13,152	14,211	9,637	23,095	44,294	684,392

1 Derivatives are on a discounted basis

Interest Rate Risk in the banking book

The following table provides the estimated impact on the Group's earnings of a 50 basis point parallel interest rate shock scenario (up and down) to the current market-implied path of rates, across all yield curves. These interest rate shock scenarios assume that all other economic variables remain constant. The sensitivities shown represent the estimated change to a hypothetical base case projected net interest income (NII), plus the change in interest rate implied income and expense from FX swaps used to manage banking book currency positions, under the two interest rate shock scenarios.

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

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

	30.06.20			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	35	95	50	180
- 50 basis points	(90)	(180)	(65)	(335)

	31.12.19			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	(10)	60	90	140
- 50 basis points	10	(40)	(90)	(120)

As at 30 June 2020, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points to increase projected NII by $180 million. The equivalent impact from a parallel decrease of 50 basis points would result in a reduction in projected NII of $335 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets re-pricing faster and to a greater extent than deposits. Overall NII sensitivity under both the up and down shock has increased versus 31 December 2019, driven by Treasury Markets risk management activity as rates fell during March 2020, and changes in modelling assumptions.

The asymmetry between the up and down shock has widened primarily due to the low level of interest rates, which may constrain the Group's ability to reprice liabilities should rates fall by a further 50 basis points, as well as differing behavioural assumptions, which are scenario-specific. The decision to pass on changes in interest rates is highly speculative and depends on a range of factors, including market environment and competitor behaviour.

The US dollar sensitivity is dampened further by the exclusion of trading book revenue. The reported sensitivities include the cost of banking book liabilities used to fund the trading book, however, the income associated with the corresponding trading book assets is excluded and recognised in trading book income. Further information on the impact of changes in interest rates on trading book is set out in the Market Risk section (pages 86 to 88).

Operational Risk

Operational Risks arise from the processes executed within the Group. Risks associated with these processes are mapped into a Group Process Universe where the Risk and Control Self-Assessment methodology is applied. The standards are benchmarked against regulatory requirements.

Operational Risk profile

The Operational Risk profile is the Group's overall exposure to non-financial risk, at a given point in time, covering all principal risk types. The Operational Risk profile comprises both Operational Risk events (including losses) and the current exposures to non-financial risks.

Other principal risks

Losses arising from operational failures for other principal risks (for example: Compliance, Conduct, Reputational, Information and Cyber Security and Financial Crime Risk) are reported as operational losses. Operational losses do not include Operational Risk-related credit impairments.

Capital review

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

Capital summary

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

Capital, leverage and RWA	30.06.20	31.12.19
CET1 capital	**14.3%**	13.8 %
Tier 1 capital	**16.5%**	16.5 %
Total capital	**21.5%**	21.2 %
UK leverage	**5.2%**	5.2 %
MREL ratio	**30.7%**	28.6%
Risk-weighted assets $million	**262,552**	264,090

The Group's CET1 capital and Tier 1 leverage position were well above current requirements. Further detail will be published in due course in the Capital section of the Standard Chartered PLC Pillar 3 Disclosures for the first half of 2020.

The Group's CET1 ratio increased 50 basis points to 14.3 per cent as profits, distribution restrictions and the sale of its equity interest in Permata more than offset COVID-19 related RWA impacts from increased credit migration, higher derivative activity and the draw-down of revolving credit facilities.

In the period, the PRA set the Group's current Pillar 2A requirement as a nominal value instead of a percentage of RWA. At the first half of 2020, this nominal value equated to 3.3 per cent of RWA, of which at least 1.9 per cent must be held in CET1. This requirement will vary over time with movements in RWA and as Pillar 2A remains subject to regular PRA review. The Group's countercyclical buffer reduced by 21 basis points to 14 basis points mainly due to reductions in countercyclical buffer rates in Hong Kong and the UK in response to the COVID-19 pandemic. As a result of these changes the Group's minimum CET1 requirement reduced by 23bps to 10.0% at 30 June 2020.

On 30 June, the PRA published a statement on various amendments to the Capital Requirements Regulation (CRR) including revisions to IFRS 9 transitional arrangements. In the period, certain changes were made to the calculation of PVA and Market RWA add-ons for IMA back-testing exceptions with the intention of offsetting some of the impacts of COVID related volatility. In total, the Group estimates these regulatory changes provided a CET1 benefit of around 15 basis points in the period. The PRA has also published Policy Statement 15/20 relating to Pillar 2A reductions to offset future changes to the UK countercyclical buffer rates which the Group currently expects to be implemented later this year. The Group's current view is that these changes will only have a negligible impact on the Group as the UK countercyclical buffer rate is not a material driver of the Group's CET1 requirement.

The Group's fully phased minimum requirement for own funds and eligible liabilities (MREL) will be 22.7 per cent of RWA from 1 January 2022 based on RWA and leverage exposure at the first half of 2020[1]. The Group's combined buffer (comprising the capital conservation buffer, the GSII buffer and the countercyclical buffer) is additive to the minimum MREL, resulting in a total MREL of 26.3 per cent of 1H'20 RWA from 1 January 2022. The Group's MREL position was 30.7 per cent of RWA and 10.0 per cent of leverage exposure at 30 June 2020.

The Group made good progress in the period in delivering on its 2020 issuance plans despite challenging market conditions; successfully raising around $7.4 billion of MREL eligible debt from its holding company. Issuance was across the capital structure including $1 billion of Additional Tier 1, EUR1 billion of Tier 2 and around $5.3 billion of callable senior debt.

In response to a request from the PRA and as a consequence of the unprecedented challenges from the COVID-19 pandemic, the Board decided to cancel the 2019 final dividend of 20 cents per ordinary share and to suspend the $0.5 billion share buy-back programme announced in February 2020. Additionally, no interim dividend on ordinary shares will be accrued, recommended or paid in 2020.

The Group is a G-SII, with a 1.0 per cent G-SII CET1 buffer. The Standard Chartered PLC 2019 G-SII disclosure is published at: sc.com/fullyearresults.

1 Potential future offset to Pillar 2A requirements from changes to the countercyclical buffer in PS 15/20 are not considered here

Capital ratios

	30.06.20	31.12.19
CET1	14.3%	13.8%
Tier 1 capital	16.5%	16.5%
Total capital	21.5%	21.2%

CRD IV Capital base[1] (within EY review scope)

	30.06.20 $million	31.12.19 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	5,564	5,584
Of which: share premium accounts	3,989	3,989
Retained earnings[2]	25,798	24,044
Accumulated other comprehensive income (and other reserves)	11,431	11,685
Non-controlling interests (amount allowed in consolidated CET1)	170	723
Independently reviewed interim and year-end profits	1,050	2,301
Foreseeable dividends	(163)	(871)
CET1 capital before regulatory adjustments	43,850	43,466
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	(527)	(615)
Intangible assets (net of related tax liability)	(4,938)	(5,318)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	(129)	(129)
Fair value reserves related to net losses on cashflow hedges	121	59
Deduction of amounts resulting from the calculation of excess expected loss	(572)	(822)
Net gains on liabilities at fair value resulting from changes in own Credit Risk	(15)	(2)
Defined-benefit pension fund assets	(7)	(26)
Fair value gains arising from the institution's own Credit Risk related to derivative liabilities	(128)	(38)
Exposure amounts which could qualify for risk weighting of 1,250%	(30)	(62)
Total regulatory adjustments to CET1	(6,225)	(6,953)
CET1 capital	37,625	36,513
AT1 capital instruments	5,632	7,184
AT1 regulatory adjustments	(20)	(20)
Tier 1 capital	43,237	43,677
Tier 2 capital instruments	13,261	12,318
Tier 2 regulatory adjustments	(30)	(30)
Tier 2 capital	13,231	12,288
Total capital	56,468	55,965
Total risk-weighted assets (not within EY review scope)	262,552	264,090

1 CRD IV capital is prepared on the regulatory scope of consolidation

2 Retained earnings includes IFRS9 dynamic capital relief (Transitional) of $69 million

Movement in total capital

	6 months ended 30.06.20 $million	6 months ended 31.12.19 $million
CET1 at 1 January/1 July	**36,513**	36,511
Ordinary shares issued in the period and share premium	**–**	–
Share buy-back	**(242)**	(6)
Profit for the period	**1,050**	820
Foreseeable dividends deducted from CET1	**(163)**	(871)
Difference between dividends paid and foreseeable dividends	**639**	(2)
Movement in goodwill and other intangible assets	**380**	(117)
Foreign currency translation differences	**(456)**	(98)
Non-controlling interests	**(553)**	30
Movement in eligible other comprehensive income	**157**	62
Deferred tax assets that rely on future profitability	**–**	(37)
Decrease/(increase) in excess expected loss	**250**	108
Additional value adjustments (prudential valuation adjustment)	**88**	62
IFRS9 transitional impact on regulatory reserves including day one	**6**	–
Exposure amounts which could qualify for risk weighting	**32**	10
Fair value gains arising from the institution's own Credit Risk related to derivative liabilities	**(90)**	52
Other	**14**	(11)
CET1 at 30 June/31 December	**37,625**	36,513
AT1 at 1 January/1 July	**7,164**	6,612
Issuances net of redemptions	**(995)**	552
Foreign currency translation difference	**(16)**	10
Excess on AT1 grandfathered limit (ineligible)	**(541)**	(10)
AT1 at 30 June/31 December	**5,612**	7,164
Tier 2 capital at 1 January/1 July	**12,288**	11,834
Regulatory amortisation	**137**	(539)
Issuances net of redemptions	**375**	1,000
Foreign currency translation difference	**(76)**	3
Tier 2 ineligible minority interest	**(34)**	(20)
Recognition of ineligible AT1	**541**	10
Other	**–**	–
Tier 2 capital at 30 June/31 December	**13,231**	12,288
Total capital at 30 June/31 December	**56,468**	55,965

The main movements in capital in the period were:

- The CET1 ratio increased from 13.8 per cent to 14.3 per cent as profits, distribution restrictions and the sale of Permata offset the COVID-19 related increase in RWA
- CET1 capital increased by $1.1 billion, as retained profits of $1.1 billion and the reduction in dividends paid and foreseen of $0.5 billion, was offset by foreign exchange of $0.5 billion and the partly completed share buy-back $0.2 billion
- AT1 decreased to $5.6 billion as the call of $2 billion of existing 6.5 per cent AT1 securities and the ongoing derecognition of legacy Tier 1 capital was partly offset by the issuance of $1 billion of new 6.0 per cent AT1 securities, increasing the efficiency of the Group's AT1 stock
- Tier 2 capital was $0.9 billion higher at $13.2 billion as EUR 1 billion of new issuance and the recognition of ineligible AT1 was partly offset by redemptions.

Risk-weighted assets by business

	30.06.20			
	Credit Risk $million	Operational Risk $million	Market Risk $million	Total risk $million
Corporate & Institutional Banking	101,651	13,153	22,346	137,150
Retail Banking	36,611	7,575	–	44,186
Commercial Banking	28,046	2,810	–	30,856
Private Banking	5,365	763	–	6,128
Central & other items	41,463	2,499	270	44,232
Total risk-weighted assets	213,136	26,800	22,616	262,552

	31.12.19			
	Credit Risk[1] $million	Operational Risk $million	Market Risk $million	Total risk $million
Corporate & Institutional Banking	95,261	13,261	20,562	129,084
Retail Banking	37,194	7,314	–	44,508
Commercial Banking	28,350	2,626	–	30,976
Private Banking	5,681	728	–	6,409
Central & other items	49,178	3,691	244	53,113
Total risk-weighted assets	215,664	27,620	20,806	264,090

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments, prior periods have been restated.

Risk-weighted assets by geographic region

	30.06.20 $million	31.12.19 $million
Greater China & North Asia	89,139	85,695
ASEAN & South Asia	80,040	88,942
Africa & Middle East	52,009	49,244
Europe & Americas	44,326	43,945
Central & other items	(2,962)	(3,736)
Total risk-weighted assets	262,552	264,090

Movement in risk-weighted assets

	Credit Risk								
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million	Operational Risk $million	Market Risk $million	Total risk $million
At 1 January 2019	96,954	35,545	27,711	5,103	45,825	211,138	28,050	19,109	258,297
Assets (decline)/growth	5,808	1,650	1,405	771	3,021	12,655	–	–	12,655
Asset quality	(320)	(831)	(51)	10	45	(1,147)	–	–	(1,147)
Risk-weighted assets efficiencies	(672)	–	–	–	(2,056)	(2,728)	–	–	(2,728)
Model, methodology and policy changes	–	(698)	–	–	1,400	702	–	500	1,202
Disposals	–	–	–	–	–	–	–	–	–
Foreign currency translation	(26)	(208)	(117)	3	(262)	(610)	–	–	(610)
Other non-Credit Risk movements	–	–	–	–	–	–	(430)	3,500	3,070
At 30 June 2019	101,744	35,458	28,948	5,887	47,973	220,010	27,620	23,109	270,739
Assets (decline)/growth	(4,505)	(630)	(1,962)	(243)	1,072	(6,268)	–	–	(6,268)
Asset quality	2,885	1,663	(591)	(2)	562	4,517	–	–	4,517
Risk-weighted assets efficiencies	(440)	(33)	(403)	–	(348)	(1,224)	–	–	(1,224)
Model, methodology and policy changes	(904)	691	–	–	–	(213)	–	–	(213)
Disposals	(397)	–	(441)	–	–	(838)	–	–	(838)
Foreign currency translation	(156)	(11)	(111)	39	(81)	(320)	–	–	(320)
Other non-Credit Risk movements	–	–	–	–	–	–	–	(2,303)	(2,303)
At 31 December 2019	98,227	37,138	25,440	5,681	49,178	215,664	27,620	20,806	264,090
At 1 January 2020[1]	95,261	37,194	28,350	5,681	49,178	215,664	27,620	20,806	264,090
Assets (decline)/growth	**758**	**(89)**	**(505)**	**(235)**	**813**	**742**	**–**	**–**	**742**
Asset quality	**5,970**	**34**	**563**	**(1)**	**399**	**6,965**	**–**	**–**	**6,965**
Risk-weighted assets efficiencies	**158**	**–**	**69**	**–**	**–**	**227**	**–**	**–**	**227**
Model, methodology and policy changes	**667**	**298**	**–**	**–**	**–**	**965**	**–**	**(1,400)**	**(435)**
Disposals	**–**	**–**	**–**	**–**	**(7,859)**	**(7,859)**	**(1,003)**	**(159)**	**(9,021)**
Foreign currency translation	**(1,163)**	**(826)**	**(431)**	**(80)**	**(1,068)**	**(3,568)**	**–**	**–**	**(3,568)**
Other non-Credit Risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**183**	**3,369**	**3,552**
At 30 June 2020	**101,651**	**36,611**	**28,046**	**5,365**	**41,463**	**213,136**	**26,800**	**22,616**	**262,552**

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. 1 January 2020 balances have been restated.

Movements in risk-weighted assets

RWA decreased by $1.5 billion, or 0.6 per cent, from 31 December 2019 to $262.6 billion. This was mainly due to decreases in Credit Risk RWA of $2.5 billion, and $0.8 billion in Operational Risk RWA partly offset by an increase of $1.8 billion in Market Risk RWA.

Corporate & Institutional Banking

Credit Risk RWA increased by $6.4 billion to $101.7 billion mainly due to:

- $6.0 billion increase due to deterioration in asset quality due to counterparty downgrades across all regions and several industry sectors
- $1.2 billion decrease from foreign currency translation mainly due to depreciation of currencies in India and the UK against the US dollar
- $0.8 billion increase due to asset balance growth in Financial Markets and Lending, reflecting increased counterparty Credit Risk on derivatives and drawdowns on revolving facilities primarily in Europe & Americas
- $0.7 billion increase due to methodology and policy changes relating to the Revised Securitisation Framework
- $0.2 billion increase due to booking changes relating to certain Transaction Banking facilities.

Retail Banking

Credit Risk RWA decreased by $0.6 billion to $36.6 billion mainly due to:

- $0.8 billion decrease from foreign currency translation mainly due to depreciation of currencies in Korea, India and Singapore against the US dollar
- $0.3 billion increase due to several model updates across several countries and portfolios
- $0.1 billion asset balance decline in Africa & Middle East offset by asset balance growth in Greater China & North Asia

Commercial Banking

Credit risk RWA decreased by $0.3 billion to $28 billion mainly due to:

- $0.6 billion increase due to deterioration in asset quality principally due to credit migration in ASEAN & South Asia and Africa & Middle East
- $0.5 billion decline due to lower asset balances in Greater China & North Asia
- $0.4 billion decrease from foreign currency translation mainly due to depreciation of currencies in India and Pakistan against the US dollar
- $0.1 billion increase due to booking changes relating to certain Transaction Banking facilities

Private Banking

Credit Risk RWA decreased by $0.3 billion to $5.4 billion principally due to asset balance decline in Wealth Management and Retail products, primarily in ASEAN & South Asia and Europe & Americas, partly offset by Greater China & North Asia.

Central & other items

Central & other items RWA mainly relates to the Treasury Markets liquidity portfolio, equity investments and deferred/current tax assets.

Credit Risk RWA decreased by $7.7 billion to $41.5 billion mainly due to:

- $7.9 billion decrease principally due to the sale of the Group's principal joint venture investment, PT Bank Permata Tbk
- $1.1 billion decrease from foreign currency translation mainly due to depreciation of currencies in India, Pakistan and South Africa against the US dollar
- $0.8 billion increase from asset balance growth, primarily in Greater China & North Asia and Africa & Middle East
- $0.4 billion increase due to deterioration in asset quality, primarily in Africa & Middle East

Market Risk

Total Market Risk RWA (MRWA) increased by $1.8 billion, or 9 per cent from 31 December 2019 to $22.6 billion. This change was due mainly to IMA RWA changes in positions and increased volatility, partly offset by the new IMA RNiV temporary mitigant for backtesting exceptions.

Operational Risk

Operational Risk RWA reduced by $0.8 billion, or 3 per cent from 31 December 2019 to $26.8 billion. This was mainly due to the sale of our shareholding in the Group's principal joint venture investment, PT Bank Permata Tbk.

UK leverage ratio

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 5.2 per cent, which is above the current minimum requirement of 3.6 per cent. The UK leverage ratio was flat in the period following a small increase in end point Tier 1 (as profits and $1 billion of new AT1 offset a $2 billion AT1 call) and a small increase in the exposure measure (as increased benefit from regulatory consolidation adjustments mainly due to the Permata sale partly offset growth in on-balance sheet assets).

UK leverage ratio

	30.06.20 $million	31.12.19 $million
Tier 1 capital (transitional)	43,237	43,677
Additional Tier 1 capital subject to phase out	(1,114)	(1,671)
Tier 1 capital (end point)	42,123	42,006
Derivative financial instruments	52,227	47,212
Derivative cash collateral	9,716	9,169
Securities financing transactions (SFTs)	65,278	60,414
Loans and advances and other assets	614,364	603,603
Total on-balance sheet assets	741,585	720,398
Regulatory consolidation adjustments[1]	(47,271)	(31,485)
Derivatives adjustments		
Derivatives netting	(29,949)	(32,852)
Adjustments to cash collateral	(18,212)	(11,853)
Net written credit protection	1,711	1,650
Potential future exposure on derivatives	37,606	32,961
Total derivatives adjustments	(8,844)	(10,094)
Counterparty risk leverage exposure measure for SFTs	6,414	7,005
Off-balance sheet items	120,725	122,341
Regulatory deductions from Tier 1 capital	(6,013)	(6,913)
UK leverage exposure (end point)	806,596	801,252
UK leverage ratio (end point)	5.2%	5.2%
UK leverage exposure quarterly average	810,591	816,244
UK leverage ratio quarterly average	5.0%	5.1%
Countercyclical leverage ratio buffer	0.0%	0.1%
G-SII additional leverage ratio buffer	0.4%	0.4%

1 Includes adjustment for qualifying central bank claims

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2020 and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2020 that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could have materially affected the financial position or performance of the entity during that period

By order of the Board

Andy Halford
Group Chief Financial Officer
30 July 2020

Independent review report to Standard Chartered PLC

Introduction

We have been engaged by Standard Chartered PLC (the 'Company' or the 'Group') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cash flow statement, related notes 1 to 29, and the risk and capital disclosures from page 44 to page 102, except those being stated as excluded in note 1 (together the 'condensed consolidated interim financial statements'). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ('IAS 34'), as adopted by the European Union.

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP

London

30 July 2020

Notes:

- The maintenance and integrity of the Standard Chartered PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Condensed consolidated interim income statement

For the six months ended 30 June 2020

	Notes	6 months ended 30.06.20 $million	restated[1] 6 months ended 30.06.19 $million
Interest income		6,875	8,313
Interest expense		(3,377)	(4,475)
Net interest income	3	3,498	3,838
Fees and commission income		1,870	2,120
Fees and commission expense		(312)	(282)
Net fee and commission income	4	1,558	1,838
Net trading income	5	2,154	1,774
Other operating income	6	889	380
Operating income		8,099	7,830
Staff costs		(3,330)	(3,577)
Premises costs		(178)	(191)
General administrative expenses		(642)	(953)
Depreciation and amortisation		(598)	(577)
Operating expenses	7	(4,748)	(5,298)
Operating profit before impairment losses and taxation		3,351	2,532
Credit impairment	8	(1,576)	(254)
Goodwill impairment	9	(258)	–
Other impairment	9	35	(44)
Profit from associates and joint ventures		75	180
Profit before taxation		1,627	2,414
Taxation	10	(561)	(918)
Profit for the period		1,066	1,496
Profit attributable to:			
Non-controlling interests		18	19
Parent company shareholders		1,048	1,477
Profit for the period		1,066	1,496
Earnings per share:		cents	cents
Basic earnings per ordinary share	12	25.8	38.0
Diluted earnings per ordinary share	12	25.5	37.5

1 Comparatives have been restated due to the Group changing its accounting policies for net interest income and net trading income for the year ended 31 December 2019. Refer to Note 1 in the Group's 2019 Annual Report

The notes on pages 111 to 152 form an integral part of these financial statements.

Condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2020

	Notes	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Profit for the period		**1,066**	1,496
Other comprehensive (loss)/income			
Items that will not be reclassified to income statement:		**(24)**	(384)
Own credit gains/(losses) on financial liabilities designated at fair value through profit or loss		**22**	(392)
Equity instruments at fair value through other comprehensive income		**38**	13
Actuarial losses on retirement benefit obligations	25	**(65)**	(49)
Taxation relating to components of other comprehensive income		**(19)**	44
Items that may be reclassified subsequently to income statement:		**(314)**	65
Exchange differences on translation of foreign operations:			
Net losses taken to equity		**(841)**	(159)
Net gains on net investment hedges		**125**	73
Reclassified to income statement on sale of joint venture		**246**	–
Share of other comprehensive income from associates and joint ventures		**4**	3
Debt instruments at fair value through other comprehensive income:			
Net valuation gains taken to equity		**756**	291
Reclassified to income statement		**(513)**	(58)
Net impact of expected credit losses		**16**	3
Cashflow hedges:			
Net losses taken to equity		**(99)**	(79)
Reclassified to income statement		**9**	7
Taxation relating to components of other comprehensive income		**(17)**	(16)
Other comprehensive loss for the period, net of taxation		**(338)**	(319)
Total comprehensive income for the period		**728**	1,177
Total comprehensive income attributable to:			
Non-controlling interests		**10**	11
Parent company shareholders		**718**	1,166
Total comprehensive income for the period		**728**	1,177

Condensed consolidated interim balance sheet

As at 30 June 2020

	Notes	30.06.20 $million	31.12.19 $million
Assets			
Cash and balances at central banks		**52,925**	52,728
Financial assets held at fair value through profit or loss	13	**98,359**	92,818
Derivative financial instruments	13,14	**52,227**	47,212
Loans and advances to banks[1]	13	**50,499**	53,549
Loans and advances to customers[2]	13	**276,313**	268,523
Investment securities	13	**145,734**	143,731
Other assets	18	**46,925**	42,022
Current tax assets		**737**	539
Prepayments and accrued income		**2,354**	2,700
Interests in associates and joint ventures		**2,000**	1,908
Goodwill and intangible assets	16	**5,029**	5,290
Property, plant and equipment	17	**6,747**	6,220
Deferred tax assets		**822**	1,105
Assets classified as held for sale	19	**914**	2,053
Total assets		**741,585**	720,398
Liabilities			
Deposits by banks	13	**28,986**	28,562
Customer accounts	13	**421,153**	405,357
Repurchase agreements and other similar secured borrowing	13,15	**2,811**	1,935
Financial liabilities held at fair value through profit or loss	13	**64,383**	66,974
Derivative financial instruments	13,14	**50,826**	48,484
Debt securities in issue	13	**51,086**	53,025
Other liabilities	20	**49,243**	41,583
Current tax liabilities		**607**	703
Accruals and deferred income		**4,129**	5,369
Subordinated liabilities and other borrowed funds	13,23	**16,826**	16,207
Deferred tax liabilities		**655**	611
Provisions for liabilities and charges		**432**	449
Retirement benefit obligations	25	**543**	469
Liabilities included in disposal groups held for sale	19	**8**	9
Total liabilities		**691,688**	669,737
Equity			
Share capital and share premium account	24	**7,058**	7,078
Other reserves		**11,431**	11,685
Retained earnings		**26,569**	26,072
Total parent company shareholders' equity		**45,058**	44,835
Other equity instruments	24	**4,518**	5,513
Total equity excluding non-controlling interests		**49,576**	50,348
Non-controlling interests		**321**	313
Total equity		**49,897**	50,661
Total equity and liabilities		**741,585**	720,398

1 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of $1,893 million (31 December 2019: $1,341 million) have been included with loans and advances to banks

2 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of $4,383 million (31 December 2019: $1,469 million) have been included with loans and advances to customers

The notes on pages 111 to 152 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 30 July 2020 and signed on its behalf by:

Andy Halford

Group Chief Financial Officer

30 July 2020

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2020

	Ordinary share capital and share premium account $million	Preference share capital and share premium account $million	Capital and merger reserves $million	Own credit adjust-ment reserve $million	Fair value through other compre-hensive income reserve – debt $million	Fair value through other compre-hensive income reserve – equity $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company share-holders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 1 January 2019	5,617	1,494	17,129[1]	412	(161)	120	(10)	(5,612)	26,129	45,118	4,961	273	50,352
Profit for the period	–	–	–	–	–	–	–	–	1,477	1,477	–	19	1,496
Other comprehensive (loss)/income	–	–	–	(344)	212	3	(58)	(78)	(46)[2]	(311)	–	(8)	(319)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(26)	(26)
Shares issued, net of expenses	25[3]	–	–	–	–	–	–	–	–	25	–	–	25
Treasury shares net movement	–	–	–	–	–	–	–	–	(132)	(132)	–	–	(132)
Share option expense, net of taxation	–	–	–	–	–	–	–	–	97	97	–	–	97
Dividends on ordinary shares	–	–	–	–	–	–	–	–	(495)	(495)	–	–	(495)
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(221)	(221)	–	–	(221)
Share buy-back[4]	(27)	–	27	–	–	–	–	–	(486)	(486)	–	–	(486)
Other movements	–	–	–	–	–	–	–	–	(5)[5]	(5)	–	153[6]	148
As at 30 June 2019	5,615	1,494	17,156	68	51	123	(68)	(5,690)	26,318	45,067	4,961	411	50,439
Profit for the period	–	–	–	–	–	–	–	–	826	826	–	18	844
Other comprehensive (loss)/income	–	–	–	(66)	146	27	9	(102)	(86)[2]	(72)	–	(7)	(79)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(9)	(9)
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	552	–	552
Treasury shares net movement	–	–	–	–	–	–	–	–	(67)	(67)	–	–	(67)
Share option expense, net of taxation	–	–	–	–	–	–	–	–	42	42	–	–	42
Dividends on ordinary shares	–	–	–	–	–	–	–	–	(225)	(225)	–	–	(225)
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(227)	(227)	–	–	(227)
Share buy-back[4]	(31)	–	31	–	–	–	–	–	(520)	(520)	–	–	(520)
Other movements	–	–	–	–	–	–	–	–	11[7]	11	–	(100)[8]	(89)
As at 31 December 2019	**5,584**	**1,494**	**17,187**	**2**	**197**	**150**	**(59)**	**(5,792)**	**26,072**	**44,835**	**5,513**	**313**	**50,661**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,048**	**1,048**	**–**	**18**	**1,066**
Other comprehensive income/(loss)	**–**	**–**	**–**	**13**	**209**	**22**	**(62)**	**(456)**	**(56)[2]**	**(330)**	**–**	**(8)**	**(338)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**992**	**–**	**992**
Redemption of other equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13)**	**(13)**	**(1,987)**	**–**	**(2,000)**
Treasury shares net movement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(91)**	**(91)**	**–**	**–**	**(91)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**74**	**74**	**–**	**–**	**74**
Dividends on preference shares and AT1 securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(232)**	**(232)**	**–**	**–**	**(232)**
Share buy-back[9]	**(20)**	**–**	**20**	**–**	**–**	**–**	**–**	**–**	**(242)**	**(242)**	**–**	**–**	**(242)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9[10]**	**9**	**–**	**–**	**9**
As at 30 June 2020	**5,564**	**1,494**	**17,207**	**15**	**406**	**172**	**(121)**	**(6,248)**	**26,569**	**45,058**	**4,518**	**321**	**49,897**

1 Includes capital reserve of $5 million, capital redemption reserve of $13 million and merger reserve of $17,111 million
2 Comprises actuarial (loss)/gain, net of taxation and share from associates and joint ventures $(56) million ($(86) million for the six months ended 31 December 2019 and $(46) million for the six months ended 30 June 2019)
3 Comprises share capital of shares issued to fulfil discretionary awards $1 million, share capital of shares issued to fulfil employee Sharesave options $1 million and share premium of shares issued to fulfil employee Sharesave options exercised $23 million (nil for six months ended 30 June 2020)
4 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of $0.50 each up to a maximum consideration of $1 billion. At 30 June 2019, the total number of shares purchased was 54,885,156, representing 1.66 per cent of the ordinary shares in issue. The nominal value of ordinary shares purchased at 30 June 2019 was $27 million and the aggregate consideration paid by the Group was $486 million. During the second half of 2019 the total number of shares purchased was 61,218, 327 representing 1.85 per cent of the ordinary shares in issue. The nominal value of ordinary shares purchased during the second half of 2019 was $31 million and the aggregate consideration paid by the Group was $520 million. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account
5 Comprises withholding tax on capitalisation of revenue reserves $4 million
6 Due to consolidation of a subsidiary with non-controlling interest $81 million and non-controlling interest in SC Digital Solutions $72 million
7 Disposal of Phoon Huat Pte Ltd $10 million
8 Due to deconsolidation of a subsidiary with non-controlling interest $83 million and disposal of non-controlling interest in Phoon Huat Pte Ltd, Sirat Holdings Limited and Ori Private Limited $17 million
9 On 28 February 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of $0.50 each. Nominal value of share purchases was $20 million, and the total consideration paid was $242 million. The total number of shares purchased was 40,029,585 representing 1.25 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On the 1 April 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share and to suspend the buy-back programme
10 Comprises revenue reserves of PT Bank Permata Tbk $9 million

Note 24 includes a description of each reserve.

The notes on pages 111 to 152 form an integral part of these financial statements.

Condensed consolidated interim cash flow statement

For the six months ended 30 June 2020

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Cash flows from operating activities:		
Profit before taxation	1,627	2,414
Adjustments for non-cash items and other adjustments included within income statement	2,473	1,092
Change in operating assets	(20,525)	(22,324)[1]
Change in operating liabilities	23,177	23,369
Contributions to defined benefit schemes	(19)	(27)
UK and overseas taxes paid	(596)	(929)
Net cash from operating activities	6,137	3,595[1]
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,095)	(404)[1]
Disposal of property, plant and equipment	109	68[1]
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	(20)	–
Dividends received from subsidiaries, associates and joint ventures	–	1
Disposal of joint ventures, net of cash acquired	1,067	–
Disposal of subsidiaries	–	3
Purchase of investment securities	(164,633)	(135,488)
Disposal and maturity of investment securities	163,399	132,444
Net cash used in investing activities	(1,173)	(3,376)[1]
Cash flows from financing activities:		
Issue of ordinary and preference share capital, net of expenses	–	25
Issue of AT1 securities, net of expenses	992	–
Treasury shares net movement	(91)	(132)
Cancellation of shares including share buy-back	(242)	(486)
Redemption of AT1 securities	(2,000)	–
Premises and equipment lease liability principal payment	(301)	(182)
Gross proceeds from issue of subordinated liabilities	1,125	–
Interest paid on subordinated liabilities	(288)	(265)
Repayment of subordinated liabilities	(752)	(23)
Proceeds from issue of senior debts	6,679	3,589
Repayment of senior debts	(3,156)	(2,289)
Interest paid on senior debts	(272)	(271)
Investment from non-controlling interests	–	153
Dividends paid to non-controlling interests and preference shareholders	(234)	(247)
Dividends paid to ordinary shareholders	–	(495)
Net cash from/(used in) financing activities	1,460	(623)
Net increase/(decrease) in cash and cash equivalents	6,424	(404)
Cash and cash equivalents at beginning of the period	77,454	97,500
Effect of exchange rate movements on cash and cash equivalents	(445)	(140)
Cash and cash equivalents at end of the period[2]	83,433	96,956

1 Aircraft and shipping purchases and disposals re-presented as cash flows from investing activities

2 Comprises cash and balances at central banks $52,925 million (30 June 2019: $58,822 million), treasury bills and other eligible bills $7,483 million (30 June 2019: $12,042 million), loans and advances to banks $29,102 million (30 June 2019: $31,256 million), trading securities $2,575 million (30 June 2019: $4,142 million) less restricted balances $8,652 million (30 June 2019: $9,306 million)

Contents – Notes to the financial statements

Notes to the financial statements

1. Accounting policies

Statement of compliance

The Group's condensed consolidated interim financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. These interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). They should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2019 (the 2019 Annual Report), which were prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as issued by the IASB and endorsed by the EU. At 30 June 2020, there was no difference between IFRS endorsed by the EU and the IFRS issued by the IASB in terms of their application to the Group.

The following form part of these interim financial statements:

a) From the start of Risk profile section (page 46) to the end of other principal risks in the same section (page 95) excluding:

- Loans and advances by client segment credit quality analysis (page 55)
- Credit quality by geographic region (page 57)
- Analysis of stage 2 balances (page 64)
- Forborne and other modified loans by region (page 68)
- Credit-impaired (stage 3) loans and advances by geographic region (page 69)
- Credit quality by industry (page 74)
- Industry and retail products analysis of loans and advances by geographic region (page 75)
- Country Risk (page 85)
- Risks not in VaR (page 87)
- Backtesting (page 87)
- Liquidity coverage ratio (LCR) (page 89)
- Stressed coverage (page 89)
- Net stable funding ratio (NSFR) (page 90)
- Liquidity pool (page 90)
- Encumbrance (page 91)
- Interest Rate Risk in the banking book (page 95)
- Operational Risk (page 95)
- Other principal risks (page 95)

b) Capital review: from the start of 'Capital Requirements Directive (CRD) IV capital base' to the end of 'Movement in total capital' excluding capital ratios and risk-weighted assets (RWA) on page 96

Accounting policies

The accounting policies applied by the Group in the interim financial statements are the same as those applied by the Group in the 2019 Annual Report. The interim financial statements have been prepared in accordance with the requirements of IAS 34.

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of cash-settled share-based payments, assets held for sale, fair value through other comprehensive income, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

Significant accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. In the interim financial statements, estimates which are often based on future economic conditions, and sensitive to changes in those conditions, have been impacted by COVID-19. This estimation impact has primarily been in the measurement of ECL, assessing the recoverability of deferred tax balances and testing goodwill balances for impairment. Actual results may differ materially from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied to the consolidated financial statements as at, and for, the year ended 31 December 2019.Summaries of the Group's significant accounting policies are included throughout the 2019 Annual Report.

IFRS and Hong Kong accounting requirements

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

1. Accounting policies continued

Comparatives

Certain comparatives have been represented in line with current period disclosures. Details of these changes are set out in the relevant sections and notes below:

- Note 2 Segmental information
- Note 3 Net interest income
- Note 5 Net trading income
- Note 13 Financial instruments
- Note 21 Contingent liabilities and commitments

New accounting standards adopted by the Group

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations, which were endorsed by the EU in April 2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test

These amendments do not have a material affect on these interim financial statements as no transactions in scope of IFRS 3 have occurred during the interim period, and there is no adjustment to opening retained earnings as the amendments apply prospectively.

Conceptual Framework for Financial Reporting

In March 2018 the IASB published a revised *Conceptual Framework for Financial Reporting,* often referred to as the "Conceptual Framework", applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The Conceptual Framework provides guidance to preparers on determining accounting policies where no specific IFRS or IAS Standard applies to a particular transaction or where a Standard allows for an accounting policy choice. It includes limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and recognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality. The Conceptual Framework is not an IFRS Standard and does not replace any specific Standards. The changes in the Conceptual Framework are not considered material to the Group, since all of the Group's significant accounting policies are derived from specific IFRS or IAS standards.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018 the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ('the amendments'), applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The purpose is to align the definition of 'material' across the Standards and to clarify certain aspects of the definition. Information is 'material' if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The revised definition is already aligned to how the Group assesses whether the effect of a change in accounting policy, change in accounting estimate or error would be considered 'material' to the primary users of the Group's financial statements, hence these amendments have no specific effect on the preparation of these interim financial statements and are not expected to affect the preparation of future financial statements.

New accounting standards in issue but not yet effective

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 (refer to pages 263 to 264 in the 2019 Annual Report). 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 reset period, reset dates or 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.

1. Accounting policies continued

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.

Amendments to IFRS 16: Covid-19-Related Rent Concessions

In May 2020 the IASB issued amendments to IFRS 16 Leases. These were recommended for endorsement by the European Financial Reporting Advisory Group on 3 June 2020, and the European Commission's Accounting Regulatory Committee voted unanimously in favour of the amendments on 2 July 2020, but final endorsement by the European Union is not expected until later in 2020. The amendments will be effective for annual reporting periods beginning on or after 1 June 2020, with earlier adoption permitted. It is the Group's intention to early adopt these amendments for the financial year ending 31 December 2020 provided the EU endorses them in 2020 as expected.

The amendments will provide lessees of premises and equipment a practical expedient that permits them not to assess whether a rent concession granted as a direct consequence of the Covid-19 pandemic is accounted for as a lease modification. Entities applying the practical expedient will therefore account for these rent concessions by recalculating the lease liability based on the revised cash flows using the existing discount rate applied to that lease, with a corresponding gain or loss recorded in other income. A rent concession will only be deemed to be a direct consequence of Covid-19 if all the following criteria are met:

- A change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due in 2020 (this includes the case where the change results in reduced lease payments in 2020 and increased lease payments beyond 2020); and
- There is no substantive change to other terms and conditions of the lease

The amendments are not expected to have a material effect on the Group's financial statements, and will not result in any adjustment to opening retained earnings as of 1 January 2020 since the amendments only apply to rent concessions granted in 2020.

Going concern

These interim financial statements were approved by the Board of directors on 30 July 2020. The directors have made an assessment of the Group's ability to continue as a going concern. This assessment has been made having considered the impact of COVID-19, macroeconomic and geopolitical headwinds, and has included:

- A review of the Group Strategy and Corporate plan, including a review of the actual performance to date, loan book quality, legal and regulatory matters and the updated revised budget;
- Consideration of stress testing performed, including a COVID-19 stress scenario; and
- Analysis of the capital, funding and liquidity position of the Group, including a review of the Group's emerging risks, to which COVID-19 has been added

Based on the analysis performed, the directors confirm they are satisfied that the Group has adequate resources to continue in business for a period of at least 12 months from the date of approval of these interim financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

2. Segmental information

Basis of preparation

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

Restructuring and other items excluded from underlying results

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing performance period-by period. These adjustments are set out below.

Restructuring charges of $90 million primarily reflect impairments from the Group's discontinued ship leasing and principal finance businesses. Other items of $252 million relates mainly to a goodwill impairment on the Group's subsidiary in India that was taken in 1Q'20 due to a lower economic growth forecast and increases to the discount rate.

Notes to the financial statements continued

2. Segmental information continued

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

	6 months ended 30.06.20						
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	8,047	–	46	6	–	–	8,099
Operating expenses	(4,713)	14	(49)	–	–	–	(4,748)
Operating profit/(loss) before impairment losses and taxation	3,334	14	(3)	6	–	–	3,351
Credit impairment	(1,567)	–	(9)	–	–	–	(1,576)
Other impairment	112	–	(77)	–	(258)	–	(223)
Profit from associates and joint ventures	76	–	(1)	–	–	–	75
Profit/(loss) before taxation	1,955	14	(90)	6	(258)	–	1,627

	6 months ended 30.06.19						
	Underlying $million	Provision for regulatory matters $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Share of profits of PT Bank Permata Tbk joint venture $million	Statutory $million
Operating income	7,696	–	134	–	–	–	7,830
Operating expenses	(4,969)	(204)	(125)	–	–	–	(5,298)
Operating profit/(loss) before impairment losses and taxation	2,727	(204)	9	–	–	–	2,532
Credit impairment	(254)	–	–	–	–	–	(254)
Other impairment	(21)	–	(23)	–	–	–	(44)
Profit from associates and joint ventures	157	–	–	–	–	23	180
Profit/(loss) before taxation	2,609	(204)	(14)	–	–	23	2,414

Underlying performance by client segment

	6 months ended 30.06.20					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,987	2,537	740	300	483	8,047
External	4,012	2,103	700	202	1,030	8,047
Inter-segment	(25)	434	40	98	(547)	–
Operating expenses	(1,985)	(1,780)	(421)	(239)	(288)	(4,713)
Operating profit before impairment losses and taxation	2,002	757	319	61	195	3,334
Credit impairment	(985)	(430)	(137)	(5)	(10)	(1,567)
Other impairment	115	(1)	–	–	(2)	112
Profit from associates and joint ventures	–	–	–	–	76	76
Underlying profit before taxation	1,132	326	182	56	259	1,955
Provision for regulatory matters	–	–	–	–	14	14
Restructuring	(56)	(3)	(18)	(3)	(10)	(90)
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Goodwill impairment	–	–	–	–	(258)	(258)
Statutory profit before taxation	1,076	323	164	53	11	1,627
Total assets	336,623	107,327	33,158	13,202	251,275	741,585
Of which: loans and advances to customers including FVTPL	164,392	105,085	28,151	13,097	17,440	328,165
Total liabilities	402,920	149,422	43,578	18,842	76,926	691,688
Of which: customer accounts including FVTPL and repurchase agreements	257,512	146,088	40,507	18,725	6,632	469,464

2. Segmental information continued

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	3,534	2,603	811	306	442	7,696
External	3,633	2,140	863	171	889	7,696
Inter-segment	(99)	463	(52)	135	(447)	–
Operating expenses	(2,102)	(1,825)	(445)	(253)	(344)	(4,969)
Operating profit before impairment losses and taxation	1,432	778	366	53	98	2,727
Credit impairment	(116)	(154)	(29)	47	(2)	(254)
Other impairment	(19)	–	–	–	(2)	(21)
Profit from associates and joint ventures	–	–	–	–	157	157
Underlying profit before taxation	1,297	624	337	100	251	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	23	(1)	–	(1)	(35)	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	–	–	–	23	23
Statutory profit before taxation	1,320	623	337	99	35	2,414
Total assets	329,113	103,909	35,718	15,654	228,110	712,504
Of which: loans and advances to customers including FVTPL[1]	149,752	101,784	30,465	15,521	9,120	306,642
Total liabilities	380,549	143,297	39,805	18,616	79,798	662,065
Of which: customer accounts including FVTPL and repurchase agreements	234,142	139,898	36,908	18,473	15,490	444,911

1 Following a reorganisation of certain clients, there has been a reclassification of balances across client segments. Prior periods have been restated

Underlying performance by region

	6 months ended 30.06.20					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,144	2,376	1,255	1,095	177	8,047
Operating expenses	(1,780)	(1,247)	(793)	(661)	(232)	(4,713)
Operating profit/(loss) before impairment losses and taxation	1,364	1,129	462	434	(55)	3,334
Credit impairment	(289)	(838)	(370)	(80)	10	(1,567)
Other impairment	(15)	165	(2)	2	(38)	112
Profit from associates and joint ventures	74	–	–	–	2	76
Underlying profit/(loss) before taxation	1,134	456	90	356	(81)	1,955
Provision for regulatory matters	–	–	–	–	14	14
Restructuring	(43)	(7)	(9)	(10)	(21)	(90)
Net gain on businesses disposed/held for sale	–	–	–	–	6	6
Goodwill impairment	–	–	–	–	(258)	(258)
Statutory profit/(loss) before taxation	1,091	449	81	346	(340)	1,627
Total assets	289,352	154,508	63,927	223,226	10,572	741,585
Of which: loans and advances to customers including FVTPL	144,794	84,949	33,083	65,339	–	328,165
Total liabilities	258,322	131,993	40,740	217,300	43,333	691,688
Of which: customer accounts including FVTPL and repurchase agreements	214,586	100,324	32,530	122,024	–	469,464

2. Segmental information continued

	6 months ended 30.06.19					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	3,080	2,136	1,340	794	346	7,696
Operating expenses	(1,826)	(1,292)	(850)	(715)	(286)	(4,969)
Operating profit before impairment losses and taxation	1,254	844	490	79	60	2,727
Credit impairment	(70)	(84)	(49)	(66)	15	(254)
Other impairment	(8)	–	–	–	(13)	(21)
Profit from associates and joint ventures	153	–	–	–	4	157
Underlying profit before taxation	1,329	760	441	13	66	2,609
Provision for regulatory matters	–	–	–	–	(204)	(204)
Restructuring	(3)	(16)	(2)	(15)	22	(14)
Share of profits of PT Bank Permata Tbk joint venture	–	23	–	–	–	23
Statutory profit/(loss) before taxation	1,326	767	439	(2)	(116)	2,414
Total assets	275,414	151,714	59,189	214,126	12,061	712,504
Of which: loans and advances to customers including FVTPL	134,440	82,826	30,161	59,215	–	306,642
Total liabilities	240,802	132,763	37,000	215,504	35,996	662,065
Of which: customer accounts including FVTPL and repurchase agreements	196,994	101,594	29,621	116,702	–	444,911

Additional segmental information (statutory)

	6 months ended 30.06.20					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Net interest income	**1,272**	**1,619**	**471**	**146**	**(10)**	**3,498**
Net fees and commission income	**615**	**703**	**134**	**132**	**(26)**	**1,558**
Net trading and other income	**2,131**	**215**	**151**	**22**	**524**	**3,043**
Operating income	**4,018**	**2,537**	**756**	**300**	**488**	**8,099**

	restated 6 months ended 30.06.19[1]					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	1,287	1,636	492	159	264	3,838
Net fees and commission income	810	777	146	123	(18)	1,838
Net trading and other income	1,568	190	175	25	196	2,154
Operating income	3,665	2,603	813	307	442	7,830

	6 months ended 30.06.20					
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Central & other items $million**	**Total $million**
Net interest income	**1,510**	**1,054**	**641**	**95**	**198**	**3,498**
Net fees and commission income	**635**	**498**	**267**	**237**	**(79)**	**1,558**
Net trading and other income	**1,051**	**824**	**353**	**763**	**52**	**3,043**
Operating income	**3,196**	**2,376**	**1,261**	**1,095**	**171**	**8,099**

	restated 6 months ended 30.06.19[1]					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	1,653	1,003	766	6	410	3,838
Net fees and commission income	732	572	330	238	(34)	1,838
Net trading and other income	742	560	244	550	58	2,154
Operating income	3,127	2,135	1,340	794	434	7,830

2. Segmental information continued

	6 months ended 30.06.20							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	843	312	265	329	345	150	(41)	92
Net fees and commission income	372	83	68	249	115	57	6	191
Net trading and other income	659	162	141	212	265	110	601	149
Operating income	**1,874**	**557**	**474**	**790**	**725**	**317**	**566**	**432**

	restated 6 months ended 30.06.19[1]							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	958	336	288	374	243	197	(176)	122
Net fees and commission income	454	89	75	280	134	78	30	168
Net trading and other income	488	80	82	216	125	52	476	75
Operating income	1,900	505	445	870	502	327	330	365

1 Comparatives have been restated due to the Group changing its accounting policies for net interest income and net trading income for the year ended 31 December 2019. Refer to Note 1 in the Group's 2019 Annual Report

3. Net interest income

	6 months ended 30.06.20 $million	restated 6 months ended 30.06.19[1] $million
Balances at central banks	77	189
Loans and advances to banks	479	1,016
Loans and advances to customers	4,738	5,331
Listed debt securities	817	1,024
Unlisted debt securities	443	337
Other eligible bills	304	379
Accrued on impaired assets (discount unwind)	17	37
Interest income	**6,875**	8,313
Of which: financial instruments held at fair value through other comprehensive income	1,332	1,597
Deposits by banks	235	401
Customer accounts	2,276	3,083
Debt securities in issue	485	567
Subordinated liabilities and other borrowed funds	350	390
Interest expense on IFRS 16 Lease liabilities	31	34
Interest expense	**3,377**	4,475
Net interest income	**3,498**	3,838

1 For the six months ended 30 June 2019 the Group reported net interest income of $4,618 million, consisting of interest income of $9,843 million and interest expense of $5,225 million. The difference between this and restated six months ended 30 June 2019 net interest income of $3,838 million is $780 million of net contractual interest receivable on financial instruments measured at fair value through profit or loss being reclassified to net trading income

4. Net fees and commission

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Fees and commissions income	1,870	2,120
Of which:		
Financial instruments that are not fair valued through profit or loss	512	777
Trust and other fiduciary activities	51	79
Fees and commissions expense	(312)	(282)
Of which:		
Financial instruments that are not fair valued through profit or loss	(56)	(69)
Trust and other fiduciary activities	(3)	(14)
Net fees and commission	**1,558**	1,838

4. Net fees and commission continued

	6 months ended 30.06.20					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking[1]	381	5	102	–	–	488
Trade	194	5	74	–	–	273
Cash Management	187	–	28	–	–	215
Financial Markets[1]	130	–	14	–	–	144
Corporate Finance	71	–	13	–	–	84
Lending and Portfolio Management	33	–	4	–	–	37
Wealth Management	–	540	1	129	–	670
Retail Products	–	159	–	3	–	162
Treasury	–	–	–	–	(14)	(14)
Others	–	(1)	–	–	(12)	(13)
Net fees and commission	615	703	134	132	(26)	1,558

	6 months ended 30.06.19					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking[1]	438	5	111	–	–	554
Trade	222	5	82	–	–	309
Cash Management	216	–	29	–	–	245
Financial Markets[1]	225	–	12	–	–	237
Corporate Finance	104	–	13	2	–	119
Lending and Portfolio Management	39	–	9	–	–	48
Principal Finance	4	–	–	–	–	4
Wealth Management	–	591	1	119	–	711
Retail Products	–	181	–	2	–	183
Treasury	–	–	–	–	(11)	(11)
Others	–	–	–	–	(7)	(7)
Net fees and commission	810	777	146	123	(18)	1,838

1 Following a reorganisation, there has been a reclassification of balances relating to Securities Services from Transaction Banking to Financial Markets included in prior period numbers. There is no change in the total income

Upfront bancassurance consideration amounts are amortised on a straight-line basis over the contractual period to which the consideration relates. Deferred income on the balance sheet in respect of these activities is $760 million (30 June 2019: $844 million). The income will be earned evenly over the next 9 years (30 June 2019: 10 years). For the six months ended 30 June 2020, $42 million of fee income was released from deferred income (30 June 2019: $42 million).

5. Net trading income

	6 months ended 30.06.20 $million	restated 6 months ended 30.06.19[1] $million
Net trading income	2,154	1,774
Significant items within net trading income include:		
Gains on instruments held for trading	1,966	1,783
Gains on financial assets mandatorily at fair value through profit or loss	384	825
(Losses)/Gains on financial assets designated at fair value through profit or loss	(6)	12
Losses on financial liabilities designated at fair value through profit or loss	(166)	(958)

1 For the six months ended 30 June 2019, the Group reported net trading income of $994 million. The difference between this and restated six months ended 30 June 2019 net trading income of $1,774 million is $780 million of net contractual interest receivable on financial instruments measured at fair value through profit or loss being reclassified to net trading income

6. Other operating income

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Other operating income includes:		
Rental income from operating lease assets	242	265
Gains less losses on disposal of fair value through other comprehensive income debt investments	511	58
Gains less loss on amortised cost financial assets	13	(17)
Net gain on sale of businesses	6	–
Dividend income	30	6
Gain on sale of aircraft	5	14
Other	82	54
	889	380

7. Operating expenses

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Staff costs:		
Wages and salaries	2,564	2,729
Social security costs	80	98
Other pension costs (Note 25)	172	199
Share-based payment costs	65	107
Other staff costs	449	444
	3,330	3,577

The following table summarises the number of employees (headcount) within the Group:

	Business	Support services	Total
At 30 June 2020	36,903	48,486	85,389
At 31 December 2019[1]	37,117	47,281	84,398

1 Prior year headcount has been re-presented due to a change in management view of segments

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Premises and equipment expenses:		
Rental of premises	(2)	19
Other premises and equipment costs	174	164
Rental of computers and equipment	6	8
	178	191
General administrative expenses:		
Provision for regulatory matters	14	204
Other general administrative expenses	628	749
	642	953
Depreciation and amortisation:		
Property, plant and equipment:		
Premises	188	179
Equipment	60	52
Operating lease assets	107	129
	355	360
Intangibles:		
Software	241	213
Acquired on business combinations	2	4
	598	577
Total operating expenses	4,748	5,298

8. Credit impairment[1]

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Net credit impairment against profit on loans and advances to banks and customers	1,496	259
Net credit impairment against profit or loss during the period relating to debt securities	19	9
Net credit impairment relating to financial guarantees and loan commitments	63	(14)
Net credit impairment relating to other financial assets	(2)	–
Credit impairment[2]	**1,576**	254

1 Refer credit risk section on page 46 for more detail

2 No material purchased or originated credit-impaired (POCI) assets

9. Other impairment

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Impairment of goodwill (Note 16)	**258**	–
Impairment of fixed assets (Note 17)	51	36
Impairment of other intangible assets (Note 16)	2	6
Other	(88)[1]	2
Other impairment	**(35)**	44
	223	44

1 Includes a reversal of $165 million as a result of a recovery on a disputed derivative receivable, following a favourable court ruling

10. Taxation

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

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
The charge for taxation based upon the profit for the period comprises:		
Current tax:		
United Kingdom corporation tax at 19 per cent (31 December 2019 and 30 June 2019:19 per cent):		
Current tax charge on income for the period	–	10
Adjustments in respect of prior periods (including double tax relief)	–	(1)
Foreign tax:		
Current tax charge on income for the period	613	829
Adjustments in respect of prior periods	(334)	(54)
	279	784
Deferred tax:		
Origination/reversal of temporary differences	(54)	139
Adjustments in respect of prior periods	336	(5)
	282	134
Tax on profits on ordinary activities	**561**	918
Effective tax rate	**34.5%**	38.0%

The tax charge for the period of $561 million (31 December 2019: $455 million and 30 June 2019: $918 million) on a profit before tax of $1,627 million (31 December 2019: $1,299 million and 30 June 2019: $2,414 million) reflects the impact of countries with tax rates higher or lower than the UK, the most significant of which is India, non-deductible expenses, non-creditable withholding taxes and non-deductible goodwill impairment. The prior period adjustment includes $277 million adjustment between current and deferred tax, relating to the treatment of loan impairments in India as deductible in the period they are impaired.

Foreign tax includes current tax of $118 million (31 December 2019: $89 million and 30 June 2019: $117 million) on the profits assessable in Hong Kong.

Deferred tax includes origination or reversal of temporary differences of $(39) million (31 December 2019: $1 million and 30 June 2019: $(4) million) provided at a rate of 16.5 per cent (31 December 2018: 16.5 per cent) on the profits assessable in Hong Kong.

11. Dividends

On the 1 April 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share.

Ordinary equity shares

	6 months ended 30.06.20		6 months ended 31.12.19		6 months ended 30.06.19	
	Cents per share	**$million**	Cents per share	$million	Cents per share	$million
2019/2018 final dividend declared and paid during the period	**–**	**–**	–	–	15	495
2019 interim dividend declared and paid during the period	**–**	**–**	7	225	–	–

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

Accordingly, the final and interim ordinary equity share dividends as stated above relate to the 2018 final dividend of 15 cents per ordinary share ($495 million) paid to eligible shareholders on 16 May 2019 and the 2019 interim dividend of 7 cents per ordinary share ($225 million) paid to eligible shareholders on 21 October 2019.

Preference shares and Additional Tier 1 securities

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

		6 months ended 30.06.20 $million	6 months ended 31.12.19 $million	6 months ended 30.06.19 $million
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each	**26**	27	26
	6.409 per cent preference shares of $5 each	**13**	14	16
		39	41	42
Additional Tier 1 securities: $5.5 billion fixed rate resetting perpetual subordinated contingent convertible securities		**193**	186	179
		232	227	221

12. Earnings per ordinary share

	6 months ended 30.06.20 $million	6 months ended 30.06.19 $million
Profit for the period attributable to equity holders	**1,066**	1,496
Non-controlling interest	**(18)**	(19)
Dividend payable on preference shares and AT1 classified as equity	**(232)**	(221)
Profit for the period attributable to ordinary shareholders	**816**	1,256
Items normalised:		
Provision for regulatory matters	**(14)**	204
Restructuring	**90**	14
Profit from associates and joint ventures	**–**	(23)
Goodwill impairment (Note 9)	**258**	–
Net gain on businesses (Note 6)	**(6)**	–
Tax on normalised items	**(6)**	172
Underlying profit	**1,138**	1,623
Basic – Weighted average number of shares (millions)	**3,168**	3,304
Diluted – Weighted average number of shares (millions)	**3,204**	3,348
Basic earnings per ordinary share (cents)	**25.8**	38.0
Diluted earnings per ordinary share (cents)	**25.5**	37.5
Underlying basic earnings per ordinary share (cents)	**35.9**	49.1
Underlying diluted earnings per ordinary share (cents)	**35.5**	48.5

13. Financial instruments

The Group's classification of its financial assets and liabilities is summarised in the following tables.

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Non-trading mandatorily at fair value through profit or loss $million	Designated at fair value through profit or loss $million	Fair value through other comprehensive income $million	Total financial assets at fair value $million	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	52,925	52,925
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		1,313	–	1,023	–	–	2,336	–	2,336
Loans and advances to customers[1]		4,711	–	5,701	41	–	10,453	–	10,453
Reverse repurchase agreements and other similar secured lending	15	–	–	59,002	–	–	59,002	–	59,002
Debt securities, alternative tier one and other eligible bills		23,556	–	190	270	–	24,016	–	24,016
Equity shares		2,260	–	292	–	–	2,552	–	2,552
		31,840	–	66,208	311	–	98,359	–	98,359
Derivative financial instruments	14	50,186	2,041	–	–	–	52,227	–	52,227
Loans and advances to banks[1]		–	–	–	–	–	–	50,499	50,499
of which: reverse repurchase agreements and other similar secured lending	15	–	–	–	–	–	–	1,893	1,893
Loans and advances to customers[1]		–	–	–	–	–	–	276,313	276,313
of which: reverse repurchase agreements and other similar secured lending	15	–	–	–	–	–	–	4,383	4,383
Investment securities									
Debt securities, alternative tier one and other eligible bills		–	–	–	–	129,188	129,188	16,139	145,327
Equity shares		–	–	–	–	407	407	–	407
		–	–	–	–	129,595	129,595	16,139	145,734
Other assets	18	–	–	–	–	–	–	42,183	42,183
Assets held for sale	19	–	–	39	136	–	175	157	332
Total at 30 June 2020		82,026	2,041	66,247	447	129,595	280,356	438,216	718,572

1 Further analysed in Risk review and Capital review (pages 46 to 102)

13. Financial instruments continued

Assets	Notes	Assets at fair value: Trading $million	Assets at fair value: Derivatives held for hedging $million	Assets at fair value: Non-trading mandatorily at fair value through profit or loss $million	Assets at fair value: Designated at fair value through profit or loss $million	Assets at fair value: Fair value through other comprehensive income $million	Assets at fair value: Total financial assets at fair value $million	Assets held at amortised cost $million	Total $million
Cash and balances at central banks		–	–	–	–	–	–	52,728	52,728
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		198	–	3,330	–	–	3,528	–	3,528
Loans and advances to customers[1]		2,886	–	4,010	–	–	6,896	–	6,896
Reverse repurchase agreements and other similar secured lending	15	–	–	57,604	–	–	57,604	–	57,604
Debt securities, alternative tier one and other eligible bills		21,877	–	166	278	–	22,321	–	22,321
Equity shares[2]		2,208	–	261	–	–	2,469	–	2,469
		27,169	–	65,371	278	–	92,818	–	92,818
Derivative financial instruments	14	46,424	788	–	–	–	47,212	–	47,212
Loans and advances to banks[1]		–	–	–	–	–	–	53,549	53,549
of which: reverse repurchase agreements and other similar secured lending	15	–	–	–	–	–	–	1,341	1,341
Loans and advances to customers[1]		–	–	–	–	–	–	268,523	268,523
of which: reverse repurchase agreements and other similar secured lending	15	–	–	–	–	–	–	1,469	1,469
Investment securities									
Debt securities, alternative tier one and other eligible bills		–	–	–	–	129,471	129,471	13,969	143,440
Equity shares		–	–	–	–	291	291	–	291
		–	–	–	–	129,762	129,762	13,969	143,731
Other assets	18	–	–	–	–	–	–	36,161	36,161
Assets held for sale	19	–	–	87	243	–	330	90	420
Total at 31 December 2019		73,593	788	65,458	521	129,762	270,122	425,020	695,142

1 Further analysed in Risk review and Capital review (pages 46 to 102)

2 Prior year figures have been restated as the investments in Private Equity has been reclassified from designated at fair value to Non Trading FVTPL category to reflect correct classification of portfolio

13. Financial instruments continued

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	1,258	1,258	–	1,258
Customer accounts		–	–	7,696	7,696	–	7,696
Repurchase agreements and other similar secured borrowing	15	–	–	45,274	45,274	–	45,274
Debt securities in issue		–	–	5,728	5,728	–	5,728
Short positions		4,427	–	–	4,427	–	4,427
		4,427	–	59,956	64,383	–	64,383
Derivative financial instruments	14	48,723	2,103	–	50,826	–	50,826
Deposits by banks		–	–	–	–	28,986	28,986
Customer accounts		–	–	–	–	421,153	421,153
Repurchase agreements and other similar secured borrowing	15	–	–	–	–	2,811	2,811
Debt securities in issue		–	–	–	–	51,086	51,086
Other liabilities	20	–	–	–	–	48,663	48,663
Subordinated liabilities and other borrowed funds	23	–	–	–	–	16,826	16,826
Total at 30 June 2020		53,150	2,103	59,956	115,209	569,525	684,734

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	1,081	1,081	–	1,081
Customer accounts		–	–	6,947	6,947	–	6,947
Repurchase agreements and other similar secured borrowing	15	–	–	46,283	46,283	–	46,283
Debt securities in issue		–	–	8,510	8,510	–	8,510
Short positions		4,153	–	–	4,153	–	4,153
		4,153	–	62,821	66,974	–	66,974
Derivative financial instruments	14	46,906	1,578	–	48,484	–	48,484
Deposits by banks		–	–	–	–	28,562	28,562
Customer accounts		–	–	–	–	405,357	405,357
Repurchase agreements and other similar secured borrowing	15	–	–	–	–	1,935	1,935
Debt securities in issue		–	–	–	–	53,025	53,025
Other liabilities	20	–	–	–	–	41,149	41,149
Subordinated liabilities and other borrowed funds	23	–	–	–	–	16,207	16,207
Total at 31 December 2019		51,059	1,578	62,821	115,458	546,235	661,693

Financial liabilities designated at fair value through profit or loss

	30.06.20 $million	31.12.19 $million
Carrying balance aggregate fair value	59,956	62,821
Amount contractually obliged to repay at maturity	59,701	62,505
Difference between aggregate fair value and contractually obliged to repay at maturity	255	316
Cumulative change in fair value accredited to credit risk difference	35	17

The net fair value loss on financial liabilities designated at fair value through profit or loss was $166 million for the period (31 December 2019: net loss of $1,602 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this note.

13. Financial instruments continued

Valuation of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of this, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the Group's non-performance risk. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison with instruments that have characteristics similar to those of the instruments held by the Group.

The Valuation Control function is responsible for independent price verification, oversight of fair value and appropriate value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

The Valuation and Benchmarks Committee (VBC) is the valuation governance forum consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business, which meets monthly to discuss and approve the independent valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations.

Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments is determined using valuation techniques and estimates (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group estimates valuation adjustments in determining the fair value (page 127)
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments (page 132)
- Where the estimated measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

13. Financial instruments continued

Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 128)

- **Financial instruments held at fair value**
  - **Debt securities – asset backed securities:** Asset backed securities are valued based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third-party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings.
  - **Debt securities in issue:** These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets
  - **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed
  - **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternative valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, Over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
  - **Loans and advances:** These primarily include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets and loans and advances including reverse repurchase agreements that do not have SPPI cash flows or are managed on a fair value basis. These loans are generally bilateral in nature and, where available, their valuation is based on observable clean sales transactions prices or market observable spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
  - **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets

13. Financial instruments continued

- **Financial instruments held at amortised cost**

  The following sets out the Group's basis for establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

  - **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
  - **Debt securities in issue, subordinated liabilities and other borrowed funds:** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity
  - **Deposits and borrowings:** The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar Credit Risk and remaining maturity
  - **Investment securities:** For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using input proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or input proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows
  - **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar Credit Risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and Credit Risk. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical
  - **Other assets:** Other assets comprise primarily of cash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short-term in nature or re-price to current market rates frequently

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

	01.01.20 $million	Movement during the period $million	30.06.20 $million	01.01.19 $million	Movement during the year $million	31.12.19 $million
Bid-offer valuation adjustment	79	34	113	67	12	79
CVA	136	202	338	196	(60)	136
DVA	(43)	(103)	(146)	(143)	100	(43)
Model valuation adjustment	7	(2)	5	6	1	7
FVA	26	8	34	60	(34)	26
Other fair value adjustments	45	(8)	37	59	(14)	45
Total	250	131	381	245	5	250
Income deferrals						
Day 1 and other deferrals	103	38	141	100	3	103
Total	103	38	141	100	3	103

Note: Bracket represents an asset and credit to the income statement

13. Financial instruments continued

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid-market basis in the revaluation systems, a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems
- **Credit valuation adjustment (CVA):** The Group makes CVA adjustment against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by using estimates of future positive exposure, market-implied probability of default (PD) and recovery rates. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, and the Group has implemented a model to capture this impact for certain key wrong-way exposures. The Group also captures the uncertainties associated with wrong-way risk in its Prudential Valuation Adjustments
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on bond and CDS spreads associated with the Group's issuances and market standard recovery levels. The expected exposure is modelled based on the simulation of the underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Other fair value adjustments:** The Group calculates the fair value on the interest rate callable products by calibrating to a set of market prices with differing maturity, expiry and strike of the trades
- **Day one and other deferrals:** In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated. Other deferrals primarily represent adjustments taken to reflect the specific terms and conditions of certain derivative contracts which affect the termination value at the measurement date

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group's OCA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA adjustments will reverse over time as its liabilities mature. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior unsecured credit spreads. The OCA at 30 June 2020 is $35 million, other comprehensive income loss $22 million (31 December 2019: $17 million, other comprehensive income gain $462 million).

Fair value hierarchy – financial instruments held at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- **Level 3:** Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

13. Financial instruments continued

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	2,136	200	2,336
Loans and advances to customers	–	9,915	538	10,453
Reverse repurchase agreements and other similar secured lending	83	58,165	754	59,002
Debt securities, alternative tier one and other eligible bills	7,657	16,139	220	24,016
Of which:				
Government bonds and treasury bills	7,211	8,948	–	16,159
Issued by corporates other than financial institutions[1]	8	4,189	201	4,398
Issued by financial institutions[1]	438	3,002	19	3,459
Equity shares	2,290	–	262	2,552
Derivative financial instruments	610	51,571	46	52,227
Of which:				
Foreign exchange	21	34,747	33	34,801
Interest rate	55	14,003	4	14,062
Credit	–	1,259	3	1,262
Equity and stock index options	–	105	6	111
Commodity	534	1,457	–	1,991
Investment securities				
Debt securities, alternative tier one and other eligible bills	71,945	57,174	69	129,188
Of which:				
Government bonds and treasury bills	53,671	21,813	33	75,517
Issued by corporates other than financial institutions[1]	6,416	10,521	36	16,973
Issued by financial institutions[1]	11,858	24,840	–	36,698
Equity shares	34	8	365	407
Total financial instruments at 30 June 2020[2]	82,619	195,108	2,454	280,181
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	1,189	69	1,258
Customer accounts	–	7,667	29	7,696
Repurchase agreements and other similar secured borrowing	–	45,274	–	45,274
Debt securities in issue	–	5,272	456	5,728
Short positions	3,057	1,370	–	4,427
Derivative financial instruments	625	50,092	109	50,826
Of which:				
Foreign exchange	82	34,723	31	34,836
Interest rate	41	12,441	30	12,512
Credit	–	2,093	22	2,115
Equity and stock index options	–	84	26	110
Commodity	502	751	–	1,253
Total financial instruments at 30 June 2020[2]	3,682	110,864	663	115,209

1 Includes covered bonds of $6,680 million, securities issued by Multilateral Development Banks/International Organisations of $11,699 million and State-owned agencies and development banks of $16,269 million

2 The above table does not include held for sale assets of $175 million and liabilities of $nil. These are reported in Note 19 together with their fair value hierarchy

There were no significant changes to valuation or levelling approaches in 2020.

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

13. Financial instruments continued

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	3,163	365	3,528
Loans and advances to customers	–	6,453	443	6,896
Reverse repurchase agreements and other similar secured lending	–	57,604	–	57,604
Debt securities, alternative tier one and other eligible bills	5,963	16,158	200	22,321
Of which:				
Government bonds and treasury bills[1]	5,656	7,898	–	13,554
Issued by corporates other than financial institutions[1]	7	5,090	200	5,297
Issued by financial institutions	300	3,170	–	3,470
Equity shares	2,241	–	228	2,469
Derivative financial instruments	466	46,729	17	47,212
Of which:				
Foreign exchange	69	25,929	8	26,006
Interest rate	28	19,342	4	19,374
Credit	–	1,231	1	1,232
Equity and stock index options	–	23	4	27
Commodity	369	204	–	573
Investment securities				
Debt securities, alternative tier one and other eligible bills	73,699	55,734	38	129,471
Of which:				
Government bonds and treasury bills	54,637	19,664	33	74,334
Issued by corporates other than financial institutions[1]	11,667	14,505	5	26,177
Issued by financial institutions[1]	7,395	21,565	–	28,960
Equity shares	30	4	257	291
Total financial instruments at 31 December 2019[2]	82,399	185,845	1,548	269,792
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	1,025	56	1,081
Customer accounts	–	6,907	40	6,947
Repurchase agreements and other similar secured borrowing	–	46,283	–	46,283
Debt securities in issue	–	8,100	410	8,510
Short positions	2,499	1,654	–	4,153
Derivative financial instruments	515	47,912	57	48,484
Of which:				
Foreign exchange	97	26,824	5	26,926
Interest rate	31	18,891	9	18,931
Credit	–	1,892	23	1,915
Equity and stock index options	–	76	20	96
Commodity	387	229	–	616
Total financial instruments at 31 December 2019[2]	3,014	111,881	563	115,458

1 Includes covered bonds of $6,137 million (represented from $3,499 million), securities issued by Multilateral Development Banks/International Organisations of $11,894 million and State-owned agencies and development banks of $17,936 million

2 The above table does not include held for sale assets of $330 million and liabilities of $nil. These are reported in Note 19 together with their fair value hierarchy

There were no significant changes to valuation or levelling approaches in 2019.

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

13. Financial instruments continued

Fair value hierarchy – financial instruments measured at amortised cost

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	**52,925**	**–**	**52,925**	**–**	**52,925**
Loans and advances to banks	**50,499**	**–**	**50,518**	**–**	**50,518**
of which – reverse repurchase agreements and other similar secured lending	**1,893**	**–**	**1,909**	**–**	**1,909**
Loans and advances to customers	**276,313**	**–**	**31,354**	**246,005**	**277,359**
of which – reverse repurchase agreements and other similar secured lending	**4,383**	**–**	**2,624**	**1,762**	**4,386**
Investment securities[2]	**16,139**	**–**	**17,082**	**38**	**17,120**
Other assets[1]	**42,183**	**–**	**42,183**	**–**	**42,183**
Assets held for sale	**157**	**–**	**133**	**24**	**157**
At 30 June 2020	**438,216**	**–**	**194,195**	**246,067**	**440,262**
Liabilities					
Deposits by banks	**28,986**	**–**	**28,860**	**–**	**28,860**
Customer accounts	**421,153**	**–**	**421,043**	**–**	**421,043**
Repurchase agreements and other similar secured borrowing	**2,811**	**–**	**2,811**	**–**	**2,811**
Debt securities in issue	**51,086**	**22,945**	**27,790**	**–**	**50,735**
Subordinated liabilities and other borrowed funds	**16,826**	**16,120**	**885**	**–**	**17,005**
Other liabilities[1]	**48,663**	**–**	**48,663**	**–**	**48,663**
At 30 June 2020	**569,525**	**39,065**	**530,052**	**–**	**569,117**

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	52,728	–	52,728	–	52,728
Loans and advances to banks	53,549	–	53,431	–	53,431
of which – reverse repurchase agreements and other similar secured lending	1,341	–	1,356	–	1,356
Loans and advances to customers	268,523	–	22,829	246,632	269,461
of which – reverse repurchase agreements and other similar secured lending	1,469	–	1,341	130	1,471
Investment securities[2]	13,969	–	14,238[3]	20	14,261
Other assets[1]	36,161	–	36,161	–	36,161
Assets held for sale	90	–	90	–	90
At 31 December 2019	425,020	–	179,477	246,652	426,132
Liabilities					
Deposits by banks	28,562	–	28,577	–	28,577
Customer accounts	405,357	–	405,361	–	405,361
Repurchase agreements and other similar secured borrowing	1,935	–	1,935	–	1,935
Debt securities in issue	53,025	20,031	33,269	–	53,300
Subordinated liabilities and other borrowed funds	16,207	15,986	803	–	16,789
Other liabilities[1]	41,149	–	41,149	–	41,149
At 31 December 2019	546,235	36,017	511,094	–	547,111

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

2 Includes Government bonds and Treasury bills of $6,339 million as at 30 June 2020 (31 December 2019: $5,973 million)

3 Fair value of investment securities restated from $13,107 million to $14,238 million

13. Financial instruments continued

Level 3 Summary and significant unobservable inputs

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

Instrument	Value as at 30 June 2020 Assets $million	Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to banks	**200**	**–**	Discounted cash flows	Price/yield	4.6%–13.9%	10.6%
Loans and advances to customers	**538**	**–**	Discounted cash flows	Price/yield	3.6%–15.4%	10.3%
			Discounted cash flows	Recovery rates	41.5%–100%	88.6%
Reverse repurchase agreements and other similar secured lending	**754**	**–**	Discounted cash flows	Repo rate	2.9%	2.9%
Debt securities, alternative tier one and other eligible securities	**140**	**–**	Discounted cash flows	Price/yield	4.0%–27.8%	22.8%
Government bonds and treasury bills	**33**	**–**	Discounted cash flows	Price/yield	2.9%–5.5%	3.8%
Asset-backed securities	**116**	**–**	Discounted cash flows	Price/yield	1.0%–32.8%	12.3%
Equity shares (includes private equity investments)[3]	**627**	**–**	Comparable pricing/yield	EV/EBITDA multiples	3.3x–12.6x	9.2x
				P/E multiples	17.5x	17.5x
				P/B multiples	0.3x–0.8x	0.7x
				P/S multiples	NA	NA
				Liquidity discount	10.0%–20.0%	18.0%
			Discounted cash flows	Discount rates	6.0%–14.9%	7.9%
			Option pricing model	Equity value based on EV/ Revenue multiples	9.0x–13.9x	9.9x
Derivative financial instruments of which:						
Foreign exchange	**33**	**31**	Option pricing model	Foreign Exchange Option Implied Volatility	(0.5)%–1.9%	1.4%
			Discounted cash flows	Foreign Exchange Curves	0.8%–18.0%	12.1%
Interest rate	**4**	**30**	Discounted cash flows	Interest Rate Curves	1.4%–13.6%	6.0%
			Option pricing model	Bond Option Implied Volatility	20.0%–28.0%	23.8%
Credit	**3**	**22**	Discounted cash flows	Credit Spreads	1.0%–15.4%	11.3%
Equity and stock index	**6**	**26**	Internal pricing model	Equity-Equity Correlation	2.0%–90.0%	65.0%
				Equity-FX Correlation	(85.0)%–70.0%	39.0%
Deposits by banks	**–**	**69**	Discounted cash flows	Credit Spreads	1.0%	1.0%
Customer accounts	**–**	**29**	Discounted cash flows	Credit Spreads	1.0%–32.8%	29.4%
Debt securities in issue	**–**	**456**	Discounted cash flows	Credit Spreads	0.1%–27.8%	13.6%
			Internal pricing model	Equity-Equity Correlation	2.0%–90.0%	65.0%
				Equity-FX Correlation	(85.0)%–70.0%	39.0%
Total	**2,454**	**663**				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 30 June 2020. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value

13. Financial instruments continued

Instrument	Value as at 31 December 2019 Assets $million	Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to banks	365	–	Discounted cash flows	Price/yield	1.0%–15.6%	10.8%
Loans and advances to customers	443	–	Discounted cash flows	Price/yield	0.5% – 6.9%	4.2%
				Recovery rates	18.9% – 100%	92.1%
Debt securities, alternative tier one and other eligible securities	184	–	Discounted cash flows	Price/yield	3.8% – 18.7%	11.6%
Government bonds and treasury bills	33	–	Discounted cash flows	Price/Yield	2.9% – 5.5%	3.7%
Asset backed securities	21	–	Discounted cash flows	Price/Yield	1.4% – 3.2%	2.7%
Equity shares (includes private equity investments)[3]	485	–	Comparable pricing/yield	EV/EBITDA multiples	3.5x – 7.3x	4.6x
				P/E multiples	17.4x	17.4x
				P/B multiples	0.6x – 1.0x	0.9x
				P/S multiples	N/A	N/A
				Liquidity discount	10.0% – 20.0%	15.9%
			Discounted cash flows	Discount rates	8.4% – 16.2%	9.5%
Derivative financial instruments of which:						
Foreign exchange	8	5	Option Pricing Model	Foreign Exchange Option Implied Volatility	4.4% – 18.9%	16.7%
			Discounted cash flows	Foreign Exchange Curves	7.8% – 8.0%	7.9%
Interest rate	4	9	Discounted cash flows	Interest rate curves	5.3% – 19.6%	8.6%
			Option Pricing Model	Bond Option Implied Volatility	17.0% – 28.0%	24.0%
Credit	1	23	Discounted cash flows	Credit spreads	1.0% – 7.9%	1.1%
Equity and stock index	4	20	Internal pricing model	Equity Correlation	1.0% – 90.0%	58.0%
				Equity-FX Correlation	(80.0)% – 70.0%	(29.0)%
Deposits by banks	–	56	Discounted cash flows	Credit Spreads	1.0% – 1.8%	1.4%
Customer accounts	–	40	Discounted cash flows	Credit Spreads	1.0% – 5.8%	2.7%
Debt securities in issue		410	Discounted cash flows	Credit Spreads	0.1% – 1.4%	0.9%
			Internal pricing model	Equity Correlation	1.0% – 90.0%	58.0%
				Equity-FX Correlation	(80.0)% – 70.0%	(29.0)%
Total	1,548	563				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 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 balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value based on the shares' initial offering price

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

- **Comparable price/yield** is a valuation methodology in which the price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset
- **Recovery rates** are the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan
- **EV/EBITDA ratio multiples** is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm

13. Financial instruments continued

- **Price-Earnings (P/E) multiples** is the ratio of the Market Capitalisation to the net income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple** is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple** is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **Liquidity discounts in the valuation of unlisted investments** primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm
- **Discount rate** refers to the rate of return used to convert expected cash flows into present value
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be
- **Foreign exchange curves** is the term structure for forward rates and swap rates between currency pairs over a specified period
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point in time
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the Credit Risk of an instrument
- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Commodities correlation:** This refers to the correlation between two commodity underlyings over a specified time

Level 3 movement tables – financial assets

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

	30.06.2020								
	Held at fair value through profit or loss						Investment securities		
Assets	Loans and advances to banks $million	Loans and advances to customers $million	Reverse repurchase agreements and other similar secured lending $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Total $million
As at 1 January 2020	365	443	–	200	228	17	38	257	1,548
Total gains/(losses) recognised in income statement	15	(15)	4	(20)	(24)	12	–	–	(28)
Net trading income	15	(15)	4	(20)	(24)	15	–	–	(25)
Other operating income	–	–	–	–	–	(3)	–	–	(3)
Total (losses)/gains recognised in other comprehensive income (OCI)	–	–	–	–	–	–	(1)	27	26
Fair value through OCI reserve	–	–	–	–	–	–	–	27	27
Exchange difference	–	–	–	–	–	–	(1)	–	(1)
Purchases	272	46	750	114	–	84	37	82	1,385
Sales	(164)	(30)	–	(76)	(4)	(65)	–	(1)	(340)
Settlements	(288)	(71)	–	(45)	–	(5)	–	–	(409)
Transfers out[1]	–	(73)	–	(16)	–	(5)	(5)	–	(99)
Transfers in[2]	–	238	–	63	62	8	–	–	371
As at 30 June 2020	200	538	754	220	262	46	69	365	2,454
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 30 June 2020	–	–	1	10		–	–	–	11

1 Transfers out includes loans and advances, debt securities, alternative tier one and other eligible bills and derivative financial instruments where the valuation parameters became observable during the period and were transferred to Level 1 and Level 2

2 Transfers in primarily relate to loans and advances, debt securities, alternative tier one and other eligible bills, equity shares and derivative financial instruments where the valuation parameters become unobservable during the period

13. Financial instruments continued

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

	30.06.19							
	Held at fair value through profit or loss					Investment securities		
Assets	Loans and advances to banks[3] $million	Loans and advances to customers $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Total $million
As at 1 January 2019	632	492	317	327	12	412	230	2,422
Total gains/(losses) recognised in income statement	42	(3)	(23)	(16)	1	3	–	4
Net trading income	42	(3)	(23)	(16)	1	–	–	1
Other operating income	–	–	–	–	–	3	–	3
Total (losses)/gains recognised in other comprehensive income (OCI)	–	–	–	–	–	(327)	4	(323)
Fair value through OCI reserve	–	–	–	–	–	–	12	12
Exchange difference	–	–	–	–	–	(327)	(8)	(335)
Purchases	226	29	46	69	58	202	16	646
Sales	–	(8)	(155)	(12)	(20)	–	–	(195)
Settlements	(319)	(121)	(3)	–	(2)	(58)	–	(503)
Transfers out[1]	–	–	(86)	(74)	(3)	(73)	–	(236)
Transfers in[2]	–	81	53	75	2	–	3	214
As at 30 June 2019	581	470	149	369	48	159	253	2,029
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 30 June 2019	–	1	–	–	3	–	–	4

	31.12.19							
	Held at fair value through profit or loss					Investment securities		
Assets	Loans and advances to banks $million	Loans and advances to customers $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities, alternative tier one and other eligible bills $million	Equity shares $million	Total $million
As at 1 July 2019	581	470	149	369	48	159	253	2,029
Total (losses)/gains recognised in income statement	(67)	(28)	9	(10)	(16)	(1)	–	(113)
Net trading income	(67)	(28)	9	(10)	(16)	–	–	(112)
Other operating income	–	–	–	–	–	(1)	–	(1)
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	(14)	1	(13)
Fair value through OCI reserve	–	–	–	–	–	(4)	–	(4)
Exchange difference	–	–	–	–	–	(10)	1	(9)
Purchases	600	104	60	70	51	(46)	10	849
Sales	–	–	(93)	(141)	(6)	(1)	(7)	(248)
Settlements	(749)	(132)	–	–	(3)	24	–	(860)
Transfers out[1]	–	(6)	–	(60)	(72)	(88)	–	(226)
Transfers in[2]	–	35	75	–	15	5	–	130
As at 31 December 2019	365	443	200	228	17	38	257	1,548
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2019	–	(1)	(1)	–	(4)	–	–	(6)

1 Transfers out include loans and advances, equity shares, debt securities, alternative tier one and other eligible bills, and derivative financial instruments where the valuation parameters became observable during the year, and were transferred to Level 1 and Level 2

2 Transfers in primarily relate to loans and advances, debt securities, alternative tier one and other eligible bills, equity shares and derivative financial instruments where the valuation parameters become unobservable during the period

3 During 2019, $632 million reported in 2018 in loans and advances to banks was reclassified from Level 2 to Level 3. Hence, prior period balances have been restated to show the impact of the same

13. Financial instruments continued

Level 3 movement tables – financial liabilities

	30.06.20				
Liabilities	**Deposits by banks $million**	**Customer accounts $million**	**Debt securities in issue $million**	**Derivative financial instruments $million**	**Total $million**
As at 1 January 2020	56	40	410	57	563
Total (gains)/losses recognised in income statement – net trading income	(4)	(1)	(17)	2	(20)
Issues	70	45	329	94	538
Settlements	(53)	(64)	(247)	(50)	(414)
Transfers out[1]	–	–	(20)	(5)	(25)
Transfers in[2]	–	9	1	11	21
As at 30 June 2020	69	29	456	109	663
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 30 June 2020	–	2	–	–	2

	30.06.19			
Liabilities	Deposits by banks $million	Debt securities in issue $million	Derivative financial instruments[3] $million	Total $million
As at 1 January 2019	4	439	65	508
Total losses recognised in income statement – net trading income	–	23	47	70
Issues	32	240	56	328
Settlements	–	(240)	(35)	(275)
Transfers out[1]	–	–	(9)	(9)
Transfers in[2]	–	–	156	156
As at 30 June 2019	36	462	280	778
Total unrealised losses/(gains) recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 30 June 2019	–	14	(6)	8

	31.12.19				
Liabilities	Deposits by banks $million	Customer accounts $million	Debt securities in issue $million	Derivative financial instruments[3] $million	Total $million
As at 1 July 2019	36	–	462	280	778
Total (gains)/losses recognised in income statement – net trading income	(1)	(2)	(1)	7	3
Issues	21	41	352	380	794
Settlements	–	–	(282)	(607)	(889)
Transfers out[1]	–	–	(121)	(4)	(125)
Transfers in[2]	–	1	–	1	2
As at 31 December 2019	56	40	410	57	563
Total unrealised (gains)/losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2019	–	(2)	2	8	8

1 Transfers out during the period primarily relate to debt securities in issue and derivative financial instruments where the valuation parameters became observable during the period and were transferred to Level 2 financial liabilities

2 Transfers in during the period primarily relate to customer accounts, debt securities in issue and derivative financial instruments where the valuation parameters become unobservable during the period

3 Prior period movements have been restated on account of restatement done during 2019 due to change in observability parameters

13. Financial instruments continued

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

Sensitivity analysis is performed on products with significant unobservable inputs. The Group applies a 10 per cent increase or decrease on the values of these unobservable inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Fair value through other comprehensive income		
	Net exposure $million	Favourable changes $million	Unfavourable changes $million	Net exposure $million	Favourable changes $million	Unfavourable changes $million
Financial instruments held at fair value						
Loans and advances	738	752	700	–	–	–
Repos and reverse repos	754	755	753	–	–	–
Asset backed securities	80	85	75	36	36	36
Debt securities, alternative tier one and other eligible bills	140	148	132	33	33	33
Equity shares	262	288	236	365	401	329
Derivative financial instruments	(63)	(50)	(76)	–	–	–
Customer accounts	(29)	(28)	(30)	–	–	–
Deposits by banks	(69)	(69)	(69)	–	–	–
Debt securities in issue	(456)	(434)	(479)	–	–	–
At 30 June 2020	1,357	1,447	1,242	434	470	398
Financial instruments held at fair value						
Loans and advances	808	820	787	–	–	–
Repos and reverse repos	–	–	–	–	–	–
Asset backed securities	21	21	21	–	–	–
Debt securities, alternative tier one and other eligible bills	179	189	170	38	38	38
Equity shares	228	255	201	257	283	231
Derivative financial instruments	(40)	(34)	(46)	–	–	–
Customer accounts	(40)	(40)	(40)	–	–	–
Deposits by banks	(56)	(56)	(56)	–	–	–
Debt securities in issue	(410)	(379)	(441)	–	–	–
At 31 December 2019	690	776	596	295	321	269

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

Financial instruments	Fair value changes	30.06.20 $million	31.12.19 $million
Held at fair value through profit or loss	Possible increase	90	86
	Possible decrease	(115)	(94)
Fair value through other comprehensive income	Possible increase	36	26
	Possible decrease	(36)	(26)

14. Derivative financial instruments

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

	30.06.20			31.12.19		
Derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	2,766,121	20,235	19,175	2,290,781	16,281	16,396
Currency swaps and options	1,108,001	14,566	15,661	806,226	9,725	10,530
	3,874,122	34,801	34,836	3,097,007	26,006	26,926
Interest rate derivative contracts:						
Swaps	3,411,114	70,234	68,631	4,046,209	34,011	33,351
Forward rate agreements and options	696,863	620	710	284,973	1,826	2,061
Exchange traded futures and options	410,142	400	363	359,031	179	161
	4,518,119	71,254	69,704	4,690,213	36,016	35,573
Credit derivative contracts	123,339	1,262	2,115	80,972	1,232	1,915
Equity and stock index options	3,996	111	110	3,412	27	96
Commodity derivative contracts	73,533	1,991	1,253	79,458	573	616
Gross total derivatives	8,593,109	109,419	108,018	7,951,062	63,854	65,126
Offset	–	(57,192)	(57,192)	–	(16,642)	(16,642)
Net total derivatives	8,593,109	52,227	50,826	7,951,062	47,212	48,484

The notional amounts of the contract are not offset and do not represent the Group's actual exposure to Credit Risk. This Credit Risk is limited to the current cost of replacing contracts with a positive mark to market to the Group should the counterparty default.

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

The Group applies balance sheet offsetting only in the instance where we are able to demonstrate legal enforceability of the right to offset (e.g. via legal opinion) and the ability and intention to settle on a net basis (e.g. via operational practice).

The Group has met the criteria to offset the derivative asset and liability balances and related variation margin for trades cleared on behalf of clients with LCH SwapClear. This applies to both trades between the Group and the clients and between the Group and LCH SwapClear. The impact of this as at 30 June 2020 is a decrease in the derivative assets and derivative liabilities of $20.8bn. Prior periods have not been restated as the effect would not be material. The impact at 31 December 2019 would have been a decrease in the derivative assets and derivative liabilities of $8.7bn.

The Group has also met the criteria to derecognise initial margin for trades cleared on behalf of clients with LCH SwapClear. The impact of this as at 30 June 2020 is a decrease in other assets and other liabilities of $2.1bn. Prior periods have not been restated as the effect would not be material. The impact at 31 December 2019 would have been a decrease in other assets and other liabilities of $3.2bn.

Derivatives held for hedging

Included in the table above are derivatives held for hedging purposes as follows:

	30.06.20			31.12.19		
	Notional principal amounts $million	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	68,631	1,688	1,127	69,121	617	589
Currency swaps	6,768	29	764	8,405	47	774
	75,399	1,717	1,891	77,526	664	1,363
Derivatives designated as cash flow hedges:						
Interest rate swaps	10,232	90	202	9,277	53	74
Forward foreign exchange contracts	373	5	3	289	6	20
Currency swaps	7,743	103	5	5,254	34	51
	18,348	198	210	14,820	93	145
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	4,972	126	2	5,103	31	70
Total derivatives held for hedging	98,719	2,041	2,103	97,449	788	1,578

14. Derivative financial instruments continued

Interest rate benchmark reform

The Group has established an IBOR Transition Programme that is overseen by the Group's Chief Operating Officer and updates a number of committees including the Board Risk Committee and Group Risk Committee regularly updated. The programme comprises a series of business and function workstreams, with oversight and coordination of the specific areas and risks provided by a central project team. The key objectives of these workstreams include identifying all contracts in scope of benchmark reform, upgrading internal systems to support business in the alternative RFR product suite, identifying and communicating to customers with whom repricing and/or re-papering IBOR-referenced contracts is required and executing the necessary change in contracts. Workstreams actively participate in industry-wide working groups to ensure they are kept informed of the latest developments and are consistent with the approaches of other market participants.

As at 30 June 2020, the following populations of derivative instruments designated in fair value or cash flow hedge accounting relationships were linked to IBOR reference rates:

	Fair value hedges		Cash flow hedges			
	Notional designated up to 31 December 2021 $million	Notional designated beyond 31 December 2021 $million	Notional designated up to 31 December 2021 $million	Notional designated beyond 31 December 2021 $million	Total $million	Weighted average exposure Years
Interest rate swaps						
USD LIBOR	11,939	33,893	895	3,309	50,036	3.3
GBP LIBOR	550	3,324	328	–	4,202	7.1
JPY LIBOR	1,181	680	–	–	1,861	2.5
SGD SOR	341	126	–	–	467	1.7
	14,011	38,023	1,223	3,309	56,566	3.5
Cross currency swaps						
USD LIBOR vs Fixed rate foreign currency	4,996	1,772	–	–	6,768	1.1
Total notional of hedging instruments in scope of IFRS amendments	19,007	39,795	1,223	3,309	63,334	3.2

The Group's primary exposure is to USD LIBOR due to the extent of fixed rate debt security assets and issued notes denominated in USD that are designated in fair value hedge relationships. Where fixed rate instruments are in other currencies, cross-currency swaps are used to achieve an equivalent floating USD exposure.

15. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing

Reverse repurchase agreements and other similar secured lending

	30.06.20 $million	31.12.19 $million
Banks	19,496	19,610
Customers	45,782	40,804
	65,278	60,414
Of which:		
Fair value through profit or loss	59,002	57,604
Banks	17,603	18,269
Customers	41,399	39,335
Held at amortised cost	6,276	2,810
Banks	1,893	1,341
Customers	4,383	1,469

15. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	30.06.20 $million	31.12.19 $million
Securities and collateral received (at fair value)	88,358	86,308
Securities and collateral which can be repledged or sold (at fair value)	85,713	85,415
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	43,193	44,530

Repurchase agreements and other similar secured borrowing

	30.06.20 $million	31.12.19 $million
Banks	7,470	7,789
Customers	40,615	40,429
	48,085	48,218
Of which:		
Fair value through profit or loss	45,274	46,283
Banks	6,748	7,401
Customers	38,526	38,882
Held at amortised cost	2,811	1,935
Banks	722	388
Customers	2,089	1,547

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions:

	30.06.20				
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Fair value through other comprehensive income $million	Amortised cost $million	Off-balance sheet $million	Total $million
On-balance sheet					
Debt securities, alternative tier one and other eligible bills	1,411	3,171	899	–	5,481
Off-balance sheet					
Repledged collateral received	–	–	–	43,193	43,193
At 30 June 2020	1,411	3,171	899	43,193	48,674

	31.12.19				
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Fair value through other comprehensive income $million	Amortised cost $million	Off-balance sheet $million	Total $million
On-balance sheet					
Debt securities, alternative tier one and other eligible bills	1,036	2,137	1,023	–	4,196
Off-balance sheet					
Repledged collateral received	–	–	–	44,530	44,530
At 31 December 2019	1,036	2,137	1,023	44,530	48,726

16. Goodwill and intangible assets

	30.06.20				31.12.19			
	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost								
At 1 January	3,079	461	3,239	6,779	3,116	510	2,835	6,461
Exchange translation differences	(32)	(15)	(96)	(143)	(10)	(5)	26	11
Additions	–	–	340	340	–	1	753	754
Disposals	–	–	(4)	(4)	–	(1)	(3)	(4)
Impairment	(258)	–	–	(258)	(27)	–	–	(27)
Amounts written off	–	1	(82)	(81)	–	(44)	(372)	(416)
At 30 June/31 December	2,789	447	3,397	6,633	3,079	461	3,239	6,779
Provision for amortisation								
At 1 January	–	431	1,058	1,489	–	458	947	1,405
Exchange translation differences	–	(14)	(34)	(48)	–	(5)	6	1
Amortisation	–	2	241	243	–	9	436	445
Impairment charge	–	–	2	2	–	–	12	12
Disposals	–	–	(4)	(4)	–	(1)	–	(1)
Amounts written off	–	1	(79)	(78)	–	(30)	(343)	(373)
At 30 June/31 December	–	420	1,184	1,604	–	431	1,058	1,489
Net book value	2,789	27	2,213	5,029	3,079	30	2,181	5,290

At 30 June 2020, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $3,086 million (31 December 2019: $2,828 million), of which $258 million was recognised in 2020 (31 December 2019: $27 million).

Outcome of impairment assessment

At 30 June 2020, the Group performed a review of the goodwill that has been assigned to the Group's cash-generating units for indicators of impairment, considering whether there were any reduced expectations for future cashflows and/or fluctuations in the discount rate or the assumptions. The results of this review indicated that at 30 June 2020 there are no further goodwill impairments to be recognised over and above the $258m impaired in Q1, 2020.

The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

	30.06.20			31.12.19		
Cash generating unit	Goodwill $million	Discount rates per cent	Long-term forecast GDP growth rates per cent	Goodwill $million	Discount rates per cent	Long-term forecast GDP growth rates per cent
Country CGUs						
Greater China & North Asia	907			900		
Hong Kong	359	9.7	2.9	358	9.2	2.4
Taiwan	548	8.6	2.2	542	10.6	2.0
Africa & Middle East	500			512		
Pakistan	176	15.0	5.3	188	21.0	4.0
UAE	204	10.5	3.2	204	7.1	2.5
Others (4)[1]	120	9.7–16.2	2.8–5.7	120	8.3–16.6	2.5–4.9
ASEAN & South Asia	430			706		
India	–	–	–	259	16.4	7.3
Singapore	334	10.7	3.0	342	10.4	1.9
Others (4)[2]	96	13.3–14.0	5.5–7.1	105	11.7–15.4	3.3–7.3
Global CGUs	952			961		
Global Private Banking	84	9.1	3.8	84	9.1	3.5
Global Corporate & Institutional Banking[3]	868	9.1	3.8	877	9.1	3.5
	2,789			3,079		

1 Bahrain, Ghana, Jordan and Qatar

2 Bangladesh, Brunei, Indonesia and Vietnam

3 Global Corporate Finance and Global Transaction Banking CGUs are now combined into a single Global Corporate & Institutional Banking CGU

Two country CGUs; India and Brunei have had all the goodwill allocated to them written off, totalling $258 million. This was primarily due to lower economic growth forecasts, and higher discount rates than year-end. As a result the carrying amount of each CGU, which included goodwill, was greater than the recoverable amount.

16. Goodwill and intangible assets continued

In view of the increased economic uncertainty caused by the COVID-19 pandemic, the Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The following CGUs are considered sensitive to the key variables and any individual movements on the estimates (cashflow, discount rate and GDP growth rate) up to the levels disclosed below would eliminate the current headroom.

	30.06.20															
					Sensitivities											
		Base case			GDP		Discount rates		Cashflow		Cashflow		Cashflow	Downside scenario	Extreme downside scenario
					+ 1%	-1%	+ 1%	-1%	+ 10%	- 10%	+20%	- 20%	- 30%	GDP – 1% DR + 1% CF – 10%	GDP – 1% DR + 1% CF – 20%
CGU	Goodwill	Headroom $million	Discount rate	GDP	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million	Headroom $million
Pakistan	176	180	15.0%	5.3	223	146	136	236	232	129	284	77	25	64	20
Taiwan	548	186	8.6%	2.2	492	(37)	(81)	552	458	(85)	729	(357)	(629)	(456)	(666)
UAE	204	49	10.5%	3.2	174	(46)	(66)	201	170	(73)	292	(194)	(316)	(235)	(331)

The table above represents reasonably possible scenarios that could occur if either; economic factors (which drive GDP rates and discount rates); country specific cash flows; or a combination of both are different from the assumptions used in the goodwill impairment assessment at 30 June 2020.

For there to be no headroom, the discount rate will need to increase by 0.5%, 0.7%, 5.9% for the UAE, Taiwan and Pakistan respectively. Similarly, the GDP rates will need to decrease by 0.4%, 0.8%, 9.3%, and cash flows would need to decrease by 4%, 6.9%, 34.9% for the UAE, Taiwan and Pakistan respectively.

17. Property, plant and equipment

	30.06.20					
	Premises $million	Equipment $million	Operating lease assets $million	Leased premises assets $million	Leased equipment assets $million	Total $million
Cost or valuation						
At 1 January	2,058	800	4,461	1,493	23	8,835
Exchange translation differences	(56)	(26)	(2)	(36)	2	(118)
Additions	14[1]	44[1]	949	86	2	1,095
Disposals and fully depreciated assets written off	(62)[2]	(25)[2]	(139)	(21)	–	(247)
Transfers to assets held for sale	(3)	–	–	–	–	(3)
As at 30 June	1,951	793	5,269	1,522	27	9,562
Depreciation						
Accumulated at 1 January	737	518	1,067	286	7	2,615
Exchange translation differences	(21)	(18)	–	(8)	–	(47)
Charge for the year	36	56	107	152	4	355
Impairment (release)/charge	–	–	51	–	–	51
Attributable to assets sold, transferred or written off	(34)[2]	(25)[2]	(85)	(14)	–	(158)
Transfers to assets held for sale	(1)	–	–	–	–	(1)
Accumulated at 30 June	717	531	1,140	416	11	2,815
Net book amount at 30 June	1,234	262	4,129	1,106	16	6,747

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the period $146 million on page 109

2 Disposals for property, plant and equipment during the period $56 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the period and the net book value disposed

17. Property, plant and equipment continued

	30.06.19					
	Premises $million	Equipment $million	Operating lease assets $million	Leased premises assets $million	Leased equipment assets $million	Total $million
Cost or valuation						
At 1 January	2,070	766	6,323	1,408	13	10,580
Exchange translation differences	(27)	(13)	(4)	(19)	–	(63)
Additions	29[1]	52[1]	269	44	10	404
Disposals and fully depreciated assets written off	(25)[2]	(55)[2]	(70)	(1)	–	(151)
Transfers to assets held for sale	–	–	(83)	–	–	(83)
As at 30 June	2,047	750	6,435	1,432	23	10,687
Depreciation						
Accumulated at 1 January	706	494	1,469	–	1	2,670
Exchange translation differences	(7)	(10)	(2)	5	–	(14)
Charge for the year	38	49	129	141	3	360
Impairment (release)/charge	–	–	36	–	–	36
Attributable to assets sold, transferred or written off	(21)[2]	(55)[2]	(23)	(1)	–	(100)
Transfers to assets held for sale	–	–	(17)	–	–	(17)
Accumulated at 30 June	716	478	1,592	145	4	2,935
Net book amount at 30 June	1,331	272	4,843	1,287	19	7,752

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the period $135 million on page 109

2 Disposals for property, plant and equipment during the period $21 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the period and the net book value disposed

	31.12.19					
	Premises $million	Equipment $million	Operating lease assets $million	Leased premises assets $million	Leased equipment assets $million	Total $million
Cost or valuation						
At 1 July	2,047	748	6,435	1,432	23	10,685
Exchange translation differences	(4)	(3)	(1)	(16)	–	(24)
Additions	67	72	30	84	–	253
Disposals and fully depreciated assets written off	(37)	(17)	(624)	(7)	–	(685)
Transfers to assets held for sale	(15)	–	(1,379)	–	–	(1,394)
As at 31 December	2,058	800	4,461	1,493	23	8,835
Depreciation						
Accumulated at 1 July	716	478	1,592	145	4	2,935
Exchange translation differences	–	–	(3)	2	–	(1)
Charge for the year	39	59	132	142	3	375
Impairment (release)/charge	1	–	85	–	–	86
Attributable to assets sold, transferred or written off	(14)	(17)	(132)	(3)	–	(166)
Transfers to assets held for sale	(5)	–	(609)	–	–	(614)
Accumulated at 31 December	737	520	1,065	286	7	2,615
Net book amount at 31 December	1,321	280	3,396	1,207	16	6,220

17. Property, plant and equipment continued

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft which is included within property, plant and equipment. The leases are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to the ownership of the assets, and rental income from operating lease assets is disclosed in Note 6.

During the period the Group purchased further aircraft to the value of $949 million. These aircraft have been leased to counterparties for a period of between 6 and 11 years.

Fixed asset impairments are write-downs of the Group's aircraft portfolio (six months to 30 June 2020: $51 million; six months to 30 June 2019: $13 million ; six months to 31 December 2019: $14 million) and, up to 31 December 2019 when it was reclassified as held for sale, shipping portfolio (six months to 30 June 2019: $23 million; six months to 31 December 2019: $71 million). These impairments are predominantly due to reductions in current market values, as provided by third-party appraisers and brokers.

Payment holidays/moratoriums offered to aircraft lessees have not resulted in any material changes to our lessor revenue streams.

18. Other assets

	30.06.20 $million	31.12.19 $million
Financial assets held at amortised cost (Note 13):		
Hong Kong SAR Government certificates of indebtedness (Note 20)[1]	7,073	6,911
Cash collateral	9,716	9,169
Acceptances and endorsements[2]	4,621	5,518
Unsettled trades and other financial assets	20,773	14,563
	42,183	36,161
Non-financial assets:		
Commodities[3]	4,367	5,465
Other assets	375	396
	46,925	42,022

1 The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

3 Commodities are carried at fair value and classified as Level 2

19. Assets held for sale and associated liabilities

Assets held for sale

	30.06.20 $million	31.12.19 $million
Financial assets held at fair value through profit or loss	175	330
Equity shares	175	330
Financial assets held at amortised cost	157	90
Loans and advances to banks	102	–
Loans and advances to customers	55	32
Debt securities held at amortised cost	–	58
Interests in joint venture	–	800
Property, plant and equipment	582	833
Aircraft	–	49
Vessels	567	769
Others	15	15
	914	2,053

19. Assets held for sale and associated liabilities continued

Interests in joint venture

On the 20 May 2020 the Group completed the sale of its 44.56% equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Limited for cash consideration of IDR 17 trillion ($1,072 million).

The profit on sale is as follows:

	30.06.20 $million
Cash received	1,072
Less: Investment in joint venture	(800)
Gain on carrying value	272
Less: Translation and other reserve recycling and transaction costs[1]	(266)
Net gain on disposal	6

1 Includes $246 million of exchange differences on translation of foreign operations

Liabilities held for sale

	30.06.20 $million	31.12.19 $million
Other liabilities	8	9
	8	9

20. Other liabilities

	30.06.20 $million	31.12.19 $million
Financial liabilities held at amortised cost (Note 13)		
Notes in circulation[1]	7,073	6,911
Acceptances and endorsements[2]	4,621	5,518
Cash collateral	9,565	7,824
Property leases	1,185	1,275
Equipment leases	16	20
Unsettled trades and other financial liabilities	26,203	19,601
	48,663	41,149
Non-financial liabilities		
Cash-settled share-based payments	32	50
Other liabilities	548	384
	49,243	41,583

1 Hong Kong currency notes in circulation of $7,073 million (31 December 2019: $6,911 million) that are secured by the Government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (Note 18)

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

21. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and risk-weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	30.06.20 $million	restated 31.12.19 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	36,748	37,007
Other contingent liabilities	5,486	5,425
	42,234	42,432
Commitments		
Documentary credits and short-term trade-related transactions	3,793	4,282
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	58,580	64,450
Less than one year	23,102	19,520[2]
Unconditionally cancellable	58,438	57,224[2]
	143,913	145,476
Capital commitments		
Contracted capital expenditure approved by the directors but not provided for in these accounts[1]	322	419

1 of which: the Group has commitments totalling $300 million to purchase aircraft for delivery in 2020 (31 December 2019: $400 million)

2 Undrawn formal standby facilities, credit lines and other commitments to lend: Less than one year – restated from $34,925 million to $19,520 million. Unconditionally cancellable – restated from $41,819 million to $57,224 million. Certain non-revolving facilities have now been classified as unconditionally cancellable.

21. Contingent liabilities and commitments continued

The Group's share of contingent liabilities and commitments relating to joint ventures is Nil (31 December 2019: $251 million). On 20 May 2020 the Group completed the sale of its 44.56 per cent equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Limited. Please refer to Note 19 for further details.

As set out in Note 22, the Group has contingent liabilities in respect of certain legal and regulatory matters for which it is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

22. Legal and regulatory matters

The Group receives legal claims against it in a number of jurisdictions and is subject to regulatory and enforcement investigations and proceedings from time to time.

Apart from the matters described below, the Group currently considers none of the ongoing claims, investigations or proceedings to be material. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters currently not considered to be material may not ultimately be material to the Group's results in a particular reporting period depending on, among other things, the amount of the loss resulting from the matter(s) and the results otherwise reported for such period.

Since November 2014, ten lawsuits have been filed in United States federal courts against a number of banks (including Standard Chartered Bank) on behalf of plaintiffs who are, or are relatives of, victims of various terrorist attacks in Iraq. The plaintiffs allege that the defendant banks aided and abetted the unlawful conduct of US sanctioned parties in breach of the US Anti-Terrorism Act. One lawsuit has been withdrawn by the plaintiffs and the courts have ruled in favour of the banks' motions to dismiss in five of the lawsuits. Following those rulings, in one lawsuit the plaintiffs have filed an appeal against the dismissal and appeals are also expected by the plaintiffs in three of the other dismissed lawsuits. The remaining lawsuits are still at an early procedural stage and have been stayed pending the outcomes of the appeals in the dismissed cases.

In January 2020, a shareholder derivative complaint was filed by the City of Philadelphia in the New York State Court against 45 current and former directors and senior officers of the Group. The complaint purports to be brought on behalf of all shareholders of Standard Chartered PLC (SC PLC). It alleges that the individuals breached their duties to the Group and caused a waste of corporate assets by permitting the conduct that gave rise to the costs and losses to the Group related to legacy conduct and control issues. SC PLC, Standard Chartered Holdings Limited and Standard Chartered Bank are each named as "nominal defendants" in the complaint. The case is at an early procedural stage. It is anticipated that a motion to dismiss the complaint will be filed later in 2020.

Based on the facts currently known, it is not possible for the Group to predict the outcome of these lawsuits.

23. Subordinated liabilities and other borrowed funds

	30.06.20				
	USD $million	**GBP $million**	**EUR $million**	**Others $million**	**Total $million**
Fixed rate subordinated debt	**10,676**	**1,429**	**4,038**	**507**	**16,650**
Floating rate subordinated debt	**161**	**15**	**–**	**–**	**176**
Total	**10,837**	**1,444**	**4,038**	**507**	**16,826**

	31.12.19				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	11,137	1,478	2,890	525	16,030
Floating rate subordinated debt	161	16	–	–	177
Total	11,298	1,494	2,890	525	16,207

Redemptions and repurchases during the period

On 24 June 2020, Standard Chartered Bank (Hong Kong) Limited exercised its right to redeem USD 750 million 5.875 per cent subordinated notes 2020.

Issuances during the period

On 9 June 2020, Standard Chartered PLC issued EUR 1 billion 2.5 per cent subordinated debt 2030 (callable 2025).

24. Share capital, other equity instruments and reserves

Group and Company

	Number of ordinary shares millions	Ordinary share capital[1] $million	Ordinary share premium $million	Preference share premium[2] $million	Total share capital and share premium $million	Other equity instruments $million
At 1 January 2019	3,308	1,654	3,963	1,494	7,111	4,961
Shares issued	4	2	23	–	25	–
Cancellation of shares including buy-back	(54)	(27)	–	–	(27)	–
At 30 June 2019	3,258	1,629	3,986	1,494	7,109	4,961
Shares issued	–	–	–	–	–	552
Cancellation of shares including buy-back	(62)	(31)	–	–	(31)	–
At 31 December 2019	**3,196**	**1,598**	**3,986**	**1,494**	**7,078**	**5,513**
Cancellation of shares including share buy-back	**(40)**	**(20)**	**–**	**–**	**(20)**	**–**
Additional Tier 1 equity issuance	**–**	**–**	**–**	**–**	**–**	**992**
Additional Tier 1 equity redemption	**–**	**–**	**–**	**–**	**–**	**(1,987)**
At 30 June 2020	**3,156**	**1,578**	**3,986**	**1,494**	**7,058**	**4,518**

1 Issued and fully paid ordinary shares of 50 cents each

2 Includes preference share capital of $75,000

Share buy-back

On 28 Feb 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of $0.50 each. Nominal value of share purchases was $20 million, and the total consideration paid was $242 million. The total number of shares purchased was 40,029,585 representing 1.25 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On 1 April 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of 20 cents per ordinary share and to suspend the buy-back programme.

	Number of ordinary shares	Average price paid per share £	Aggregate price paid £	Aggregate price paid $
March 2020	**40,029,585**	**4.89428**	**195,916,167**	**241,705,472**

Ordinary share capital

In accordance with the Companies Act 2006 the Company does not have authorised share capital. The nominal value of each ordinary share is 50 cents.

During the period nil shares were issued under employee share plans.

Preference share capital

At 30 June 2020, the Company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the Company and are classified in equity.

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

24. Share capital, other equity instruments and reserves continued

Other equity instruments

On 2 April 2015, Standard Chartered PLC issued $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs. This security was redeemed on its first optional redemption date of 2 April 2020. On 18 August 2016, Standard Chartered PLC issued $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued $1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $992 million after issue costs. On 3 July 2019, Standard Chartered PLC issued SGD 750 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $ 552 million after issue costs. On 26 June 2020, Standard Chartered PLC issued $1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $992 million after issue costs. All issuances are made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption. Any redemption is subject to Standard Chartered PLC giving notice to the relevant regulator and the regulator granting permission to redeem
- The interest rate in respect of the securities issued on 2 April 2015 for the period from (and including) the issue date to (but excluding) 2 April 2020 is a fixed rate of 6.50 per cent per annum. This security was redeemed on its first optional redemption date of 2 April 2020.
- The interest rate in respect of the securities issued on 18 August 2016 for the period from (and including) the issue date to (but excluding) 2 April 2022 is a fixed rate of 7.50 per cent per annum. The first reset date for the interest rate is 2 April 2022 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 18 January 2017 for the period from (and including) the issue date to (but excluding) 2 April 2023 is a fixed rate of 7.75 per cent per annum. The first reset date for the interest rate is 2 April 2023 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 3 July 2019 for the period from (and including) the issue date to (but excluding) 3 October 2024 is a fixed rate of 5.375 per cent per annum. The first reset date for the interest rate is 3 October 2024 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 26 June 2020 for the period from (and including) the issue date to (but excluding) 26 January 2026 is a fixed rate of 6 per cent per annum. The first reset date for the interest rate is 26 January 2026 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on the $2,000 million securities issued in 2016 and the $1,000 million securities issued in 2017 will be payable semi-annually in arrears on 2 April and 2 October in each year. The interest on the SGD 750 million security will be payable semi-annually in arrears on 3 April and 3 October in each year. The interest on the $1,000 million securities issued in 2020 will be payable semi-annually in arrears on 26 January and 26 July in each year. All the above payments will be accounted for as a dividend.
- Interest on the securities is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price detailed in the table below, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 644 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

Issuance date	Nominal value	Conversion price per ordinary share
18 August 2016	USD 2,000 million	USD 7.732
18 January 2017	USD 1,000 million	USD 7.732
3 July 2019	SGD 750 million	SGD 10.909
26 Jun 2020	USD 1,000 million	USD 5.331

The securities rank behind the claims against Standard Chartered PLC of (a) unsubordinated creditors, (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the AT1 securities in a winding–up occurring prior to the conversion trigger.

24. Share capital, other equity instruments and reserves continued

Reserves

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- The amounts in the 'Capital and Merger Reserve' represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of Korea ($1.9 billion) and Taiwan ($1.2 billion) acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, primarily for capital maintenance requirements and for the shares issued in 2009 by way of an accelerated book build, the proceeds of which were used in the ordinary course of business of the Group. The funding raised by the 2008, 2010 and 2015 rights issues and 2009 share issue was fully retained within the Company. Of the 2015 funding, $1.5 billion was used to subscribe to additional equity in Standard Chartered Bank, a wholly owned subsidiary of the Company. Apart from the Korea, Taiwan and Standard Chartered Bank funding, the merger reserve is considered realised and distributable.
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings
- Fair value through other comprehensive income (FVOCI) debt reserve represents the unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of expected credit losses and taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired. FVOCI equity reserve represents unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of taxation. Gains and losses are recorded in this reserve and never recycled to the income statement
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur
- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions, own shares held (treasury shares) and share buy-backs

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

As at 30 June 2020, the distributable reserves of Standard Chartered PLC (the Company) were $13.6 billion (31 December 2019: $14.3 billion). These comprised retained earnings and $12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

24. Share capital, other equity instruments and reserves continued

Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust ('2004 Trust') and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust ('1995 Trust'). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust			2004 Trust[1]			Total		
Number of shares	**30.06.20**	31.12.19	30.06.19	**30.06.20**	31.12.19	30.06.19	**30.06.20**	31.12.19	30.06.19
Shares purchased during the period	**2,999,210**	646,283	646,283	**14,359,481**	24,065,354	15,703,928	**17,358,691**	24,711,637	16,350,211
Market price of shares purchased ($million)	**22**	5	5	**86**	201	131	**108**	206	136
Shares transferred between trusts	**(2,999,210)**	(3,001,103)	(3,001,103)	**2,999,210**	3,001,103	3,001,103	**–**	–	–
Shares held at the end of the period	**–**	–	–	**8,345,814**	5,113,455	2,370,743	**8,345,814**	5,113,455	2,370,743
Maximum number of shares held during the period							**11,262,818**	15,070,923	14,424,640

1 Note that 1,489,139 shares were purchased by the trustee of the 2004 Trust using $10 million participant savings as part of Sharesave exercises

25. Retirement benefit obligations

Retirement benefit obligations comprise:

	30.06.20 $million	31.12.19 $million	30.06.19 $million
Total market value of assets	**2,563**	2,610	2,464
Present value of the plans liabilities	**(3,087)**	(3,068)	(2,917)
Defined benefit plans obligation	**(524)**	(458)	(453)
Defined contribution plans obligation	**(19)**	(11)	(20)
Net obligation	**(543)**	(469)	(473)

Retirement benefit charge comprises:

	6 months ended 30.06.20 $million	6 months ended 31.12.19 $million	6 months ended 30.06.19 $million
Defined benefit plans	**32**	33	40
Defined contribution plans	**140**	140	159
Charge against profit (Note 7)	**172**	173	199
The pension cost for defined benefit plans was:			
Current service cost	**26**	30	31
Past service cost and curtailments	**–**	(2)	3
Interest income on pension plan assets	**(27)**	(35)	(34)
Interest on pension plan liabilities	**33**	40	40
Total charge to profit before deduction of tax	**32**	33	40
(Returns)/losses on plan assets excluding interest income	**(124)**	(42)	(132)
Losses/(gains) on liabilities	**189**	117	181
Total losses/(gains) recognised directly in statement of comprehensive income before tax	**65**	75	49
Deferred taxation	**(9)**	9	(4)
Total losses/(gains) after tax	**56**	84	45

Defined benefit liability values have increased since 31 December 2019 due to falling bond yields, which lead to the liabilities being discounted at a lower rate. Asset values have fallen since 31 December, with falling equity values and depreciation of the GBP vs USD (reducing the value of assets in the largest plan, the UK SCPF) more than offsetting increases in the value of bonds held in the funded plans. With liabilities having increased and assets having decreased, there is an overall increase in the net balance sheet liability compared to 31 December 2019.

The defined benefit income statement charge for the six months to 30 June 2020 is lower than the corresponding income statement charge for the six months to 30 June 2019, driven by a reduction in the number of defined benefit plans that remain open to accrual.

26. Related party transactions

Directors and officers

As at 30 June 2020, Standard Chartered Bank had in place a charge over $81 million (31 December 2019: $86 million, 30 June 2019: $83 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

There were no changes in the related party transactions described in the Annual Report 2019 that have had a material effect on the financial position or performance of the Group in the period ended 30 June 2020. All related party transactions that have taken place in the period were similar in nature to those disclosed in the Annual Report 2019.

Associate and Joint ventures

On 20 May 2020 the Group completed the sale of its 44.56% equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Limited. Please refer to Note 19 for further details.

The following transactions with related parties are on an arm's length basis:

	30.06.20		31.12.19	
	Associates $million	Joint ventures $million	Associates $million	Joint ventures $million
Assets				
Loans and advances	1	–	–	2
Debt securities	–	–	21	58
Total assets	1	–	21	60
Liabilities				
Deposits	1,075	–	196	29
Derivative liabilities	5	–	–	–
Total liabilities	1,080	–	196	29
Loan commitments and other guarantees[1]	56	–	50	3

1 The maximum loan commitments and guarantees during the period were $56 million (31 December 2019: $53 million).

27. Post balance sheet events

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 per cent to between 16.26 per cent to 16.67 per cent, 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 $40 million to $50 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 finalization 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 months in arrears given the timing of the availability 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.

The Group has terminated the Indian Depository Receipt (IDR) programme and IDRs were formally delisted from the BSE Limited (formerly the Bombay Stock Exchange) and National Stock Exchange of India Limited with effect from 22 July 2020.

28. Corporate governance

The directors confirm that, throughout the period, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules. The directors also confirm that the announcement of these results has been reviewed by the Company's Audit Committee. The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Hong Kong Listing Rules and that having made specific enquiry of all directors, the directors of the Company have complied with the required standards of the adopted code of conduct throughout the period.

As previously announced, since 31 December 2019 the following changes to the composition of the Board have taken place. Louis Cheung retired from the Board as an Independent Non-Executive Director and member of the Remuneration Committee on 25 March 2020. Phil Rivett was appointed to the Board on 6 May 2020 as an Independent Non-Executive Director and as a member of the Audit Committee and the Board Risk Committee. Biographies for each of the directors and a list of the committees' membership can be found at sc.com.

In compliance with Rule 13.51B (1) of the Hong Kong Listing Rules the Company confirms that on 14 May 2020 David Conner, Independent Non-Executive Director stepped down from the Board of Gaslog Ltd. On 1 January 2020 Christine Hodgson, Independent Non-Executive Director was appointed to the Board of Severn Trent plc as an Independent Non-Executive Director and on 1 April 2020 she was appointed its Chair. Christine Hodgson stepped down from Capgemini UK plc on 31 March 2020. It was announced on 14 July 2020 that Carlson Tong has been designated by the Government of the Hong Kong Special Administrative Region, as one of two observers of the Cathay Pacific Airways Limited Board and will take up the appointment from mid-August 2020. Carlson Tong stepped down as a non-executive director from the Boards of the Airport Authority Hong Kong and the Aviation Security Company Limited with effect from 13 July 2020.

29. Statutory accounts

The information in this Half Year Report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This document was approved by the Board on 30 July 2020. The statutory accounts for the year ended 31 December 2019 have been audited by the Company's predecessor auditors, KPMG LLP, and delivered to the Registrar of Companies in England and Wales. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under sections 498(2) and 498(3) of the Companies Act 2006.

Supplementary financial information

1. Average balance sheets and yields

The following tables set out the average balances and yields for the Group's assets and liabilities for the periods ended 30 June 2020, 31 December 2019 and 30 June 2019. For the purpose of these tables, average balances have been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in these tables would be significantly different had such balances been determined on a daily basis.

Average assets

	6 months ended 30.06.20			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Cash and balances at central banks	16,378	40,718	77	0.38
Gross loans and advances to banks	27,489	56,444	479	1.71
Gross loans and advances to customers	49,747	287,800	4,755	3.32
Impairment provisions against loans and advances to banks and customers	–	(5,924)	–	–
Investment securities	27,897	141,864	1,564	2.22
Property, plant and equipment and intangible assets	10,061	–	–	–
Prepayments, accrued income and other assets	108,905	–	–	–
Investment associates and joint ventures	2,140	–	–	–
Total average assets	242,617	520,902	6,875	2.65

	6 months ended 31.12.19			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Cash and balances at central banks	17,029	28,055	140	0.99
Gross loans and advances to banks	28,350	60,668	818	2.67
Gross loans and advances to customers	49,644	280,869	5,407	3.82
Impairment provisions against loans and advances to banks and customers	–	(4,545)	–	–
Investment securities	28,828	138,582	1,871	2.68
Property, plant and equipment and intangible assets	11,485	–	–	–
Prepayments, accrued income and other assets	90,793	–	–	–
Investment associates and joint ventures	2,668	–	–	–
Total average assets	228,797	503,629	8,236	3.24

	6 months ended 30.06.19			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Cash and balances at central banks	18,068	30,318	189	1.26
Gross loans and advances to banks	24,899	61,418	1,016	3.34
Gross loans and advances to customers	49,680	268,973	5,368	4.02
Impairment provisions against loans and advances to banks and customers	–	(5,030)	–	–
Investment securities	29,554	130,058	1,740	2.70
Property, plant and equipment and intangible assets	10,945	–	–	–
Prepayments, accrued income and other assets	79,040	–	–	–
Investment associates and joint ventures	2,547	–	–	–
Total average assets	214,733	485,737	8,313	3.45

Supplementary financial information continued

Average liabilities

	6 months ended 30.06.20			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	17,764	26,055	235	1.81
Customer accounts:	–	–	–	–
Current accounts and savings deposits	41,519	211,961	767	0.73
Time and other deposits	58,439	163,409	1,509	1.86
Debt securities in issue	7,535	53,141	485	1.84
Accruals, deferred income and other liabilities	114,116	1,204	31	5.18
Subordinated liabilities and other borrowed funds	–	16,031	350	4.39
Non-controlling interests	–	–	–	–
Shareholders' funds	49,963	–	–	–
	289,336	471,801	3,377	1.44
Adjustment for Financial Markets funding costs			(121)	–
Total average liabilities and shareholders' funds	289,336	471,801	3,256	1.39

	6 months ended 31.12.19			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	18,674	26,397	338	2.54
Customer accounts:	–	–	–	–
Current accounts and savings deposits	39,114	191,659	1,125	1.16
Time and other deposits	58,450	169,763	1,960	2.29
Debt securities in issue	9,701	50,142	553	2.19
Accruals, deferred income and other liabilities	99,691	1,291	65	9.99
Subordinated liabilities and other borrowed funds	–	15,244	366	4.76
Non-controlling interests	53	–	–	–
Shareholders' funds	50,372	–	–	–
	276,055	454,496	4,407	1.92
Adjustment for Financial Markets funding costs			(174)	
Total average liabilities and shareholders' funds	276,055	454,496	4,233	1.85

	6 months ended 30.06.19			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Deposits by banks	16,430	28,861	401	2.80
Customer accounts:	–	–	–	–
Current accounts and savings deposits	38,489	174,849	989	1.14
Time and other deposits	59,749	166,014	2,128	2.58
Debt securities in issue	8,963	48,547	567	2.36
Accruals, deferred income and other liabilities	91,160	1,382	–	–
Subordinated liabilities and other borrowed funds	–	14,877	390	5.29
Non-controlling interests	9	–	–	–
Shareholders' funds	50,054	–	–	–
	264,854	434,530	4,475	2.08
Adjustment for Financial Markets funding costs			(166)	
Total average liabilities and shareholders' funds	264,854	434,530	4,309	2.00

Convenience translation of selected financial statements into Indian Rupees

In compliance with Regulation 71(3) read with Schedule IV part B of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, the Consolidated financial statements (pages 155 to 159) are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 75.5270 as at 30 June 2020 as published by the Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

The Indian Depository Receipts issued by the Company have been delisted from the Indian stock exchanges with effect from July 22, 2020. Accordingly, going forward, the Company shall not be required to comply with the aforesaid provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

2. Condensed consolidated interim income statement (translated to INR)

For the six months ended 30 June 2020

	6 months ended 30.06.20 Rs.million	6 months ended 30.06.19 Rs.million
Interest income	519,248	627,856
Interest expense	(255,055)	(337,983)
Net interest income	264,193	289,873
Fees and commission income	141,235	160,117
Fees and commission expense	(23,564)	(21,299)
Net fee and commission income	117,671	138,819
Net trading income	162,685	133,985
Other operating income	67,144	28,700
Operating income	611,693	591,376
Staff costs	(251,505)	(270,160)
Premises costs	(13,444)	(14,426)
General administrative expenses	(48,488)	(71,977)
Depreciation and amortisation	(45,165)	(43,579)
Operating expenses	(358,602)	(400,142)
Operating profit before impairment losses and taxation	253,091	191,234
Credit impairment	(119,031)	(19,184)
Goodwill impairment	(19,486)	–
Other impairment	2,643	(3,323)
Profit from associates and joint ventures	5,665	13,595
Profit before taxation	122,882	182,322
Taxation	(42,371)	(69,334)
Profit for the period	80,512	112,988
Profit attributable to:		
Non-controlling interests	1,359	1,435
Parent company shareholders	79,152	111,553
Profit for the period	80,512	112,988
	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	19.5	28.7
Diluted earnings per ordinary share	19.2	28.3

Supplementary financial information continued

3. Condensed consolidated interim statement of comprehensive income (translated to INR)

For the six months ended 30 June 2020

	6 months ended 30.06.20 Rs.million	6 months ended 30.06.19 Rs.million
Profit for the period	**80,512**	112,988
Other comprehensive (loss)/income		
Items that will not be reclassified to income statement:	**(1,813)**	(29,002)
Own credit losses on financial liabilities designated at fair value through profit or loss	**1,662**	(29,607)
Equity instruments at fair value through other comprehensive income	**2,870**	982
Actuarial losses on retirement benefit obligations	**(4,909)**	(3,701)
Taxation relating to components of other comprehensive income	**(1,435)**	3,323
Items that may be reclassified subsequently to income statement:	**(23,716)**	4,909
Exchange differences on translation of foreign operations:		
Net losses taken to equity	**(63,518)**	(12,009)
Net gains on net investment hedges	**9,441**	5,514
Reclassified to income statement on sale of joint venture	**18,580**	–
Share of other comprehensive income from associates and joint ventures	**302**	227
Debt instruments at fair value through other comprehensive income:		
Net valuation gains taken to equity	**57,098**	21,978
Reclassified to income statement	**(38,745)**	(4,381)
Net impact of expected credit losses	**1,208**	227
Cashflow hedges:		
Net losses taken to equity	**(7,477)**	(5,967)
Reclassified to income statement	**680**	529
Taxation relating to components of other comprehensive income	**(1,284)**	(1,208)
Other comprehensive loss for the period, net of taxation	**(25,528)**	(24,093)
Total comprehensive income for the period	**54,984**	88,895
Total comprehensive income attributable to:		
Non-controlling interests	**755**	831
Parent company shareholders	**54,228**	88,065
Total comprehensive income for the period	**54,984**	88,895

4. Condensed consolidated interim balance sheet (translated to INR)

As at 30 June 2020

	30.06.20 Rs.million	31.12.19 Rs.million
Assets		
Cash and balances at central banks	**3,997,266**	3,982,388
Financial assets held at fair value through profit or loss	**7,428,760**	7,010,265
Derivative financial instruments	**3,944,549**	3,565,781
Loans and advances to banks[1]	**3,814,038**	4,044,395
Loans and advances to customers[2]	**20,869,092**	20,280,737
Investment securities	**11,006,852**	10,855,571
Other assets	**3,544,104**	3,173,796
Current tax assets	**55,663**	40,709
Prepayments and accrued income	**177,791**	203,923
Interests in associates and joint ventures	**151,054**	144,106
Goodwill and intangible assets	**379,825**	399,538
Property, plant and equipment	**509,581**	469,778
Deferred tax assets	**62,083**	83,457
Assets classified as held for sale	**69,032**	155,057
Total assets	**56,009,690**	54,409,500
Liabilities		
Deposits by banks	**2,189,226**	2,157,202
Customer accounts	**31,808,423**	30,615,398
Repurchase agreements and other similar secured borrowing	**212,306**	146,145
Financial liabilities held at fair value through profit or loss	**4,862,655**	5,058,345
Derivative financial instruments	**3,838,735**	3,661,851
Debt securities in issue	**3,858,372**	4,004,819
Other liabilities	**3,719,176**	3,140,639
Current tax liabilities	**45,845**	53,095
Accruals and deferred income	**311,851**	405,504
Subordinated liabilities and other borrowed funds	**1,270,817**	1,224,066
Deferred tax liabilities	**49,470**	46,147
Provisions for liabilities and charges	**32,628**	33,912
Retirement benefit obligations	**41,011**	35,422
Liabilities included in disposal groups held for sale	**604**	680
Total liabilities	**52,241,120**	50,583,226
Equity		
Share capital and share premium account	**533,070**	534,580
Other reserves	**863,349**	882,533
Retained earnings	**2,006,677**	1,969,140
Total parent company shareholders' equity	**3,403,096**	3,386,253
Other equity instruments	**341,231**	416,380
Total equity excluding non-controlling interests	**3,744,327**	3,802,633
Non-controlling interests	**24,244**	23,640
Total equity	**3,768,571**	3,826,273
Total equity and liabilities	**56,009,690**	54,409,500

1 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.142,973 million (31 December 2019: Rs.101,282 million) has been included with loans and advances to banks

2 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.331,035 million (31 December 2019: Rs.110,949 million) has been included with loans and advances to customers

5. Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2020

	Ordinary share capital and share premium account Rs.million	Preference share capital and share premium account Rs.million	Capital and merger reserves Rs.million	Own credit adjust-ment reserve Rs.million	Fair value through other compre-hensive income reserve – debt Rs.million	Fair value through other compre-hensive income reserve – equity Rs.million	Cash flow hedge reserve Rs.million	Translation reserve Rs.million	Retained earnings Rs.million	Parent company share-holders' equity Rs.million	Other equity instru-ments Rs.million	Non-controlling interests Rs.million	Total Rs.million
As at 1 January 2019	424,235	112,837	1,293,702[1]	31,117	(12,160)	9,063	(755)	(423,858)	1,973,445	3,407,627	374,689	20,619	3,802,936
Profit for the period	–	–	–	–	–	–	–	–	111,553	111,553	–	1,435	112,988
Other comprehensive (loss)/income	–	–	–	(25,981)	16,012	227	(4,381)	(5,891)	(3,474)[2]	(23,489)	–	(604)	(24,093)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(1,964)	(1,964)
Shares issued, net of expenses	1,888[3]	–	–	–	–	–	–	–	–	1,888	–	–	1,888
Treasury shares net movement	–	–	–	–	–	–	–	–	(9,970)	(9,970)	–	–	(9,970)
Share option expense, net of taxation	–	–	–	–	–	–	–	–	7,326	7,326	–	–	7,326
Dividends on ordinary shares	–	–	–	–	–	–	–	–	(37,386)	(37,386)	–	–	(37,386)
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(16,691)	(16,691)	–	–	(16,691)
Share buy-back[4]	(2,039)	–	2,039	–	–	–	–	–	(36,706)	(36,706)	–	–	(36,706)
Other movements	–	–	–	–	–	–	–	–	(378)[5]	(378)	–	11,556[6]	11,178
As at 30 June 2019	424,084	112,837	1,295,741	5,136	3,852	9,290	(5,136)	(429,749)	1,987,720	3,403,775	374,689	31,042	3,809,506
Profit for the period	–	–	–	–	–	–	–	–	62,385	62,385	–	1,359	63,745
Other comprehensive income/(loss)	–	–	–	(4,985)	11,027	2,039	680	(7,704)	(6,495)[2]	(5,438)	–	(529)	(5,967)
Distributions	–	–	–	–	–	–	–	–	–	–	–	(680)	(680)
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	–	–	41,691	–	41,691
Treasury shares net movement	–	–	–	–	–	–	–	–	(5,060)	(5,060)	–	–	(5,060)
Share option expense, net of taxation	–	–	–	–	–	–	–	–	3,172	3,172	–	–	3,172
Dividends on ordinary shares	–	–	–	–	–	–	–	–	(16,994)	(16,994)	–	–	(16,994)
Dividends on preference shares and AT1 securities	–	–	–	–	–	–	–	–	(17,145)	(17,145)	–	–	(17,145)
Share buy-back[4]	(2,341)	–	2,341	–	–	–	–	–	(39,274)	(39,274)	–	–	(39,274)
Other movements	–	–	–	–	–	–	–	–	831[7]	831	–	(7,553)[8]	(6,722)
As at 31 December 2019	**421,743**	**112,837**	**1,298,083**	**151**	**14,879**	**11,329**	**(4,456)**	**(437,452)**	**1,969,140**	**3,386,253**	**416,380**	**23,640**	**3,826,273**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,152**	**79,152**	**–**	**1,359**	**80,512**
Other comprehensive (loss)/income	**–**	**–**	**–**	**982**	**15,785**	**1,662**	**(4,683)**	**(34,440)**	**(4,230)[2]**	**(24,924)**	**–**	**(604)**	**(25,528)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(151)**	**(151)**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**74,923**	**–**	**74,923**
Redemption of other equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(982)**	**(982)**	**(150,072)**	**–**	**(151,054)**
Treasury shares net movement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,873)**	**(6,873)**	**–**	**–**	**(6,873)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,589**	**5,589**	**–**	**–**	**5,589**
Dividends on preference shares and AT1 securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,522)**	**(17,522)**	**–**	**–**	**(17,522)**
Share buy-back[9]	**(1,511)**	**–**	**1,511**	**–**	**–**	**–**	**–**	**–**	**(18,278)**	**(18,278)**	**–**	**–**	**(18,278)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**680[10]**	**680**	**–**	**–**	**680**
As at 30 June 2020	**420,232**	**112,837**	**1,299,593**	**1,133**	**30,664**	**12,991**	**(9,139)**	**(471,893)**	**2,006,677**	**3,403,096**	**341,231**	**24,244**	**3,768,571**

1 Includes capital reserve of Rs.378 million, capital redemption reserve of Rs.982 million and merger reserve of Rs.1,292,342 million
2 Comprises actuarial (loss)/gain, net of taxation and share from associates and joint ventures (Rs.4,230) million ((Rs.6,495) million for the six months ended 31 December 2019 and (Rs.3,474) million for the six months ended 30 June 2019)
3 Comprises share capital of shares issued to fulfil discretionary awards Rs.76 million, share capital of shares issued to fulfil employee share save options Rs.76 million and share premium of shares issued to fulfil employee share save options exercised Rs.1,736 million (nil for six months ended 30 June 2020)
4 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of Rs.38 each up to a maximum consideration of Rs.75,527 million. At 30 June 2019, the total number of shares purchased was 54,885,156, representing 1.66% of the ordinary shares in issue. The nominal value of ordinary shares purchased at 30 June 2019 was Rs.2,039 million and the aggregate consideration paid by the Group was Rs.36,706 million. During the second half of 2019 the total number of shares purchased was 61,218, 327 representing 1.85% of the ordinary shares in issue. The nominal value of ordinary shares purchased during the second half of 2019 was Rs.2,341 million and the aggregate consideration paid by the Group was Rs.39,274 million. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account
5 Comprises withholding tax on capitalisation of revenue reserves Rs.302 million
6 Due to consolidation of a subsidiary with non-controlling interest Rs.6,118 million and non-controlling interest in SC Digital Solutions Rs.5,438 million
7 Disposal of Phoon Huat Pte Ltd Rs.755 million
8 Due to deconsolidation of a subsidiary with non-controlling interest Rs.6,269 million and disposal of non-controlling interest in Phoon Huat Pte Ltd, Sirat Holdings Limited and Ori Private Limited Rs.1,284 million
9 On 28 February 2020, the Group announced the buy-back programme for a share buy-back of its ordinary shares of Rs.38 each. Nominal value of share purchases was Rs.1,511 million, and the total consideration paid was Rs.18,278 million. The total number of shares purchased was 40,029,585 representing 1.25% of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account. On the 1 April 2020, the Group announced that in response to a request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, its board had decided after careful consideration to withdraw the recommendation to pay a final dividend for 2019 of Rupees.15 per ordinary share and to suspend the buy-back programme
10 Comprises revenue reserves of PT Bank Permata Tbk Rs.680 million

6. Condensed consolidated interim cash flow statement (translated to INR)

For the six months ended 30 June 2020

	6 months ended 30.06.20 Rs.million	6 months ended 30.06.19 Rs.million
Cash flows from operating activities:		
Profit before taxation	122,882	182,322
Adjustments for non-cash items and other adjustments included within income statement	186,778	82,475
Change in operating assets	(1,550,192)	(1,686,065)[1]
Change in operating liabilities	1,750,489	1,764,990
Contributions to defined benefit schemes	(1,435)	(2,039)
UK and overseas taxes paid	(45,014)	(70,165)
Net cash from operating activities	463,509	271,520[1]
Cash flows from investing activities:		
Purchase of property, plant and equipment	(82,702)	(30,513)[1]
Disposal of property, plant and equipment	8,232	5,136[1]
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	(1,511)	–
Dividends received from subsidiaries, associates and joint ventures	–	76
Disposal of joint ventures, net of cash acquired	80,587	–
Disposal of subsidiaries	–	227
Purchase of investment securities	(12,434,237)	(10,233,002)
Disposal and maturity of investment securities	12,341,036	10,003,098
Net cash used in investing activities	(88,593)	(254,979)[1]
Cash flows from financing activities:		
Issue of ordinary and preference share capital, net of expenses	–	1,888
Issue of AT1 securities, net of expenses	74,923	–
Treasury shares net movement	(6,873)	(9,970)
Cancellation of shares including share buy-back	(18,278)	(36,706)
Redemption of AT1 securities	(151,054)	–
Premises and equipment lease liability principal payment	(22,734)	(13,746)
Gross proceeds from issue of subordinated liabilities	84,968	–
Interest paid on subordinated liabilities	(21,752)	(20,015)
Repayment of subordinated liabilities	(56,796)	(1,737)
Proceeds from issue of senior debts	504,445	271,066
Repayment of senior debts	(238,363)	(172,881)
Interest paid on senior debts	(20,543)	(20,468)
Investment from non-controlling interests	–	11,556
Dividends paid to non-controlling interests and preference shareholders	(17,673)	(18,655)
Dividends paid to ordinary shareholders	–	(37,386)
Net cash from/(used in) financing activities	110,269	(47,053)
Net increase/(decrease) in cash and cash equivalents	485,185	(30,513)
Cash and cash equivalents at beginning of the period	5,849,868	7,363,883
Effect of exchange rate movements on cash and cash equivalents	(33,610)	(10,574)
Cash and cash equivalents at end of the period[2]	6,301,444	7,322,796

1 Aircraft and shipping purchases and disposals re-presented as cash flows from investing activities

2 Comprises cash and balances at central banks Rs.3,997,266 million (30 June 2019: Rs.4,442,649 million), treasury bills and other eligible bills Rs.565,169 million (30 June 2019: Rs.909,496 million), loans and advances to banks Rs.2,197,987 million (30 June 2019: Rs.2,360,672 million), trading securities Rs.194,482 million (30 June 2019: Rs.312,833 million) less restricted balances Rs.653,460 million (30 June 2019: Rs.702,854 million)

Supplementary financial information continued

Summary of significant differences between Indian GAAP and IFRS

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 with comparatives as at 31 December 2019 and 30 June 2019 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit or loss attributable to parent company shareholders for the period ended 30 June 2020 and 31 December 2019 and 30 June 2019 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 30 June 2020. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. In addition, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject to and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Monetary assets and liabilities are translated at the closing rate at the date of that statement of financial position. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The functional and presentation currency of the Group is US dollars.

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)

There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount, the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

At each balance sheet date:

- Foreign currency monetary items should be reported using the closing rate
- Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction
- Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)

Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to or has rights to direct relevant activities, or has the right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This also includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)

Entities are consolidated when group of enterprises are under the control of parent. The control is defined as:

(a) The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or

(b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

Subsidiary is excluded form consolidation when:

(a) Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

(b) It operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Business combinations

IFRS (IFRS 3 Business Combinations)

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values with the excess over this fair value when compared with the acquisition cost recognised as goodwill.

For acquisitions occurring on or after 1 January 2004, IFRS 3 requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and, if considered to have a finite life, amortised through the income statement over an appropriate period.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

The Group's policy for non-controlling interests is generally not to recognise non-controlling interests at their fair value, but to recognise them based on their proportionate share of the fair value of the identifiable net assets acquired.

Indian GAAP (AS 14 Accounting for Amalgamations)

Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

For an amalgamations of an entity, either pooling of interests or acquisitions accounting is used, based on satisfaction of specified conditions. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition. Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation. Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill

IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)

IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)

Goodwill arising on amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified. For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance. In practice, there is either no amortisation or amortisation not exceeding 10 years. Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets

IFRS (IAS 38 Intangible Assets)

Intangible assets are recognised if they are deemed separable and arise from contractual or other legal rights. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)

Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)

The Group's policy is to hold all property, plant, aviation, shipping and equipment fixed assets at cost less depreciation and consequently tangible fixed assets are not subject to revaluation. Fixed assets are, however, subject to impairment testing.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. Borrowing costs that are directly attributable to the acquisition or construction of an asset must be capitalised as part of that asset.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost)

Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS (IFRS 9 Financial Instruments)

Classification and measurement

Accounting policy

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

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

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

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

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

Financial assets that have SPPI characteristics and which are held within a business model whose objective is to hold financial assets to collect contractual cash flows ('hold to collect') are recorded at amortised cost.

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

Equity instruments designated as FVOCI

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

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

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

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities that are mandatorily held at fair value through profit or loss include:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short-term
- Hybrid financial assets that contain one or more embedded derivatives
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

Designated at fair value through profit or loss

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

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

Financial liabilities held at amortised cost

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

Financial guarantee contracts and loan commitments

Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

Fair value of financial assets and liabilities

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

Initial recognition

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

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

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

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

Financial assets held at FVOCI

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

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity.

Financial assets held at FVTPL

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

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

Indian GAAP (AS 13 Investments)

For investments and loans & advances, the Reserve Bank of India (RBI) outlines classification criteria and measurement requirements which differ from those set out in IFRS.

Investments classified as available-for-sale or held-for-trading are measured at lower of cost or market value, unrealised loss on such investments is accounted through the profit and loss account in accordance with RBI guidelines. Investments classified as held-to-maturity are measured at weighted average acquisition cost less the amortisation of premium amount, if any, over the remaining period of maturity.

Derivatives

IFRS (IFRS 9/IAS 39 Financial Instruments: Recognition and Measurement)

IFRS 9 requires that all derivatives be recognised on-balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings, or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

The Group continues to apply the hedge accounting requirements of IAS 39 rather than the requirements of IFRS 9.

Indian GAAP

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement.

There are guidelines prescribed by RBI on measurement and accounting of interest rate swaps and forward rate agreements entered into for hedging purposes.

Impairment of financial assets

Under IFRS 9 the impairment of financial assets is as follows:

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

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). For less material Retail Banking loan portfolios, the Group has adopted simplified approaches based on historical roll rates or loss rates.

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

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition, or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

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

Recognition

12 months expected credit losses (Stage 1)

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

Significant increase in credit risk (Stage 2)

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

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

Credit-impaired (or defaulted) exposures (Stage 3)

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

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

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Indian GAAP

Investments under HFT and AFS are written down when there is a decline in fair value and appreciation, if any, is ignored.

Impairments may be reversed through the income statement in subsequent periods if the investment rises in value or the reasons for the impairment no longer exist.

For loans and advances, the RBI regulations stipulate minimum provision based on days past due along with other factors. Additionally, RBI regulations require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial instruments – IFRS 9

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

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

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

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent, or if less than 10 percent, the Group will perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.

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

Supplementary financial information continued

IFRS–classification debt/equity

The substance of a financial instrument, rather than its legal form, governs its classification. A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingents Liabilities and Contingent Assets)

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

Pension obligations

IFRS (IAS 19 Employee Benefits)

For defined contribution plans, contributions are charged to operating expenses. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The net interest expense on the net defined liability for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Indian GAAP (AS 15 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. The expected return on plan assets is based on market expectation for the returns over the entire life of the related obligation. Actuarial gains or losses are recognised immediately in the statement of income.

Share-based compensation

IFRS (IFRS 2 Share-based Payments)

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued to fair value at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets other than in specified situations, are recognised where there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Interest income and expense

IFRS (IFRS 9)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (AS 9 Revenue Recognition)

As per AS 9, interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. There is no specific effective interest rate requirement for loans and investments. However, the interest is recognised on a receipt basis for NPAs as per RBI extant guidelines.

Dividends

IFRS (IAS 10 Events After the Reporting Date)

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company, however, is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Accounting and disclosure of dividends is similar to IFRS with effect from 1 April 2016.

Leases

IFRS (IFRS 16 Leases)

Lessees initially recognise the present value of lease payments over the expected lease term as a lease liability and corresponding right-of-use asset, discounting using the incremental borrowing rate applicable in the economic environment of the lease, unless the lease is short term or for an asset of low value. The lease liability is measured using the effective interest method and the right-of-use asset is depreciated on a straight-line basis over the expected lease term. Lessors classify leases as either operating or financing leases depending on whether the risks and rewards are substantially transferred to the lessee. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Indian GAAP (AS 19 Leases)

As per AS 19, Leases are classified as Operating or Finance leases. Leases are classified as finance leases where the significant risk and rewards of ownership of the leased item are transferred to the lessee. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Other supplementary information continued

Additional items

A. Our Fair Pay Charter

Our Fair Pay Charter, introduced in 2018, sets out the principles we use to make remuneration decisions across the Group that are fair, transparent and competitive in order to support us in embedding a performance-oriented, inclusive and innovative culture and in delivering a differentiated employee experience. Our Fair Pay Charter principles are set out in the Group's 2019 Annual Report together with a summary of our progress in implementing these across the Group, and our first external Fair Pay Report, published in February 2020, is available on our Group website.

B. Group share plans

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

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

- Long-term incentive plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) with a common equity tier 1 (CET1) underpin; strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures

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

All Employee 2013 Sharesave Plan

The 2013 Sharesave Plan was approved by shareholders in May 2013. Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 2013 Sharesave Plan and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to deliver shares under the 2013 Sharesave Plan, typically due to securities law and regulatory restrictions. In these countries, where possible, the Group offers an equivalent cash-based plan to its employees. The 2013 Sharesave Plan was approved by shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is two years.

Valuation of share awards

Details of the valuation models used in determining the fair values of share awards granted under the Group's share plans are detailed in the Group's 2019 Annual Report.

Reconciliation of share award movements for the period to 30 June 2020

	2011 Plan[1]			
	LTIP	Deferred/ restricted shares	Sharesave	Weighted average Sharesave exercise price (£)
Outstanding as at 1 January 2020	20,912,679	28,235,461	12,602,842	5.28
Granted[2]	3,081,968	22,498,528	–	–
Lapsed	(759,314)	(255,657)	(1,806,442)	5.31
Exercised	(227,330)	(9,736,107)	(156,560)	5.30
Outstanding as at 30 June 2020	23,008,003	40,742,225	10,639,840	5.27
Exercisable as at 30 June 2020	37,552	2,634,813	21,776	5.58
Range of exercise prices (£)	–	–	4.98 – 6.20	
Intrinsic value of vested but not exercised options ($million)	0.20	14.35	0.00	
Weighted average contractual remaining life (years)	6.78	8.75	2.16	
Weighted average share price for options exercised during the period (£)	4.34	4.66	6.76	

1 Employees do not contribute towards the cost of these awards

2 22,007,464 deferred share awards/restricted share awards (DRSA/RSA) granted on 9 March 2020, 189,991 DRSA/RSA granted as notional dividend on 6 March 2020, 3,025,163 (LTIP) granted on 9 March 2020, 56,805 (LTIP) granted as notional dividend on 6 March 2020, 86,319 DRSA/RSA granted on 30 March 2020, 214,754 DRSA/RSA granted on 22 June 2020

C. Group Chairman and independent non-executive directors' interests in ordinary shares as at 30 June 2020[1,2]

	Shares beneficially held as at 31 December 2019	Shares beneficially held as at 30 June 2020
Chairman		
J Viñals	18,500	18,500
Independent non-executive directors		
L Cheung[3]	2,571	-
D P Conner	10,000	10,000
B E Grote	60,041	80,041
C M Hodgson, CBE	2,571	2,571
G Huey Evans, OBE	2,615	2,615
N Kheraj	40,751	40,751
N Okonjo-Iweala	2,034	2,034
P G Rivett[4]	-	2,128
D Tang	2,000	2,000
C Tong	2,000	2,000
J M Whitbread	3,615	3,615

1 Independent non-executive directors are required to hold shares with a nominal value of $1,000. All the directors have met this requirement

2 The beneficial interests of directors and their related parties in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares. None of the directors used ordinary shares as collateral for any loans. No director had either i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or ii) any corporate interests in the Company's ordinary shares. All figures are as at 30 June 2020

3 Louis Cheung retired from the Board on 25 March 2020

4 Phil Rivett was appointed to the Board on 6 May 2020

D. Executive directors' interests in ordinary shares as at 30 June 2020

Scheme interests awarded, exercised and lapsed during the period

The following table shows the changes in share interests. Employees, including executive directors, are not permitted to engage in any personal hedging strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

			Changes in interests during the period 1 January to 30 June 2020					
	As at 1 January	Awarded[1]	Dividends awarded[2]	Exercised[3]	Lapsed	As at 30 June	Performance period end	Vesting date
W T Winters[4]								
LTIP 2016-18	33,506	–	1,466	34,972	–	–	11 Mar 2019	4 May 2020
	33,506	–	–	–	–	33,506	11 Mar 2019	4 May 2021
	33,506	–	–	–	–	33,506	11 Mar 2019	4 May 2022
	33,507	–	–	–	–	33,507	11 Mar 2019	4 May 2023
LTIP 2017-19	118,550	–	3,169	48,218	73,501	-	13 Mar 2020	13 Mar 2020
	118,550	–	–	–	73,501	45,049	13 Mar 2020	13 Mar 2021
	118,550	–	–	–	73,501	45,049	13 Mar 2020	13 Mar 2022
	118,550	–	–	–	73,501	45,049	13 Mar 2020	13 Mar 2023
	118,551	–	–	–	73,502	45,049	13 Mar 2020	13 Mar 2024
LTIP 2018-20	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2021
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2022
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2023
	108,378	–	–	–	–	108,378	9 Mar 2021	9 Mar 2024
	108,379	–	–	–	–	108,379	9 Mar 2021	9 Mar 2025
LTIP 2019-21	133,065	–	–	–	–	133,065	11 Mar 2022	11 Mar 2022
	133,065	–	–	–	–	133,065	11 Mar 2022	11 Mar 2023
	133,065	–	–	–	–	133,065	11 Mar 2022	11 Mar 2024
	133,065	–	–	–	–	133,065	11 Mar 2022	11 Mar 2025
	133,067	–	–	–	–	133,067	11 Mar 2022	11 Mar 2026
LTIP 2020-22	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2023
	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2024
	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2025
	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2026
	–	161,095	–	–	–	161,095	9 Mar 2023	9 Mar 2027
A Halford[5]								
LTIP 2016-18	20,008	–	874	20,882	–	–	11 Mar 2019	4 May 2020
	20,008	–	–	–	–	20,008	11 Mar 2019	4 May 2021
	20,008	–	–	–	–	20,008	11 Mar 2019	4 May 2022
	20,009	–	–	–	–	20,009	11 Mar 2019	4 May 2023
LTIP 2017-19	73,390	–	1,962	29,850	45,502	–	13 Mar 2020	13 Mar 2020
	73,390	–	–	–	45,502	27,888	13 Mar 2020	13 Mar 2021
	73,390	–	–	–	45,502	27,888	13 Mar 2020	13 Mar 2022
	73,390	–	–	–	45,502	27,888	13 Mar 2020	13 Mar 2023
	73,394	–	–	–	45,504	27,890	13 Mar 2020	13 Mar 2024
LTIP 2018-20	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2021
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2022
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2023
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2024
	67,108	–	–	–	–	67,108	9 Mar 2021	9 Mar 2025
LTIP 2019-21	85,094	–	–	–	–	85,094	11 Mar 2022	11 Mar 2022
	85,094	–	–	–	–	85,094	11 Mar 2022	11 Mar 2023
	85,094	–	–	–	–	85,094	11 Mar 2022	11 Mar 2024
	85,094	–	–	–	–	85,094	11 Mar 2022	11 Mar 2025
	85,096	–	–	–	–	85,096	11 Mar 2022	11 Mar 2026
LTIP 2020-22	–	99,976	–	–	–	99,976	9 Mar 2023	9 Mar 2023
	–	99,976	–	–	–	99,976	9 Mar 2023	9 Mar 2024
	–	99,976	–	–	–	99,976	9 Mar 2023	9 Mar 2025
	–	99,976	–	–	–	99,976	9 Mar 2023	9 Mar 2026
	–	99,977	–	–	–	99,977	9 Mar 2023	9 Mar 2027
Sharesave	1,807	–	–	–	–	1,807	–	1 Dec 2022

1. For the LTIP 2020-22 awards granted to Bill Winters and Andy Halford on 9 March 2020, the values granted were: Bill Winters: £3.4 million; Andy Halford: £2.1 million. The number of shares awarded in respect of the LTIP took into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award was maintained. Performance measures apply to 2020-22 LTIP awards. The share price at grant was the closing price on the day before the grant date
2. Dividend equivalent shares may be awarded on vesting for awards granted prior to 1 January 2018. On 1 April 2020 Standard Chartered announced that in response to the request from the Prudential Regulation Authority and as a consequence of the unprecedented challenges facing the world due to the COVID-19 pandemic, the board decided to withdraw the recommendation to pay a final dividend for 2019. 1,200 dividend equivalent shares allocated to Bill's 2017-19 LTIP award tranche vesting in March 2020 and 742 allocated to Andy's 2017-19 LTIP award tranche vesting in March 2020 relating to the cancelled dividend will therefore be deducted from the calculation of dividend equivalent shares to be allocated to shares vesting in March 2021. Dividend equivalent shares allocated to the 2016-18 LTIP award tranche vesting in May 2020 did not include any shares relating to the cancelled dividend
3. On 20 March 2020, Bill Winters exercised the 2017-19 LTIP award over a total of 48,218 shares. On 20 March 2020, Andy Halford exercised the 2017-19 LTIP award over a total of 29,850 shares. The closing share price on the day before exercise was £4.512. On 4 May 2020, Bill Winters exercised the 2016-18 LTIP award over a total of 34,972 shares. On 4 May 2020, Andy Halford exercised the 2016-18 LTIP award over a total of 20,882 shares. The closing share price on the day before exercise was £4.085
4. The unvested share awards held by Bill Winters are conditional rights under the 2011 Plan. Bill does not have to pay towards these awards
5. The unvested share awards held by Andy Halford are conditional rights under the 2011 Plan. Andy does not have to pay towards these awards. The unvested Sharesave option held by Andy Halford is an option granted on 1 October 2019 under the 2013 Plan – to exercise this option, Andy has to pay an exercise price of £4.98 per share

Shareholdings and share interests

The following table summarises the executive directors' shareholdings and share interests.

	Shares held beneficially[1,2,3]	Unvested share awards not subject to performance measures (net of tax)[4]	Total shares counting towards shareholding requirement	Shareholding requirement	Salary[3]	Value of shares counting towards shareholding requirement as a percentage of salary[1]	Unvested share awards subject to performance measures
W T Winters	1,795,610	148,788	1,944,388	250% salary	£2,370,000	361%	2,012,693
A N Halford	718,535	92,743	811,278	200% salary	£1,515,000	236%	1,260,893

1. All figures are as at 30 June 2020 unless stated otherwise. The closing share price on 30 June 2020 was £4.40. No director had either: (i) an interest in Standard Chartered PLC's preference shares or loan stocks of any subsidiary or associated undertaking of the Group; or (ii) any corporate interests in Standard Chartered PLC's ordinary shares
2. The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used ordinary shares as collateral for any loans
3. The salary and shares held beneficially include shares awarded to deliver the executive directors' salary shares
4. 38 per cent of the 2017-19 LTIP award is no longer subject to performance measures due to achievement against 2017-19 strategic measures

E. Share price information

The middle market price of an ordinary share at the close of business on 30 June 2020 was 440.1 pence. The share price range during the first half of 2020 was 368.4 pence to 720.8 pence (based on the closing middle market prices).

F. Substantial shareholders

The Company and its shareholders have been granted partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO).

As a result of this exemption, shareholders no longer have an obligation under Part XV of the SFO (other than Divisions 5,11 and 12 thereof) to notify the Company of substantial shareholding interests, and the Company is no longer required to maintain a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with The Stock Exchange of Hong Kong Limited any disclosure of interests made in the UK.

G. Code for Financial Reporting Disclosures

The UK Finance Code for Financial Reporting Disclosure sets out five disclosure principles together with supporting guidance. The principles are that UK banks will: provide high-quality, meaningful and decision useful disclosures; review and enhance their financial instrument disclosures for key areas of interest; assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited.

The Group's interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with the Code's principles.

Shareholder information

Dividend and interest payment dates

2020 interim dividend

On 31 March 2020 it was announced that no interim dividend on Standard Chartered PLC ordinary shares would be accrued, recommended or paid in 2020.

2020 final dividend (provisional only)

Results and dividend announcement date	25 February 2021

Preference shares	Next half-yearly dividend
7 3/8 per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2020
8 ¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 October 2020
6.409 per cent Non-cumulative preference shares of $5 each	30 July 2020, 30 October 2020
7.014 per cent Non-cumulative preference shares of $5 each	30 July 2020

Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 Rights Issues)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.984124[1]	£17.394/$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK$3.623404/INR1.9975170[1]	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.13797125[1]	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK$3.9776083375/INR2.6667015[1]	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.349803950[1]	£13.417/$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK$4.4048756997/INR2.976283575[1]	£17.40/$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK$2.233204992/INR1.6813[1]	£15.362/$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK$4.43464736/INR3.354626[1]	£11.949$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK$2.2340016000/INR1.671842560[1]	£12.151/$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK$4.43329/INR3.514059[1]	£9.797/$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK$1.115985456/INR0.86139372[1]	£8.5226/$13.34383
Final 2015	No dividend declared	N/A	N/A
Interim 2016	No dividend declared	N/A	N/A
Final 2016	No dividend declared	N/A	N/A
Interim 2017	No dividend declared	N/A	N/A
Final 2017	17 May 2018	11.00c/7.88046p/HK$0.86293/INR0.653643340[1]	£7.7600/$10.83451
Interim 2018	22 October 2018	6.00c/4.59747p/HK$0.46978/INR0.3696175[1]	£6.7104/$8.51952
Final 2018	16 May 2019	15.00c/11.569905p/HK$1.176260/INR0.957691650[1]	N/A
Interim 2019	21 October 2019	7.00c/5.676776p/HK$0.548723/INR0.425028600[1]	N/A
Final 2019	Dividend withdrawn	N/A	N/A

1 The INR dividend was per Indian Depository Receipt

Termination of Indian Depository Receipt (IDR) programme

In March 2020, the Group announced the termination of the IDR programme. The termination notice period ended on 15 June 2020. As at 19 June 2020, there were around 7.5 million IDRs outstanding from the original 240 million IDRs that were issued in 2010. The approximately 750,000 underlying Standard Chartered PLC ordinary shares that these IDRs represented were sold on the London Stock Exchange on 22 June 2020 and the net sale proceeds distributed to the relevant IDR holders. The IDR programme was formally delisted from the BSE Limited (formerly the Bombay Stock Exchange) and National Stock Exchange of India Limited with effect from 22 July 2020.

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account. It allows you to hold your Standard Chartered PLC shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare, you will still be invited to attend the Company's AGM and you receive any dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information, please contact the shareholder helpline on 0370 702 0138.

Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. There is no implication for capital gains tax (no gain or loss) when you donate shares to charity, and UK taxpayers may be able to claim income tax relief on the value of their donation. Further information can be obtained from the Company's registrars or from ShareGift on 020 7930 3737 or from sharegift.org.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the UK register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ or call the shareholder helpline number on 0370 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. You can check your shareholding at: computershare.com/hk/investors.

Chinese translation

If you would like a Chinese version of this Half Year Report, please contact: Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. **本半年報告之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后大道東183號合和中心17M樓。** Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare. If there is a dispute between any translation and the English version of this Half Year Report, the English text shall prevail.

Electronic communications

If you hold your shares on the UK register and in future you would like to receive the Half Year Report electronically rather than by post, please register online at: investorcentre.co.uk. Then click on 'register' and follow the instructions. You will need to have your Shareholder or ShareCare reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered, you can also submit your proxy vote and dividend election electronically and change your bank mandate or address information.

Glossary

AT1 or Additional Tier 1 capital

Additional Tier 1 capital consists of instruments other than Common Equity Tier 1 that meet the Capital Requirements Regulation (CRR) criteria for inclusion in Tier 1 capital.

Additional value adjustment

See 'Prudent valuation adjustment'.

Advanced Internal Rating Based (AIRB) approach

The AIRB approach under the Basel framework is used to calculate credit risk capital based on the Group's own estimates of prudential parameters.

Alternative performance measures

A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

ASEAN

Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

AUM or Assets under management

Total market value of assets such as deposits, securities and funds held by the Group on behalf of the clients.

Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the International Convergence of Capital Measurement and Capital Standards.

Basel III

The global regulatory standards on bank capital adequacy and liquidity, originally issued in December 2010 and updated in June 2011. In December 2017, the BCBS published a document setting out the finalisation of the Basel III framework. The latest requirements issued in December 2017 will be implemented from 2022.

BCBS or Basel Committee on Banking Supervision

A forum on banking supervisory matters which develops global supervisory standards for the banking industry. Its members are officials from 45 central banks or prudential supervisors from 28 countries and territories.

Basic earnings per share (EPS)

Represents earnings divided by the basic weighted average number of shares.

Basis point (bps)

One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

CRD IV or Capital Requirements Directive IV

A capital adequacy legislative package adopted by EU member states. CRD IV comprises the recast Capital Requirements Directive and the Capital Requirements Regulation (CRR). The package implements the Basel III framework together with transitional arrangements for some of its requirements. CRD IV came into force on 1 January 2014. CRR II and CRD V amending the existing package came into force in June 2019 with most changes starting to apply from 28 June 2021.

Capital-lite income

Income derived from products with low RWA consumption or products which are non-funding in nature.

Capital resources

Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

CGU or Cash-generating unit

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash shortfall

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

Clawback

An amount an individual is required to pay back to the Group, which has to be returned to the Group under certain circumstances.

Commercial real estate

Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

CET1 or Common Equity Tier 1 capital

Common Equity Tier 1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1 capital.

CET1 ratio

A measure of the Group's CET1 capital as a percentage of risk-weighted assets.

Contractual maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is part of a set of macroprudential instruments, designed to help counter procyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets in a given jurisdiction. The Bank of England's Financial Policy Committee has the power to set the CCyB rate for the United Kingdom. Each bank must calculate its 'institution-specific' CCyB rate, defined as the weighted average of the CCyB rates in effect across the jurisdictions in which it has credit exposures. The institution-specific CCyB rate is then applied to a bank's total risk-weighted assets.

Counterparty credit risk

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

CCF or Credit conversion factor

An estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default. This is either prescribed by CRR or modelled by the bank.

CDS or Credit default swaps

A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit institutions

An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit Risk mitigation
Credit Risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

CVA or Credit valuation adjustments
An adjustment to the fair value of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the contracts.

Customer accounts
Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement (see repo/reverse repo). Such funds are recorded as liabilities in the Group's balance sheet under customer accounts.

Days past due
One or more days that interest and/or principal payments are overdue based on the contractual terms.

DVA or Debit valuation adjustment
An adjustment to the fair value of derivative contracts that reflects the possibility that the Group may default and not pay the full market value of contracts.

Debt securities
Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

Deferred tax asset
Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

Deferred tax liability
Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

Default
Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit-impaired.

Defined benefit obligation
The present value of expected future payments required to settle the obligations of a defined benefit scheme resulting from employee service.

Defined benefit scheme
Pension or other post-retirement benefit scheme other than a defined contribution scheme.

Defined contribution scheme
A pension or other post-retirement benefit scheme where the employer's obligation is limited to its contributions to the fund.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks

Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

Diluted earnings per share (EPS)

Represents earnings divided by the weighted average number of shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Dividend per share

Represents the entitlement of each shareholder in the share of the profits of the Company. Calculated in the lowest unit of currency in which the shares are quoted.

Early alert, purely and non-purely precautionary

A borrower's account which exhibits risks or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded to credit grade 12 or worse. When an account is on early alert, it is classified as either purely precautionary or non-purely precautionary. A purely precautionary account is one that exhibits early alert characteristics, but these do not present any imminent credit concern. If the symptoms present an imminent credit concern, an account will be considered for classification as non-purely precautionary.

Effective tax rate

The tax on profit/(losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.

Encumbered assets

On-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities.

EU or European Union

The European Union (EU) is a political and economic union of 27 member states that are located primarily in Europe.

Eurozone

Represents the 19 EU countries that have adopted the euro as their common currency.

ECL or Expected credit loss

Represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

Expected loss

The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on probability of default, loss given default and exposure at default, with a one-year time horizon.

Exposures

Credit exposures represent the amount lent to a customer, together with any undrawn commitments.

EAD or Exposure at default

The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

ECAI or External Credit Assessment Institution

External credit ratings are used to assign risk-weights under the standardised approach for sovereigns, corporates and institutions. The external ratings are from credit rating agencies that are registered or certified in accordance with the credit rating agencies regulation or from a central bank issuing credit ratings which is exempt from the application of this regulation.

Glossary continued

FCA or Financial Conduct Authority

The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.

Forbearance

Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial difficulties. The Group classifies such modified loans as either 'Forborne – not impaired loans' or 'Loans subject to forbearance – impaired'. Once a loan is categorised as either of these, it will remain in one of these two categories until the loan matures or satisfies the 'curing' conditions described in Note 8 to the financial statements.

Forborne – not impaired loans

Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

Free deliveries

A transaction where a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making immediate payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving immediate payment.

Free funds

Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/unfunded exposures

Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where a commitment to provide future funding is made but funds have been released/ not released.

FVA or Funding valuation adjustments

FVA reflects an adjustment to fair value in respect of derivative contracts that reflects the funding costs that the market participant would incorporate when determining an exit price.

GCNA hub

See 'Hong Kong regional hub'.

G-SIBs or Global Systemically Important Banks

Global banking financial institutions whose size, complexity and systemic interconnectedness mean that their distress or failure would cause significant disruption to the wider financial system and economic activity. The list of G-SIBs is assessed under a framework established by the FSB and the BCBS. In the EU, the G-SIB framework is implemented via CRD IV and G-SIBs are referred to as Global Systemically Important Institutions (G-SIIs).

G-SIB buffer

A CET1 capital buffer which results from designation as a G-SIB. The G-SIB buffer is between 1 per cent and 3.5 per cent, depending on the allocation to one of five buckets based on the annual scoring. In the EU, the G-SIB buffer is implemented via CRD IV as Global Systemically Important Institutions (G-SII) buffer requirement.

Hong Kong regional hub

Standard Chartered Bank (Hong Kong) Limited and its subsidiaries including the primary operating entities in China, Korea and Taiwan. Standard Chartered PLC is the ultimate parent company of Standard Chartered Bank (Hong Kong) Limited.

Interest Rate Risk

The risk of an adverse impact on the Group's income statement due to changes in interest rates.

IRB or internal ratings-based approach

Risk-weighting methodology in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of prudential parameters.

IMA approach or internal model approach

The approach used to calculate Market Risk capital and RWA with an internal Market Risk model approved by the PRA under the terms of CRD IV/CRR.

IAS or International Accounting Standard

A standard that forms part of the International Financial Reporting Standards framework.

IASB or International Accounting Standards Board

An independent standard-setting body responsible for the development and publication of IFRS, and approving interpretations of IFRS standards that are recommended by the IFRS Interpretations Committee (IFRIC).

IFRS or International Financial Reporting Standards

A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRSs and IASs. All companies that have issued publicly traded securities in the EU are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

IFRIC

The IFRS Interpretations Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs and IASs.

Investment grade

A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

Leverage ratio

A ratio introduced under CRD IV that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk-based backstop measure.

Liquid asset ratio

Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquidation portfolio

A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

LCR or Liquidity coverage ratio

The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

Loan exposure

Loans and advances to customers reported on the balance sheet held at amortised cost or FVOCI, non-cancellable credit commitments and cancellable credit commitments for credit cards and overdraft facilities.

Loans and advances to customers

This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans and advances to banks

Amounts loaned to credit institutions including securities bought under Reverse repo.

LTV or Loan-to-value ratio

A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due
Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

Loans subject to forbearance – impaired
Loans where the terms have been renegotiated on terms not consistent with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

Loss rate
Uses an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.

LGD or Loss given default
The percentage of an exposure that a lender expects to lose in the event of obligor default.

Low returning clients
See 'Perennial sub-optimal clients'.

Malus
An arrangement that permits the Group to prevent vesting of all or part of the amount of an unvested variable remuneration award, due to a specific crystallised risk, behaviour, conduct or adverse performance outcome.

Master netting agreement
An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Mezzanine capital
Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

MREL or Minimum requirement for own funds and eligible liabilities
A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks, implementing the FSB's Total Loss Absorbing Capacity (TLAC) standard. MREL is intended to ensure that there is sufficient equity and specific types of liabilities to facilitate an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions and avoids exposing taxpayers to loss.

Net asset value (NAV) per share
Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure
The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

NII or Net interest income
The difference between interest received on assets and interest paid on liabilities.

NSFR or Net stable funding ratio
The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

NPLs or Non-performing loans
An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes Retail loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

Non-linearity
Non-linearity of expected credit loss occurs when the average of expected credit loss for a portfolio is higher than the base case (median) due to the fact that bad economic environment could have a larger impact on ECL calculation than good economic environment.

Normalised items
See 'Underlying' on page 113.

Operating expenses
Staff and premises costs, general and administrative expenses, depreciation and amortisation. Underlying operating expenses exclude expenses as described in 'Underlying earnings'. A reconciliation between underlying and statutory earnings is contained in Note 2 to the financial statements.

Operating income or operating profit
Net interest, net fee and net trading income, as well as other operating income. Underlying operating income represents the income line items above, on an underlying basis. See 'Underlying earnings'.

OTC or Over-the-counter derivatives
A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

OCA or Own credit adjustment
An adjustment to the Group's issued debt designated at fair value through profit or loss that reflects the possibility that the Group may default and not pay the full market value of the contracts.

Perennial sub-optimal clients
Clients that have returned below 3 per cent return on risk-weighted assets for the last three years.

Physical risks
The risk of increased extreme weather events including flood, drought and sea level rise.

Pillar 1
The first pillar of the three pillars of the Basel framework which provides the approach to calculation of the minimum capital requirements for Credit, Market and Operational Risk. Minimum capital requirements are 8 per cent of the Group's risk-weighted assets.

Pillar 2
The second pillar of the three pillars of the Basel framework which requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3
The third pillar of the three pillars of the Basel framework which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Priority Banking
Priority Banking customers are individuals who have met certain criteria for deposits, AUM, mortgage loans or monthly payroll. Criteria varies by country.

Private equity investments
Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

PD or Probability of default
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation over a given time horizon.

Probability weighted
Obtained by considering the values the metric can assume, weighted by the probability of each value occurring.

Profit (loss) attributable to ordinary shareholders
Profit (loss) for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

PVA or Prudent valuation adjustment
An adjustment to CET1 capital to reflect the difference between fair value and prudent value positions, where the application of prudence results in a lower absolute carrying value than recognised in the financial statements.

PRA or Prudential Regulation Authority
The Prudential Regulation Authority is the statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and a small number of significant investment firms in the UK. The PRA is a part of the Bank of England.

Regulatory consolidation
The regulatory consolidation of Standard Chartered PLC differs from the statutory consolidation in that it excludes Standard Chartered Assurance Limited and Standard Chartered Insurance Limited and includes the full consolidation of PT Bank Permata Tbk.

Repo/reverse repo
A repurchase agreement or repo is a short-term funding agreement, which allows a borrower to sell a financial asset, such as asset-backed securities or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage
A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

RoRWA or Return on risk-weighted assets
Profit before tax for year as a percentage of RWA. Profit may be statutory or underlying and is specified where used. See 'RWA' and 'Underlying earnings'.

RWA or Risk-weighted assets
A measure of a bank's assets adjusted for their associated risks, expressed as a percentage of an exposure value in accordance with the applicable standardised or IRB approach provisions.

Risks-not-in-VaR (RNIV)
A framework for identifying and quantifying marginal types of Market Risk that are not captured in the value at risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

Roll rate
Uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.

Secured (fully and partially)
A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Securitisation
Securitisation is a process by which credit exposures are aggregated into a pool, which is used to back new securities. Under traditional securitisation transactions, assets are sold to a structured entity which then issues new securities to investors at different levels of seniority (credit tranching). This allows the credit quality of the assets to be separated from the credit rating of the originating institution and transfers risk to external investors in a way that meets their risk appetite. Under synthetic securitisation transactions, the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originating institution.

Senior debt

Debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure than subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

SICR or Significant increase in credit risk

Assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after considering the passage of time).

Solo

The solo regulatory group as defined in the Prudential Regulation Authority waiver letter dated 24 August 2017 differs from Standard Chartered Bank Company in that it includes the full consolidation of eight subsidiaries, namely Standard Chartered Holdings (International) B.V., Standard Chartered MB Holdings B.V., Standard Chartered UK Holdings Limited, Standard Chartered Grindlays PTY Limited, SCMB Overseas Limited, Standard Chartered Capital Management (Jersey) LLC, Standard Chartered Debt Trading Limited and Cerulean Investments LP.

Sovereign exposures

Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures, as defined by the European Banking Authority, include only exposures to central governments.

Stage 1

Assets have not experienced a significant increase in Credit Risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Assets have experienced a significant increase in Credit Risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Assets that are in default and considered credit-impaired (non-performing loans).

Standardised approach

In relation to Credit Risk, a method for calculating Credit Risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to Operational Risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Structured note

An investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated liabilities

Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

Tier 1 capital

The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 1 capital ratio

Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital

Tier 2 capital comprises qualifying subordinated liabilities and related share premium accounts.

TLAC or Total loss absorbing capacity

An international standard for TLAC issued by the FSB, which requires G-SIBs to have sufficient loss-absorbing and recapitalisation capacity available in resolution, to minimise impacts on financial stability, maintain the continuity of critical functions and avoid exposing public funds to loss.

Transition risks

The risk of changes to market dynamics or sectoral economics due to governments' response to climate change.

UK bank levy

A levy that applies to certain UK banks and the UK operations of foreign banks. The levy is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

Unbiased

Not overly optimistic or pessimistic, represents information that is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that the financial information will be received favourably or unfavourably by users.

Unlikely to pay

Indications of unlikeliness to pay shall include placing the credit obligation on non-accrued status; the recognition of a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Group taking on the exposure; selling the credit obligation at a material credit-related economic loss; the Group consenting to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees; filing for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Group; the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Group.

VaR or Value at risk

A quantitative measure of Market Risk estimating the potential loss that will not be exceeded in a set time period at a set statistical confidence level.

ViU or Value-in-use

The present value of the future expected cash flows expected to be derived from an asset or CGU.

Write-downs

After an advance has been identified as impaired and is subject to an impairment provision, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-downs will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

XVA

The term used to incorporate credit, debit and funding valuation adjustments to the fair value of derivative financial instruments. See 'CVA', 'DVA' and 'FVA'.

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