

Half Year Report 2016

Driving investment, trade and the creation
of wealth across Asia, Africa and the Middle East



Highlights

For the six months ended 30 June 2016

“We have made good progress in the year since I joined, strengthening our bank, becoming more efficient and investing in our future. By maintaining our financial strength and completing our transformation we will be able to weather near-term volatility, fix our legacy issues, capture significant underlying opportunities as they arise, and, in time, generate returns above our cost of capital. The environment remains challenging but we are getting on with the plan.”

Bill Winters, Group Chief Executive

Financial performance summary

Underlying profit before tax

\$1.0bn

a significant improvement on the preceding second half loss

Underlying operating income

\$6.8bn

stable in each of the first two quarters, although down 20 per cent year-on-year

Underlying operating expenses

\$4.0bn

tightly controlled and down 13 per cent year-on-year excluding regulatory costs. Cost savings are funding investment plans which will increase throughout the rest of the year

Underlying loan impairment

\$1.1bn

down significantly both year-on-year and half-on-half. Stresses remain and we continue to be watchful

Restructuring charges

\$115m

the total charges to date are almost \$2bn, or two thirds of our estimate of around \$3bn

Normalised basic earnings per share

14.2 cents

(H2 2015: negative 52.4 cents)

Normalised return on ordinary shareholders' equity

2.1 per cent

(H2 2015: negative 6.2 per cent)

The Board has not declared an interim ordinary dividend for 2016

Strong balance sheet

Common Equity Tier 1 (CET1) ratio

13.1 per cent

slightly above the Group's 12-13 per cent target range

Minimum requirement for own funds and eligible liabilities (MREL)

c.25 per cent

well positioned

Liquidity coverage ratio

above 100 per cent

(H2 2015: above 100 per cent)

Advances to deposits ratio

71.5 per cent

(H2 2015: 72.8 per cent)

Leverage ratio

5.5 per cent

(H2 2015: 5.5 per cent)

Uncertainty on the eventual outcome of regulatory reforms to finalise banks' capital requirements

Disciplined balance sheet management, optimised risk-weighted assets and increased quality of deposits

Progress against the strategy

- Encouraging signs of stabilisation in income and balance sheet momentum
- On track to deliver gross cost efficiencies in excess of \$1 billion in 2016
- Launched the first phase of investment plans
- Exited \$674 million gross loans and advances related to the liquidation portfolio in the period
- Signed or completed seven non-core divestments since November 2015

Summary and outlook

- We are making good progress on the actions we set out in November and have returned to underlying profitability
- Economies have slowed and the outlook is more cautious than in November 2015:
 - Interest rate expectations are lower and for longer than predicted
 - Growth rates have slowed in key markets like Hong Kong and Singapore, and in the US
 - Global trade volumes are down
 - Uncertainty following the UK's referendum on EU membership may impact global growth
- We expect 2016 performance to remain subdued
- It is likely to take us longer to deliver the return on equity we set out in November
- Opportunities are compelling and we are creating the platform to generate value for clients and shareholders

Comparators have been re-presented to reflect the reorganisation of the Group. These changes were detailed in our re-presentation announcement on 5 July 2016.

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. H1 refers to the six months ended 30 June and H2 refers to the six months ended 31 December.

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

Standard Chartered PLC is headquartered in London where it is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; BSE/NSE STAN.IN.

Summary of results

For the six months ended 30 June 2016

| | 6 months ended 30.06.16 \$million | 6 months ended 31.12.15 \$million | 6 months ended 30.06.15 \$million |
|---|---|---|---|
| Results | | | |
| Underlying operating income ¹ | 6,810 | 6,944 | 8,495 |
| Statutory operating income | 6,935 | 6,520 | 8,769 |
| Impairment losses on loans and advances and other credit risk provisions ¹ | (1,096) | (2,356) | (1,652) |
| Other impairment ¹ | (213) | (225) | (86) |
| Goodwill impairment ¹ | – | (362) | – |
| Underlying profit/(loss) before taxation ¹ | 994 | (990) | 1,824 |
| Statutory profit/(loss) before taxation | 893 | (3,621) | 2,098 |
| Profit/(loss) attributable to parent company shareholders | 509 | (3,706) | 1,512 |
| Profit/(loss) attributable to ordinary shareholders ² | 394 | (3,822) | 1,462 |
| Balance sheet | | | |
| Total assets | 660,989 | 640,483 | 694,956 |
| Total equity | 48,821 | 48,512 | 49,344 |
| Loans and advances to customers | 265,874 | 261,403 | 282,339 |
| Customer deposits | 371,698 | 359,127 | 388,795 |
| Total capital base | 57,166 | 59,021 | 59,493 |
| | cents | cents | cents |
| Information per ordinary share | | | |
| Earnings per share – normalised ³ | 14.2 | (52.4) | 46.3 |
| – basic | 12.0 | (144.7) | 55.7 |
| Ordinary dividend per share ⁴ | – | – | 13.7 |
| Net asset value per share | 1,371.9 | 1,366.0 | 1,802.6 |
| Tangible net asset value per share | 1,225.8 | 1,224.1 | 1,586.4 |
| Ratios | | | |
| Return on ordinary shareholders' equity – normalised basis ³ | 2.1% | (6.2)% | 5.4% |
| Advances to deposits ratio | 71.5% | 72.8% | 72.6% |
| Liquid asset ratio | 28.0% | 30.9% | 31.4% |
| Cost to income ratio – normalised basis ³ | 66.5% | 78.3% | 59.2% |
| Capital ratios | | | |
| Common Equity Tier 1 | 13.1% | 12.6% | 11.5% |
| Total capital | 19.5% | 19.5% | 18.2% |
| Leverage ratio | 5.5% | 5.5% | 5.0% |

1. Presented on an underlying basis, further details are set out on page 7

2. Profit/(loss) attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares and Additional Tier 1 securities classified as equity (see note 11 on page 90)

3. Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items presented in note 12 on page 91. The H1 2015 comparatives for earnings per share have been adjusted for the impact of bonus element included in the November 2015 rights issue

4. Represents the total ordinary dividend per share for the respective years together with the interim ordinary dividend per share declared and paid in those years. The H1 2015 ordinary dividend per share has been adjusted for the impact of bonus element included in the November 2015 rights issue. Further details are set out in note 11 on page 90

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Chairman's statement



The Group's performance in the first half of 2016 has demonstrated the Management Team's early progress on the actions we believe will drive a sustainable improvement in financial returns. Importantly, we have returned to underlying profitability in the period, despite the more difficult market conditions. Our employees remain highly engaged, committed to doing good business in the right way for our clients, and determined to restore the Group's performance.

We understand that there is a long way to go to achieve the level of returns we need to deliver for shareholders. The execution of this initial phase of the strategy has started well and we remain committed to building our business in the areas that will drive the Group's future performance. We have launched the first phase of our investment plans into areas such as Wealth Management, mobile banking and renminbi services. These are some of the areas where we believe we have a long-term competitive advantage.

Group Chief Executive Bill Winters and the Management Team are building on the foundations of the Group's strong balance sheet, long-standing client and community relationships, and well established brand. Our markets are attractive through the medium and long term, our franchise is hard to replicate and we remain well positioned to support wealth creation in Asia, Africa and the Middle East. There is a degree of economic uncertainty following the UK's referendum on European Union membership but the majority of our business operates in other parts of the world and is relatively less impacted.

The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment to support future growth, whilst at the same time preserving strong capital ratios. With the support of shareholders and through concerted management actions, the Group is operating on a strong capital position and is working on improving profitability from the current weak levels. We are making good progress operationally, but it is early days and no interim ordinary dividend is proposed. Consistent with our previous commitments, the Board will review the position at the end of the year.

We firmly believe that we must be an industry leader in the fight against financial crime. To achieve this goal, we continue to invest in people, systems and training. These efforts and investments will provide superior and sustainable benefits for shareholders and make us a stronger, more resilient company, embodying our brand promise, Here for good.

Finally, I announced last year my intention to stand down from the Board during 2016. I am therefore delighted to announce that José Viñals will be appointed as the new Chairman of the Group. José will join as Chairman designate on 3 October and will become Chairman and join the Board on 1 December. This handover period will ensure a smooth transition and allow José to get to know the Group, its shareholders and clients, the Management Team and employees. Throughout this period, the Board, José and I are fully committed to supporting the Management Team in the delivery of the Group's strategy.

A handwritten signature in blue ink, which appears to read 'John Peace'.

Sir John Peace
Chairman

3 August 2016



In the year since I joined Standard Chartered we have taken decisive steps to reveal and restore the Group's strengths. We have stabilised our balance sheet, increased our efficiency and made significant investments in our future. We returned to our roots, refocusing our attention on serving corporate and retail clients operating in the real economy.

The progress we have made has been hard won, and has been achieved against a backdrop of deteriorating external conditions. Interest rate expectations are lower for longer than previously predicted, growth in our markets is slow and global trade volumes are down. Although our performance has substantially improved, income growth remains muted and returns are weak. The strategy we set out last November was designed to endure through this type of environment. By maintaining our financial strength and completing our transformation during this period of heightened political and economic uncertainty, we will be able to weather near-term volatility, fix our legacy issues, and capture significant underlying opportunities as they arise.

We have returned to underlying profitability and we are making early progress on our planned strategic actions. We are completely focused on restoring returns and establishing the ability to grow. I am encouraged that the decline in Group income has slowed and that we have seen sequential quarter on quarter stability. Whilst income is down 2 per cent compared with the second half of last year, income in the first two quarters of 2016 was around the same level as in the fourth quarter last year. This is despite our tightened risk tolerances, the actions we have taken on low-returning risk-weighted assets (RWAs) and external headwinds that are at least as strong as, and in several cases stronger than, last year. I am also encouraged by the steady improvement in loan impairment, but note the continued growth in non-performing loans in our ongoing business, reflecting the continuing difficult economic conditions in our markets.

Today I will set out where we have made progress and describe the outlook for the future.

Securing the foundations

We have further strengthened our capital position, tightened our risk tolerances, diversified our balance sheet and established more robust controls. We have also created a common set of conduct requirements to which all of our staff will adhere.

Last year, we identified around \$100 billion of RWAs, representing around a third of the Group total, to be restructured. We have made progress in four important respects:

- 1) We highlighted a portfolio of around \$8 billion in gross loans and advances contributing to \$20 billion of the Group's RWAs which were beyond our tightened risk tolerance and that we intended to liquidate. In the first half of this year we took an incremental impairment charge of \$200 million and reduced gross loans and advances by \$674 million. We have a clear line of sight over each of the remaining exposures in this portfolio and expect to complete the exit of the majority of these relationships before the end of next year.
- 2) We identified around \$50 billion of low-returning RWAs in our Corporate & Institutional Banking and Commercial Banking client segments. In most cases, these RWAs relate to clients who value our franchise and our proposition, but where our existing relationship with them was too narrow. We have taken steps to rectify this having already optimised returns on \$15 billion to date of the approximately \$50 billion RWAs under review. While this is encouraging, market conditions have placed incremental pressure on returns from some clients outside of this original group. This has meant that the positive progress against these low-returning clients has not yet translated into returns for the Corporate & Institutional Banking and Commercial Banking segments

- 3) We have approximately \$30 billion of RWAs to restructure or reposition to improve returns in Korea and in our two businesses in Indonesia
- i) In Korea, we have taken decisive action to improve the cost-income ratio. We have reduced headcount since November, and we are building income momentum, for example through our strategic partnerships with Shinsegae and Emart, the country's largest retailer, and with Samsung. After a loss in 2015, it is encouraging to see two successive quarters of profitability in Korea in the first half, but there is still much more potential to unlock
 - ii) In Indonesia we are exploring the best way to achieve a single, properly scaled presence, either by merging our branch with our joint venture or by selling one of the entities. These discussions are ongoing
- 4) We said we would exit peripheral businesses that together represent around \$5 billion of RWAs. Since November, we have signed or completed 7 non-core divestments that have released \$0.6 billion of RWAs to add to RWAs released as part of the closure of our Institutional Cash Equities and Equity Derivative businesses. As with each of these four commitments, there is more we can do here, but each step forward releases finite resources that we can re-invest

Our collective restructuring actions to date have cost almost \$2.0 billion, two thirds of the original estimated total cost of around \$3 billion.

Getting lean and focused

In addition to securing the foundations, we are assertively managing our cost base, and are on track to deliver more than \$1 billion in cost efficiencies in 2016. Excluding regulatory costs, operating expenses in the first half were down 13 per cent year-on-year, reflecting savings from the restructuring actions and senior staff redundancy exercise completed towards the end of last year. We are now in the process of identifying potential efficiencies to deliver our targeted cost savings for 2017. Beyond the Group commitments, what is especially encouraging is how our staff are responding and identifying their own ways to become more efficient and more effective in serving our clients.

Building returns in Corporate & Institutional Banking

Simon Cooper joined the Group in April 2016 to run Corporate & Institutional Banking. He spent several weeks getting to know our business and meeting our key people and clients. Having done so, he has identified three immediate priorities to drive better returns:

- 1) We will re-focus on the clients and products where we have a competitive advantage. We have the capital, liquidity, geographic reach and product capability to be a valued strategic partner. Simon and his team have identified the clients and industries that are important drivers of the real economy in our markets, but where we have not yet captured a significant share of their business. We have plans in place to improve our relationship with these clients. This will build a more diverse and resilient business which is more relevant to the industries and clients who are shaping the future. We are also investing in areas that differentiate us and where we can generate good returns, such as domestic debt capital markets, strengthening our network and serving our clients' ecosystems by engaging their buyers, suppliers and staff. We are also continuing to build scale in our securities services offering across our markets
- 2) Our Corporate & Institutional Banking client segment will become a more efficient user of capital. As well as executing on our plans to manage up or out low returning RWAs, we are embedding greater distribution discipline to increase the velocity of assets through our balance sheet. This will have the dual benefit of allowing us to better serve our clients' needs, whilst also improving risk management
- 3) We will ensure that our relationship managers are able to bring the very best the bank has to offer to our clients. To achieve this we are reducing inefficiencies and duplications and organising ourselves so that the client is at the centre of everything we do

Overhauling Commercial Banking

We are also making progress on the transformation of our Commercial Banking client segment. On 1 January this year we completed the transfer of our Local Corporate clients from Corporate & Institutional Banking to Commercial Banking, roughly doubling the size of the segment. This additional scale enables us to serve our clients more effectively and cost efficiently.

Although Commercial Banking results remain weak, we are stabilising the business and actively developing a platform from which we can move forward. Income has been adversely affected by client exits related to client due diligence, which is now largely complete. We also continue to experience elevated loan impairment, albeit at a substantially reduced level compared to 2015. We have strengthened our operational and credit risk management, reduced our cost base and been active in addressing our process inefficiencies, improving turnaround times for transactions and client on-boarding.

From this base we can begin to grow by targeting clients where we have a competitive advantage. These new clients will benefit from our unique network and our product suite, particularly in Transaction Banking and Financial Markets. We are further differentiating the offering to the Commercial Banking segment by working closely with Corporate & Institutional Banking to bank global supply chains and by becoming our clients' main international bank.

Our Commercial Banking franchise is currently a relatively small but important part of the Group, servicing a vital part of the economies in which we operate. These clients typically represent 40 to 60 per cent of a country's GDP, they are highly diversified, and are growing and internationalising at the fastest rate. We see this as an area of considerable potential and one in which we enjoy a distinct competitive advantage that should enable us to generate good returns in future years.

Investing in Private Banking and Wealth Management

We bring global capabilities to our clients locally in a way that our local and global competitors find it difficult to match. We will increasingly grow in this area through cross-referrals from our Retail Banking, Commercial Banking and Corporate & Institutional Banking client bases.

We have a multi-year plan to invest \$250 million to upgrade our underlying technology and core banking platform to improve the quality and breadth of our service. We are building our relationship management team strength and are also growing our client base, adding almost 500 relationships in the first half.

Market conditions and sentiment have clearly had an impact on revenue and net new money performance in the first half of this year, but we are confident that we will grow these businesses and that we will achieve strong returns on our ongoing investments.

Transforming Retail Banking

We have made some significant strides in transforming Retail Banking, focusing on more affluent clients in our core cities and delivering on our technology programmes.

In the first half we have added over 40,000 priority clients and have seen income from this segment increase as a percentage of total Retail Banking income to 38 per cent. We have refreshed our retail products in 8 of our main markets and we have begun to successfully leverage a number of key strategic alliances. Each of these alliances is impactful. For example, in the four months following its launch we had over 100,000 applications for our new Asia Miles card in Hong Kong, many of which were from target priority clients, and which in total brought in over \$1 billion of incremental deposits.

We have improved our client service through the roll out of Retail Workbench, our award winning iPad-based on-boarding platform, now in 9 markets and with plans for more in due course. We have also launched a suite of payment partnerships including Apple Pay, Samsung Pay and Android Pay in some of our larger markets. Additionally, we are actively rolling out our most advanced mobile and on-line banking platforms across Africa. We now have over 3 million active digital banking clients globally and expect to reach close to 4 million by early next year, improving our digital adoption rate from 35 per cent to 40 per cent.

Overall, our Retail Banking financial performance generally showed steady progress on both the first and the second half of last year. While performance is still not where we want it to be, we are encouraged by the tangible results from the actions we have taken and are excited by the potential for this segment to deliver strong returns for the Group.

Conduct and financial crime risks

Conduct in the banking industry continues to be under scrutiny. That's quite right, given the importance of the industry to the economies and societies where we operate. At Standard Chartered, we continue to enhance a sustainable framework that places regulatory and compliance standards, as well as a culture of appropriate conduct and good judgement, at the forefront of the Group's agenda. The Group is committed to achieve high standards of conduct from all employees under our firm wide conduct programmes.

Our approach to conduct has the power to be a competitive differentiator as we exhibit these high standards in our dealings with clients, regulators, and colleagues. We recognise that compliance with rules and regulations is only part of our responsibility in this area. As a bank on the front line of the fight against financial crime, our ambition is to be an industry leader in identifying and, more importantly, playing our part to address the root causes.

We are doing this in several ways, including helping our correspondent banking clients to raise their financial crime standards, as well as participating in industry bodies that are setting the standard for financial crime compliance (FCC). We are making progress. In June, we were formally recognised by the US Financial Crimes Enforcement Network (FinCEN) for two investigations conducted by our FCC team that led to successful law enforcement action. As FinCEN noted in its citation, this demonstrates that the Group is playing a critical role in protecting the financial system from serious crimes that can threaten national and economic security. This is the value we can offer when we work hand-in-hand with the authorities and live up to our brand promise of Here for good.

We also continue to cooperate fully with the US and UK authorities in the ongoing investigations that we have previously disclosed. As we stated in our 2015 Annual Report and Accounts, we are unable to determine when these investigations will conclude, or the size of any potential penalties that might result. Now, having worked hard to remediate past mistakes, we are keen to move forward, continually improving our standards and focusing on the positive role we play in fighting financial crime.

Summary and outlook

In November last year, when we presented our refreshed strategy, we outlined a scenario that, based on what we felt were conservative macroeconomic assumptions, would deliver return on equity of 8 per cent in 2018 and 10 per cent in 2020. In the first half of the year we have returned the Group to underlying profitability and delivered a 2.1 per cent return on equity. This is an important first step.

However, economies have slowed during 2016 and the outlook is more cautious than in November. GDP growth rates in key markets like Hong Kong, Singapore and the US are lower, global trade growth has stalled, and expectations for US dollar interest are that they will remain lower and for longer. The impact on global growth of the UK's decision to leave the European Union adds uncertainty.

As a result it is likely to take longer than we had hoped to reach these levels of return on equity. We believe many of these external challenges are cyclical rather than structural and remain confident that the actions we set out in November last year will eventually allow us to generate returns in excess of our cost of capital.

In addition, the eventual outcome of regulatory reforms to finalise banks' capital requirements is unclear. Some regulators have repeatedly asserted the intention not to significantly increase the level of required capital across the banking industry, but this is not always supported by the tone and content of consultation papers.

After a year at the Group, I remain convinced that the opportunities available to us are compelling and that we have the people and the network to deliver exceptional service to the client segments where we can have the most impact. We are the custodians of a franchise that delivered great value in the past and will do so again. I believe the actions we are taking and the investments we are making will get us back to a position where we can grow and thrive whilst maintaining superior financial strength. We will generate real value for our clients and for our shareholders, and will make our staff proud to be part of a successful organisation that is Here for good.



Bill Winters

Group Chief Executive

3 August 2016



The Group returned to underlying profitability in the first half of this year with underlying profit before tax of \$994 million. Although down 46 per cent year-on-year, this represents a significant improvement on the underlying loss of \$550 million, excluding the UK bank levy, reported in the second half of 2015. Income has been broadly stable in the period, with modest increases of around 3 per cent in each of the last two quarters compared to the sequential decline throughout 2015. While this is an encouraging start, income is lower than in the second half of last year and the investments we are making and the sharpened focus of our client segments will take time to translate into financial results.

The Group has initiated a series of concerted actions to strengthen the capital position, reduce costs, tighten risk tolerances, and improve efficiency. We believe that these actions, coupled with our plans to invest, should drive sustainably higher returns in the future. The Group's return on equity is not where it needs to be and improving income trends remains a top priority. Our continued focus on disciplined execution remains key to improving returns.

The balance sheet is strong, with a Common Equity Tier 1 (CET1) ratio of 13.1 per cent, and is increasingly diverse. We will focus on doing good business with our clients, optimising our risk-weighted assets (RWAs), delivering cost efficiency and process improvements, and enhancing controls to drive sustainably better returns in the future.

Performance summary

| | 6 months ended 30.06.16 \$million | 6 months ended 31.12.15 \$million | 6 months ended 30.06.15 \$million | H1 2016 vs H2 2015 Better/(worse) % | H1 2016 vs H1 2015 Better/(worse) % |
|--|---|---|---|--|--|
| Operating income | 6,810 | 6,944 | 8,495 | (2) | (20) |
| Operating expenses | (4,534) | (5,436) | (5,042) | 17 | 10 |
| Operating profit before impairment losses and taxation | 2,276 | 1,508 | 3,453 | 51 | (34) |
| Impairment losses on loans and advances and other credit risk provisions | (1,096) | (2,356) | (1,652) | 53 | 34 |
| Other impairment | (213) | (225) | (86) | 5 | nm |
| Profit from associates and joint ventures | 27 | 83 | 109 | (67) | (75) |
| Underlying profit/(loss) before taxation | 994 | (990) | 1,824 | 200 | (46) |
| Restructuring | (115) | (1,845) | – | | |
| Valuation methodology changes | – | (863) | – | | |
| Net (losses)/gains on businesses disposed/held for sale | – | (1) | 219 | | |
| Own credit adjustment | (70) | 440 | 55 | | |
| Goodwill impairment | – | (362) | – | | |
| Gains arising on repurchase of subordinated liabilities | 84 | – | – | | |
| Statutory profit/(loss) before taxation | 893 | (3,621) | 2,098 | nm | (57) |
| Normalised return on equity (%) | 2.1 | (6.2) | 5.4 | nm | (61) |
| Normalised earnings/(loss) per share (cents) | 14.2 | (52.4) | 46.3 | nm | (69) |
| Dividend per share (cents) | – | – | 13.7 | nm | nm |
| Common Equity Tier 1 (%) | 13.1 | 12.6 | 11.5 | 4 | 14 |

Group income of \$6,810 million was down 20 per cent year-on-year and down by 2 per cent, or \$134 million, when compared to the second half of 2015. Group income in each of the first two quarters this year has remained broadly stable when compared to the fourth quarter of 2015. This relative stability is a significant improvement on the sequential declines through 2015 and reflects the early results of our management actions.

Group operating expenses of \$4,534 million were down 10 per cent year-on-year and, excluding the UK bank levy, were down 9 per cent compared to the second half of last year. We currently estimate the UK bank levy will be approximately \$380 million in 2016.

The Group has identified gross cost efficiencies in excess of the \$1 billion we committed to for 2016 and the Management Team has begun the process to identify and agree further cost savings in 2017. The focus on these savings has also brought about process improvements and better client experience as we are removing complexity and duplication in many areas.

Loan impairment excluding restructuring charges of \$1,096 million reduced by \$556 million, or 34 per cent year-on-year, and by \$1,260 million or 53 per cent half-on-half. This represents an annualised 85 basis points of loss on loans and advances to customers compared to 143 basis points for the whole of last year, reflecting the benefits of past risk management actions and the Group's tightened risk tolerances.

Profit from associates and joint ventures of \$27 million was down by 76 per cent year-on-year, primarily due to challenging market conditions.

As a result of the above, the Group delivered underlying operating profit before tax of \$994 million, compared with a \$550 million loss in the second half, after excluding the UK bank levy. This improved operating profit performance was built on stronger foundations with strong liquidity measures and a CET1 ratio of 13.1 per cent, slightly above the Group's 12 to 13 per cent target range.

Underlying client segment income

| | 6 months ended 30.06.16 \$million | 6 months ended 31.12.15 \$million | 6 months ended 30.06.15 \$million | H1 2016 vs H2 2015 increase/ (decrease) % | H1 2016 vs H1 2015 increase/ (decrease) % |
|-----------------------------------|---|---|---|---|---|
| Corporate & Institutional Banking | 3,147 | 3,238 | 3,943 | (3) | (20) |
| Commercial Banking | 667 | 686 | 919 | (3) | (27) |
| Private Banking | 261 | 244 | 290 | 7 | (10) |
| Retail Banking | 2,316 | 2,365 | 2,742 | (2) | (16) |
| Central & other items | 419 | 411 | 601 | 2 | (30) |
| Operating income | 6,810 | 6,944 | 8,495 | (2) | (20) |

Corporate & Institutional Banking income was down 20 per cent year-on-year and down 3 per cent compared to the second half of 2015. Within this first half performance, Financial Markets benefitted from currency and equity market disruption at the start of the year, as well as a brief period of strong foreign currency flows coinciding with the UK's referendum on EU membership. This was offset by \$167 million negative income in Principal Finance.

Income from Commercial Banking of \$667 million was down 27 per cent year-on-year and 3 per cent lower than the second half of last year, impacted by renminbi volatility and weaker trade activity. After a period of deliberate actions to de-risk our portfolio and create a solid foundation for future growth, we are beginning to attract new clients to this segment.

Income from Private Banking of \$261 million was down 10 per cent year-on-year but was 7 per cent higher than

in the previous half. Demand for Wealth Management products, mainly in Hong Kong and Singapore, remained subdued as investor sentiment was impacted by volatility in particular in the renminbi and in China equity markets. We continue to invest in building improved systems and strengthening our relationship manager teams to support our expansion in this segment as the opportunities remain compelling.

Income from Retail Banking of \$2,316 million was down 16 per cent year-on-year but was only \$49 million lower compared to the second half of last year. Priority Clients now represent 38 per cent of income compared to 35 per cent last year, reflecting our focus on affluent clients in our core cities.

Income from Central & other items was broadly flat half-on-half. Within this, treasury income reduced reflecting lower interest rates in many of our markets including in Korea, India and Pakistan.