



STANDARD CHARTERED PLC

渣打集團有限公司

(Incorporated as a public limited company in England and Wales with registered number 966425)
(Stock Code: 02888)

Results for the Twelve Months Ended 31 December 2018 - Part 1

Standard Chartered PLC - Performance highlights

For the year ended 31 December 2018

Standard Chartered PLC (the Group) today releases its results for the year ended 31 December 2018. All figures are presented on an underlying basis and comparisons are made to the equivalent period in 2017 unless otherwise stated. A reconciliation between statutory and underlying results is set out on page 246 of the 2018 full year report.

"We have made tremendous progress securing the foundations of the business since 2015, resulting in a third successive year of underlying profit growth. Our refreshed priorities announced today will help realise the true value of the franchise. We will measure this not only in monetary terms with double-digit equity returns and significant shareholder distributions targeted by 2021, but also in the positive impact to our clients, stakeholders and communities. We are determined to drive commerce and help our clients achieve prosperity, while doing everything that we can to make the world a cleaner, safer and more sustainable place"

Bill Winters, Group Chief Executive

Further significant improvement in returns

- Significant improvement in profitability driven by higher quality income growth with cost and asset origination discipline
- Operating income of \$15.0bn was up 5%, with RWAs down 8%
 - Broad-based by product, with Transaction Banking growing particularly strongly driven by Cash Management
 - Wealth Management grew 3% but momentum slowed as sentiment weakened in the second half
 - Strong performance in GCNA region; challenging conditions in AME region
 - Net interest income increased 8% and the net interest margin improved 3 basis points to 1.58%
- Positive jaws: operating expenses ex-UK bank levy rose 2% to \$10.1bn
 - The Group has delivered \$3.2bn in gross cost efficiencies, exceeding the target set in November 2015
 - Cash investments of \$1.6bn were up 9%, with the amount allocated to strategic initiatives trebling over the last three years
 - The UK bank levy was \$324m; in 2021 it will be chargeable on only the Group's UK balance sheet
- Asset quality improved due to a continued focus on higher quality origination within a more granular risk appetite
 - Credit impairment of \$740m was 38% lower with significant improvements in CIB and RB
- Underlying profit before tax of \$3.9bn was up 28% driven by the Group's largest segments and regions
- Statutory profit before tax of \$2.5bn is stated after provision for regulatory matters and restructuring and other items and was 6% higher
 - The Group made a \$900m provision in respect of legacy financial crime control matters and FX trading issues
 - Restructuring and other items included Q4 charges of \$158m following the announcement to sell Principal Finance and \$169m related to the refreshed strategic priorities announced today
- RoE improved 110 basis points to 4.6% and RoTE improved 120 basis points to 5.1%
- Basic earnings per share increased 14.2 cents to 61.4 cents
- The Board has recommended a final dividend of 15 cents per ordinary share, up 36% from 11 cents in 2017

Stronger capital and more resilient balance sheet

- The CET1 ratio increased 60 basis points to 14.2%; above the Group's updated target range of 13-14%
- Broad-based balance sheet growth: average customer assets and customer accounts were up 7% and 5% respectively
- Stronger balance sheet positions the Group for sustainable long-term growth while increasing resilience to shocks

Outlook

- Refreshed priorities announced separately today aimed at delivering significantly and sustainably higher returns
 - Return on tangible equity targeted to be at least 10% by 2021
 - We intend to distribute to shareholders surplus capital that is not deployed to fund additional growth
- Income compound annual growth rate target remains at 5-7%
 - Solid start to 2019, although down slightly compared to 2018 due to stronger USD and buoyant conditions last year in WM and FM
- We are cautiously optimistic on the global macroeconomic environment
 - But the range of possible outcomes is wider than it has been in a long time

	31.12.18 \$million	31.12.17 \$million
Underlying performance		
Operating income	14,968	14,289
Operating expenses	(10,464)	(10,120)
Credit impairment	(740)	(1,200)
Other impairment	(148)	(169)
Profit before taxation	3,857	3,010
Return on ordinary shareholders equity (%)	4.6	3.5
Return on ordinary shareholders tangible equity (%)	5.1	3.9
Cost to income ratio (%)	69.9	70.8
Statutory performance		
Operating income	14,789	14,425
Operating expenses	(11,647)	(10,417)
Credit impairment	(653)	(1,362)
Goodwill impairment	-	(320)
Other impairment	(182)	(179)
Profit before taxation	2,548	2,415
Profit/(loss) attributable to parent company shareholders	1,054	1,219
Profit/(loss) attributable to ordinary shareholders ¹	618	774
Return on ordinary shareholders' equity (%)	1.4	1.7
Return on ordinary shareholders' tangible equity (%)	1.6	2.0
Net interest margin (%)	1.58	1.55
Cost to income ratio (%)	78.8	72.2
Balance sheet and capital		
Total assets	688,762	663,501
Total equity	50,352	51,807
Loans and advances to customers	256,557	282,288
Customer accounts	391,013	370,509
Total capital	55,696	58,758
Advances-to-deposits ratio (%) ¹	64.9	67.0
Common Equity Tier 1 ratio (%)	14.2	13.6
Total capital (%)	21.6	21.0
UK leverage ratio (%)	5.6	6.0
Information per ordinary share		
	Cents	Cents
Earnings per share – underlying	61.4	47.2
– statutory	18.7	23.5
Ordinary dividend per share ²	21.0	11.0
Net asset value per share	1,319.3	1,366.9
Tangible net asset value per share	1,167.7	1,214.7

¹ When calculating this ratio: total loans and advances to customers excludes reverse repurchase agreement and other similar secured lending and includes loans and advances to customers held at fair value through profit and loss and total customer accounts includes customer accounts held at fair value through profit or loss

² The ordinary dividend per share in 2018 represents the interim dividend of 6 cents per ordinary share and the recommended final dividend of 15 cents per ordinary share. There was no interim dividend paid on ordinary shares in 2017

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Group Chairman's statement

A more innovative and resilient bank capable of stronger growth

I was convinced when I became Group Chairman that Standard Chartered was a unique organisation with huge potential based on its extraordinary network across many of the most dynamic economies in the world. This opinion is now more resolute than ever, having seen the Group strengthen its foundations and position itself for stronger and more sustainable growth. One of our Board's key priorities is to ensure we do everything we can to help continue to unlock this potential in pursuit of Our Purpose – driving commerce and prosperity through our unique diversity.

This means that as well as our fiduciary responsibilities to our investors, we have a tremendous responsibility to the communities and societies in which we operate. Two-thirds of the global population live in our fast-growing markets, and many have living standards below that which they deserve. We are committed to promoting sustainable economic and social development that improves the lives of people across our communities and transforms our markets for the better.

Progress during 2018

This year's performance was delivered against a largely supportive external environment, but the global economy began to lose some steam as the year progressed, mainly due to two factors. Firstly, the continued trade tensions between the United States and China, which have significantly impacted market confidence and – in some cases – demand. And secondly, the tighter financial conditions we have seen in both emerging and developing markets as the US Federal Reserve gradually increased interest rates during the year.

This is the third year of our current strategy, and our 2018 results reflect further significant progress against our 2015 strategic priorities. Given the improved performance the Board has declared a final ordinary dividend of 15 cents per share, which would result in a full-year dividend for 2018 of 21 cents per share, approximately double the full-year dividend paid last year. We intend to increase the full-year dividend per share over time, as I described in my statement last year. As we progress in the execution of our strategy and build towards a 10 per cent return on tangible equity, the full-year dividend per share has the potential to double by 2021. To the extent additional capital generated over that period is not needed to fund further business growth, the Board will consider optimal ways of returning the excess to shareholders. The Board has also decided to adopt a formulaic approach to setting the interim dividend starting this year, being one-third of the prior year full-year dividend per share.

We have stronger foundations across all dimensions. Income is growing at a rate greater than our costs, credit impairment has notably reduced, underlying profits have increased significantly and our return on tangible equity has improved. But we have not yet reached our objective of achieving double-digit returns. Our shareholders expect this of us and we are determined to deliver it.

We have continued to plant the seeds that will deliver better performance over time. During 2018, we worked to make the bank a better organisation, capable of growing faster by strengthening our performance culture, becoming increasingly client-centric, focusing on the long term, innovating across many fronts and becoming simpler, faster and better. We delivered a negative shareholder return in 2018 in weak global equity market conditions, after two consecutive years of positive progress. I can assure you getting back to growth in that regard is an important Board priority.

Outlook for 2019

While uncertainties, mostly linked to geopolitical and political factors, have increased and global growth has moderated and become less balanced, the global economy is still expected to advance at a reasonably strong rate. The markets in our footprint continue to lead global growth, and substantial opportunities remain across them.

While we are of course not able to shape the external environment, there is much we can do to continue to grow strongly, in a safe and sustainable manner. Later in this report, Bill will set out the areas on which we will focus to develop the Group over the next three years with a view to further improving financial returns.

We must also take time to step back and consider the longer-term regulatory, political, economic, technological and societal drivers of change shaping our business and assess the impact on us. This ensures we will be able to combine the best of the old – in connecting people through trade and commerce – together with the best of the new in innovation, digital technologies and increasing client-centricity. It also enables us to prepare both for the opportunities of the future and the inevitable challenges, which put a premium on both agility and resilience.

As a Board, we have also been paying particular attention to how management develops attractive value propositions for clients, advancing our own digital revolution and becoming more disruptive in our markets. This is particularly important as competition in this space continues to grow, not just from banks, but from fintech and Big Tech companies. These new players are increasingly providing financial services with developed technology platforms and lower costs, often with more limited regulatory obligations at present.

We must also consider how we see the balance between returns and risk. In this context, the Board is supportive of an environment where our colleagues feel freer to innovate, collaborate and grow within the limits defined by our Risk Appetite.

Strengthening our defences

This year, we have been encouraged by the significant further progress we have made in improving our Risk Management Framework across all dimensions, alongside our stronger capital and liquidity position. The fight against financial crime remains paramount to us, both in our operations and in leading and partnering in initiatives to combat it more effectively.

Our enhanced Risk Appetite Statement and our improved attention to non-financial risks are two further key areas which make us stronger, and we have also passed the latest round of the Bank of England stress tests without any caveats.

That said, we are by no means complacent. One risk domain which remains top of mind is cyber risk. We continue to expand our capabilities in this area and enhance our operating models to strengthen our defences and keep pace with ever-evolving cyber threats.

This year, we have also established a newly licensed entity in Frankfurt, which means that we will be able to continue to service our European clients post-Brexit, regardless of the outcome of the EU/UK negotiations.

Helping make the world more sustainable

The world is changing rapidly, and our colleagues, clients and communities face daily economic, environmental and social challenges. At the same time, there are rising expectations about the role banks should play in creating jobs and prosperity, and in protecting the environment. It is our role to lead in taking the difficult decisions to balance environmental, social and economic needs, while listening carefully to our stakeholders – our clients, colleagues, investors, local governments, policymakers and NGOs.

This year, we launched our refreshed public Position Statements, which cover new and tightened requirements that must be met before we can undertake business in industries with high-potential environmental or social impact. This includes our position on power generation, which states we will cease providing financing for new coal-fired power plants anywhere in the world, save where there is an existing commitment.

In 2018, we celebrated 15 years of our Seeing is Believing initiative, surpassing our \$100 million fundraising target in the fight against avoidable blindness. The efforts and commitment of our colleagues, as well as the support of our partners, meant that Seeing is Believing has been able to reach more than 176 million people across 37 countries, supported 4.6 million sight-restoring surgeries and trained more than 334,000 health workers since 2003. This is a proud moment for us, and I would like to thank our colleagues for their dedication and the difference they have made to the lives of individuals across our markets.

Drawing on this success, we have set ourselves a new challenge. Through Futuremakers by Standard Chartered, we will raise \$50 million between 2019 and 2023 to deliver community programmes that provide disadvantaged young people with the chance to learn new skills and expertise, and improve their chances of getting a job or starting their own business.

Governance and culture

A strong culture and robust governance are essential. The Board continues to strive for a culture of open communication and challenge inside the boardroom, where the Board can hold management accountable for execution and delivery of the Board-approved strategy. We also need to continue setting the tone from the top on the right culture for the Group. Leading by example is today more important than ever. Only fully ethical leadership based on the right values and behaviours can succeed over the longer term. Anything else is a mirage and bound to evaporate sooner or later. It is as much about how we do things as what we do.

Having a strong performance culture should be closely aligned to the Group's values. If we can outperform by making globalisation work through our diversity of markets and people, then we have put a solid stake in the ground about our values throughout all our markets.

At a Board level, our role is to champion this so that our brand promise, Here for good, becomes even more of a reality, always and everywhere. It's the same for conduct – while progress has been made, it remains a crucial task of the Board in overseeing that all our colleagues own our culture and behave consistently with our valued behaviours.

We recently announced that Carlson Tong has joined our Board. Carlson has over 30 years' experience operating in mainland China, Hong Kong and the wider Asia Pacific region, and a deep understanding and knowledge of the financial services sector in some of our key markets. We also announced that Dr Han Seung-soo is retiring from the Board. I would like to take this opportunity to thank Dr Han for his substantial contributions to the Group over the past nine years, as well as his considerable insight into Asia, particularly Korea. Om Bhatt is also stepping down from the Board, and I would like to thank Om for his significant contribution to the Group over the past six years, in particular his insight into banking and India.

Although not part of the formal governance of the Group, we established our International Advisory Council, bringing together leading global figures, which held its inaugural meeting in early February. I see this as a great additional resource for the Group in helping us better understand the key drivers influencing the world and our markets and their strategic implications for the Group.

Conclusion

The global economy has continued to grow, but geopolitical uncertainties and the spectre of trade protectionism remain. We are realistic concerning the key issues and risks, but despite this, the opportunities in our markets remain substantial and the work that we have done in recent years in enhancing our capabilities and strengthening our resilience puts us now in a better place to capture them.

Based on our extraordinary footprint and the talent of our colleagues, I am confident that as we execute our new strategic objectives with discipline and energy we will create long-term value for all our stakeholders and become the best bank we can be.

José Viñals
Group Chairman

26 February 2019

Group Chief Executive's review

Delivering sustainable, high-quality growth

We have made tremendous progress since 2015 when we set out to build strong foundations, get lean and focus on our strengths, and invest and innovate to delight our customers. In 2018, we saw further evidence of this strategy coming through – we grew profits and returns, reinstated the interim dividend, improved our customer satisfaction measures in key products and segments, invested in exciting transformative initiatives and became more agile in capturing attractive opportunities in our markets.

Our purpose

Standard Chartered is a unique bank. We have deep roots in, and a non-replicable network across, many of the world's most dynamic markets, where half of the global GDP growth is expected to be generated over the next five years. Every day, our 85,000 employees of 125 nationalities help millions of people and companies succeed by growing, investing and protecting their wealth, while supporting sustainable economic and social development in the communities in which we operate. It has become fashionable to talk about purpose, but this is not new for us. Throughout our history, this purpose – to drive commerce and prosperity through our unique diversity – has always guided our decisions, behaviours and everything that we do.

Just as it has in the past, our purpose will continue to enable our success in the future. It therefore underpins the refreshed priorities that we are announcing today.

2018 performance

2018 was a year in which commerce and prosperity encountered their fair share of challenges. While the year started strongly with good momentum across all businesses, client sentiment in our markets dipped later in the year, coming under pressure from geopolitical uncertainties, the rapid escalation of trade tensions between the US and China, as well as slower growth in the global economy. Despite these conditions we have continued to make good progress on delivering our key areas of focus.

Our Greater China & North Asia and Retail Banking businesses overall continue to go from strength to strength. Our Transaction Banking business has taken an increasing share of a competitive market, allowing it to excel on the back of higher interest rates. Our Financial Markets business, which is one of our higher-returning activities and a major contributor to our network franchise, has grown in an environment where most others shrank, and we expect stronger performance from the refreshed team.

We grew in all segments and regions on a year-on-year basis, except for Africa & Middle East, where continued macro-political issues, exacerbated by currency depreciations, dampened income momentum.

Over half of our income is now generated from the network and wealth management activities in which we have invested. This income is growing quickly and generating premium returns. This transition to higher quality growth, together with tight cost and risk control, means we have improved our underlying return on tangible equity (RoTE) a further 120 basis points in 2018 to 5.1 per cent. While we are encouraged by the steady improvement, we are acutely aware that this level of return remains below our cost of capital.

So, what now? The Group, now on secured foundations and poised for sustainable, higher-returning growth, is at another inflection point. The refreshed priorities that we are announcing today will help realise the value of the franchise, measured not only in monetary terms but also in the positive impact on our clients, stakeholders and communities. We expect to reach a double-digit RoTE by 2021 by continuing to build a purpose-led organisation which propels global trade and investment, helps our customers and markets achieve wealth and prosperity, while doing everything that we can to make the world a cleaner, safer and more sustainable place.

Wealth and prosperity

We are here to help our clients become more prosperous – whether they are international companies fostering trade and investment, or individual customers who seek help in managing their wealth.

We continue to improve our services for the emerging affluent. We launched Premium Banking in eight markets in 2018. Priority and Premium customers now make up 56 per cent of our Retail Banking income, compared to 27 per cent in 2014. This is no coincidence – we are laser-focused on improving their banking experience with us, as exemplified by the fact that the Group is ranked by RFI Group as the best-in-class international bank for the Priority segment in seven of our top eight retail markets. Our open-architecture wealth management platform, from which we now generate 30 per cent of our Retail Banking income compared to 20 per cent in 2014, also appeals to savers and investors.

We are investing in our digital capabilities to drive transformation in profitability, opportunities and financial inclusion in the retail mass market. We are combining world-class expertise with local knowledge to be nimble and disruptive. Following the successful testing and launch of our first digital retail bank in Côte d'Ivoire last year, we have rolled out a similar model in Uganda, Tanzania and Ghana, and have plans to roll out in Kenya in the first quarter of 2019, subject to regulatory approval, and in most of our African markets by the end of the year. We have also made over 50 banking services available on a single mobile app in India. By collaborating with best-in-class partners, we can rapidly develop and roll out exceptional client propositions. Not only have we applied to establish a virtual challenger bank in Hong Kong, we, together with Alibaba's Ant Financial, have launched two real-time, cross-border, blockchain-based payment services for the Hong Kong-Philippines and Malaysia-Pakistan remittance corridors, with plans to do more. As we advance our digital capabilities, we remain committed to increasing our investments in our cyber resilience and security. We believe that easy and immediate access to banking and wealth advisory services, enabled by mobile connectivity, will drive wealth and prosperity in even the most remote corners of our emerging markets – we have an important role to play.

Trade and investment

As a global bank with deep local expertise in Asia, Africa and the Middle East, we strongly believe in the powerful benefits of globalisation. For over 160 years, we have facilitated trade and investment in and across our markets, contributing to the rapid economic development of countries from China to Nigeria, from Singapore to the UAE.

While the benefits of globalisation have not been equally distributed, as evidenced by the rising populism in many countries, it cannot be disputed that global investment and trade have lifted more than a billion people out of extreme poverty. Supporting these global capital flows is at the heart of our business; not only is it one of our differentiated customer propositions, but it also enables us to play a key role in tackling inequality.

Our refreshed strategic priorities include reinforcing our efforts to support China's opening and Africa's development. As one of the largest international banks in China, and the only global bank present in scale across Africa, we are ideally positioned to help facilitate cross-border trade and investment into and out of both regions.

Beyond China and Africa, our presence in 60 markets, including 45 along the Belt & Road Initiative routes, as well as our wider network, which serves clients in a further 85 markets, is proving highly attractive to our clients. Large multinational corporates and institutions are signing up in increasing numbers because we can help them manage their own businesses efficiently and safely across multiple borders. In a report conducted by East & Partners in 2018, we ranked first for customer satisfaction in trade finance across Asia. About two-thirds of the income generated by our Corporate & Institutional Banking business is now from clients that are using the network, a significant increase compared with 2015 when the Group was more focused on capital-intensive lending to support the in-country needs of clients.

Our client income is now more diversified, less capital-intensive, stickier and higher-returning. But there are still some key markets where we have not yet fulfilled our potential. We are targeting higher-returning income and efficiencies in India, Korea, the UAE and Indonesia. Realising the opportunities those markets present will significantly enhance the Group's financial performance and returns.

As one of the leading trade banks in the world, we are investing and innovating in the way global trade finance operates to improve our customers' experiences. In addition to working with blockchain platforms like Ripple for real-time cross-border currency settlement and supply chain financing, we are collaborating with Siemens Financial Services and TradelX to create the industry's first blockchain-based smart guarantees, digitising the end-to-end process in trade finance.

Sustainable banking

Since its launch in 2010, our brand promise, Here for good, has been deeply embedded into the fabric of our organisation. At its core is the promise that we will be a force for good, helping clients navigate complex threats and manage their finances consistent with their own sustainability goals.

Our unique diversity helps us to be a force for good. In addition to being included in the Bloomberg Gender Equality Index for the fourth consecutive year, the Group has been recognised by Equileap last year as a top performing UK company for gender equality, ranking third in the UK and 26th globally – a significant improvement from 42nd in 2017. However, we still have room to improve. Although we have virtually no gender pay gaps in our major markets when adjusted for level and business area, we continue to have an overall gender pay gap in the UK and other major markets, reflecting the fact that we have fewer females than males in senior roles and in businesses where the market rates of pay are highest. You may read more in our 2018 Gender Pay Gap disclosure in the Annual Report. It will take some time and hard work, but we will not settle until the gap is fully closed.

It remains our commitment to be a leader in the fight against financial and cyber crime while partnering with others to do so. We continue to invest heavily in improving standards across our markets and with our clients. In addition to our highly successful correspondent banking and new NGO academies, we – along with a group of global banks – established a joint initiative to build a digital Trade Information Network, which will enable better assessment of risks, particularly around double financing and fraudulent trade information.

We are remediating the Group's historical conduct issues and have made substantial progress in resolving past financial crime control issues. The New York State Department of Financial Services has acknowledged the Group's progress in remediating and improving its financial crime controls to the point that a monitor is no longer necessary and has been replaced by an independent consultant.

We have received a decision notice from the Financial Conduct Authority (FCA) concerning the Group's historical financial crime controls and we continue our discussions relating to the potential resolution of the investigation by the US authorities relating to historical violations of US sanctions, the vast majority of which pre-date 2012. As announced on 20 February 2019, we have made a provision for potential penalties relating to the US investigation, the FCA decision and previously disclosed foreign exchange trading issues. Further details are set out in the notes to the financial statements in the Annual Report.

It is our responsibility to do everything in our power to make the world cleaner and our communities more sustainable. In addition to launching the world's first sovereign blue bond designed to support sustainable marine and fisheries projects for the Republic of Seychelles, we refreshed and consolidated our Position Statements and announced our decision not to finance any new coal-fired power plants. We are developing ways to measure and reduce our aggregate carbon footprint, including those related to our financing activities, and will be working with our clients and other stakeholders to drive this commitment around the world. We are also working with a range of partners to increase the industry's understanding of its role in stopping the illegal wildlife trade. We continue to invest in our communities to promote sustainable economic and social development. As José mentioned in his statement, we began to shift our focus in 2018 to delivering community programmes that promote economic inclusion and address the challenge of inequality in our markets.

From turnaround to transformation

Our refreshed strategic priorities build on our purpose and earlier areas of focus, but mark a change in the way we operate as we go from turnaround to transformation. We are determined to build a culture of excellence, grow sustainably, and build long-term returns. We are doubling-down on what we have done well, focusing on how we build partnerships with others to deliver better outcomes, and refining our approach to low-returning areas where we can and must do better. We will:

- Embed a performance-orientated and innovative culture, which emphasises conduct and sustainability
- Invest to further accelerate growth in our higher returning international network and affluent client businesses, supporting China's opening and Africa's development
- Eliminate the drag on our returns from several low-returning markets, including India, Korea, the UAE and Indonesia, through cost and capital actions, investments in our affluent client franchise and potentially disruptive partnerships

Standard Chartered PLC - Group Chief Executive's review

- Streamline our own operations to ensure we delight our clients, and drive productivity
- Invest in digital initiatives to transform our business – augmenting strong positions in more mature markets and disrupting elsewhere, and collaborating with best-in-class partners to quickly roll-out top-class products and services
- Rapidly expand sustainable financing to drive a positive social, environmental and economic impact

By doing so, we expect to grow income between five and seven per cent, which is well above the anticipated rate of growth for the global economy, maintain strong discipline on costs to generate significant operating leverage and improve our funding and capital efficiency, producing surplus capital which can be reinvested or returned to shareholders. It is this combination that we expect will deliver a RoTE above 10 per cent by 2021.

Outlook

We remain cautiously optimistic on the global macroeconomic environment, but the range of possible outcomes from an array of matters is wider than it has been in a long time. This creates uncertainty among policymakers as well as our clients. We believe that as multinational companies grapple with the possibility that barriers to trade could rise and supply chains may be impacted, they will find it even more important to deal with banks like ours that have the sophistication, market presence and determination to help them navigate an increasingly complex world.

Undoubtedly there will be shocks and bumps along the way, but as we are far more resilient now, we will be ready to absorb them when – not if – they come our way, and will seek to take advantage of disruptions if they occur.

Conclusion

My colleagues and I have great pride in the Group and that for which it stands. Adding a sharper performance edge to that is essential. In all the markets that I have visited this year I have delivered one consistent message to our teams: our business can only thrive if our customers feel that we are helping them in extraordinary ways. We are delivering on that commitment.

I am proud of our achievements in 2018 and excited for what we have in store for 2019 and beyond. There are always external factors which are beyond our control, but they will not be accepted as excuses. We have what it takes to perform excellently, and we will plough through obstacles we find in our way to deliver – responsibly and innovatively – the bank we know we can be.

Bill Winters
Group Chief Executive

26 February 2019

Group Chief Financial Officer's review

Significant improvement on a fundamentally more resilient platform

Performance summary

The Group grew income in 2018 at a faster rate than costs while maintaining discipline over the quality of new asset origination. Together with lower risk-weighted assets, this has resulted in another significant improvement in returns on a fundamentally more resilient platform.

All commentary that follows is on an underlying basis unless otherwise stated and a reconciliation to statutory is provided in the notes to the financial statements in the Annual Report. Comparisons are made to the full-year 2017 unless otherwise stated.

- Profit before tax of \$3.9 billion was 28 per cent higher. Statutory profit before tax, which is stated after regulatory provisions and restructuring and other items of \$1.3 billion, rose 6 per cent
- Operating income of \$15.0 billion grew 5 per cent. A strong performance in Transaction Banking, good growth in Retail Products and slightly lower growth in Wealth Management and Financial Markets more than offset lower income in Corporate Finance
- The Group's net interest margin increased to 1.58 per cent and remained stable in the fourth quarter
- Operating expenses excluding the UK bank levy of \$10.1 billion were up 2 per cent. Continued discipline on costs has enabled significant investment into improving the business with a greater proportion targeted at technology-enabled productivity improvements
- Credit impairment of \$740 million was lower by 38 per cent reflecting the focus on higher-quality origination within tightened risk tolerances
- Other impairment of \$148 million related primarily to transport leasing assets. The Group has taken the decision to discontinue its ship leasing business and future profit and losses associated with the related portfolio will be reported as restructuring
- Profit from associates and joint ventures of \$241 million was 15 per cent higher following a return to profitability of the Group's joint venture in Indonesia
- The Group has made a \$900 million provision in respect of legacy financial crime control matters and FX trading issues
- Restructuring and other items of \$409 million relate primarily to Principal Finance and included charges in the fourth quarter of \$158 million, following the announced sale of the majority of the Group's related investment portfolios, and \$169 million related to the refreshed priorities announced today
- The underlying effective tax rate excluding the impact of tax on regulatory provisions, restructuring and other items was 34.6 per cent compared to 32.0 per cent in 2017
- The Group's Common Equity Tier 1 (CET1) ratio increased 60 basis points to 14.2 per cent, just above the Group's updated target range of 13-14 per cent
- The Group's return on equity improved 110 basis points to 4.6 per cent and return on tangible equity improved 120 basis points to 5.1 per cent
- The improved performance and strong capital position underpins the Board's decision to recommend a final dividend of 15 cents per ordinary share, a 36 per cent increase. This takes the full-year 2018 ordinary dividend to 21 cents per share

Standard Chartered PLC - Group Chief Financial Officer's review

	31.12.18 \$million	31.12.17 \$million	Better/(worse) %
Net interest income	8,840	8,216	8
Other income	6,128	6,073	1
Operating income	14,968	14,289	5
Operating expenses excluding the UK bank levy	(10,140)	(9,900)	(2)
UK bank levy	(324)	(220)	(47)
Operating expenses	(10,464)	(10,120)	(3)
Operating profit before impairment and taxation	4,504	4,169	8
Credit impairment	(740)	(1,200)	38
Other impairment	(148)	(169)	12
Profit from associates and joint ventures	241	210	15
Underlying profit before taxation	3,857	3,010	28
Provision for regulatory matters	(900)	–	nm
Restructuring and other items	(409)	(595)	31
Statutory profit before taxation	2,548	2,415	6
Taxation	(1,439)	(1,147)	(25)
Profit for the year	1,109	1,268	(13)
Net interest margin (%)	1.58	1.55	
Underlying return on equity (%)	4.6	3.5	
Underlying return on tangible equity (%)	5.1	3.9	
Statutory return on equity (%)	1.4	1.7	
Statutory return on tangible equity (%)	1.6	2.0	
Underlying earnings per share (cents)	61.4	47.2	
Earnings per share (cents)	18.7	23.5	
Dividend per share (cents)	21.0	11.0	
Common Equity Tier 1 (%)	14.2	13.6	

Income

Operating income growth of 5 per cent was in line with the Group's medium-term target range with all client segments and all regions contributing positively, with the exception of the Africa & Middle East region that was impacted by challenging economic conditions generally and local currency devaluation.

Net interest income grew 8 per cent with sustained momentum in Cash Management and Deposits more than offsetting the impact of asset margin compression. Wealth Management income grew 3 per cent but weaker investor sentiment in the fourth quarter resulted in 14 per cent lower income compared to the same period in 2017.

- Corporate & Institutional Banking income was 6 per cent higher after a resilient fourth quarter performance, including in Financial Markets. The focus on high-quality operating accounts and the benefit of rising global interest rates resulted in a 22 per cent increase in income from Cash Management and Custody that more than offset the impact of asset margin compression in Corporate Finance and Trade Finance
- Retail Banking income was up 4 per cent driven by 8 per cent growth in Greater China & North Asia and 4 per cent growth in ASEAN & South Asia, that together offset lower income in Africa & Middle East. Although income was slightly lower in the fourth quarter the business continues to increase the proportion of income it generates from serving affluent and emerging affluent clients
- Commercial Banking income was up 4 per cent. Income in Greater China & North Asia and ASEAN & South Asia grew 11 per cent and 4 per cent respectively. Together this offset 6 per cent lower income from Africa & Middle East
- Private Banking attracted \$0.7 billion net new money and income was 3 per cent higher with growth across all products
- Income in Central & other items (segment) was 3 per cent higher as Treasury income benefited from rises in global interest rates
- Income from Greater China & North Asia increased 10 per cent with broad-based improvement across all markets and client segments, particularly in Hong Kong and China
- Income from ASEAN & South Asia was 4 per cent higher with growth in most markets, particularly in Singapore where income was up 9 per cent. Excluding one-off Treasury gains from the prior period, income in India was broadly stable
- Income from Africa & Middle East was 6 per cent lower and 3 per cent lower on a constant currency basis as macroeconomic conditions in the region remained challenging

Standard Chartered PLC - Group Chief Financial Officer's review

- Europe & Americas income grew 4 per cent with 10 per cent higher income in the UK, where a greater proportion is derived from corporate clients, more than offsetting 1 per cent lower income in the US

Expenses

Operating expenses excluding the UK bank levy were slightly lower half-on-half and up 2 per cent year-on-year, generating 3 per cent positive income-to-cost operating leverage (jaws). Increases were driven by new investments in people and technology as well as the amortisation of investments made in prior years. The Group will continue to maintain tight control of costs to enable cash investment at a similar elevated rate with a growing proportion into technology-enabled initiatives to deliver improvements in productivity. As a result, it is expected that expenses between 2019 and 2021 will continue to grow below the rate of inflation with a target to deliver significantly positive jaws.

Impairment

Credit impairment of \$740 million was 38 per cent lower, driven by a significant reduction in impairment in Corporate & Institutional Banking that reflects the continued focus on high-quality new origination. This was partially offset by an increase in Commercial Banking, primarily due to a small number of exposures in the Middle East.

Other impairment of \$148 million related primarily to transport leasing assets.

Profit from associates and joint ventures

Profit from associates and joint ventures of \$241 million reflected a return to underlying profitability of the Group's joint venture in Indonesia.

Overall

As a result, profit before tax of \$3.9 billion was 28 per cent higher and statutory profit before tax of \$2.5 billion, which is stated after regulatory provisions, restructuring and other items, was 6 per cent higher.

	31.12.18 \$million	31.12.17 \$million	Better/(worse) %		31.12.18 \$million	31.12.17 \$million	Better/(worse) %
Corporate & Institutional Banking	2,072	1,261	64	Greater China & North Asia	2,369	1,942	22
Retail Banking	1,033	873	18	ASEAN & South Asia	970	492	97
Commercial Banking	224	282	(21)	Africa & Middle East	532	642	(17)
Private Banking	(14)	(1)	nm	Europe & Americas	154	71	nm
Central & other items	542	595	(9)	Central & other items	(168)	(137)	(23)
Underlying profit before tax	3,857	3,010	28	Underlying profit before tax	3,857	3,010	28

Net interest margin

The Group's net interest margin is calculated on a statutory basis. Statutory net interest income grew 7 per cent to \$8.8 billion and the Group's net interest margin increased 3 basis points to 1.58 per cent. Rises in global interest rates have benefited asset yields and interest-earning assets have grown faster than interest-bearing liabilities. Together this offset an increase in the rate paid on liabilities particularly in markets like India and China where the Group has a higher proportion of more rate-sensitive customer deposits.

As interest rates rose there was a greater propensity among some clients to switch to higher rate time deposits that, coupled with competitive pressures on asset yields, resulted in net interest income growing more slowly in the second half. This switching however was not evident in the fourth quarter.

The Group maintains a large proportion of less rate-sensitive current accounts and savings deposits that since 2017 have increased 139 basis points to 32 per cent of total average liabilities. The Group is executing a number of operational initiatives and planned legal entity changes to further improve the mix of liabilities and expects to continue to benefit from rises in global interest rates as monetary policy normalises, albeit at a reducing rate as the rate-hike cycle matures.

	31.12.18 \$million	31.12.17 \$million
Statutory net interest income	8,793	8,181
Average interest-earning assets	558,135	527,691
Average interest-bearing liabilities	484,068	475,432
Gross yield (%)	3.09	2.74
Rate paid (%)	1.75	1.32
Net yield (%)	1.34	1.42
Net interest margin (%) ¹	1.58	1.55

1 Statutory net interest income divided by average interest-earning assets

Credit quality

Continued focus on high-quality origination within a more granular risk appetite has enabled sustained improvements in credit quality in 2018 and resulted in a balance sheet that is significantly more resilient. This is evidenced by the increase in exposure to investment grade clients from 57 per cent to 62 per cent.

The Group remains alert to broader geopolitical uncertainties and performs regular reviews and stress tests to identify early signs of emerging risks.

IFRS 9 became effective from 1 January 2018 and the Group has not restated comparative information. Accordingly, comparisons are made to balances as at 1 January 2018. This primarily impacts credit impairment, which is determined using an expected credit loss approach under IFRS 9 compared with an incurred loss approach under IAS 39.

Ongoing business

Gross credit-impaired (stage 3) loans in the ongoing business of \$5.6 billion were \$894 million lower. A lower level of new inflows, particularly in Corporate & Institutional Banking, as well as debt sales, write-offs and repayments more than offset higher inflows of Commercial Banking exposures that had been on early alert for some time. The cover ratio of stage 3 loans in the ongoing business remained stable both before and after collateral, credit grade 12 accounts were broadly unchanged at \$1.4 billion and early alerts were down \$3.9 billion or 45 per cent.

Liquidation portfolio

Gross loans and advances in the liquidation portfolio were lower by \$887 million reflecting further significant progress made exiting these exposures since 2015. The remaining \$1.4 billion gross loans and advances are 93 per cent covered after collateral. Recognising that the Group has substantially completed the run-down of this portfolio it will be reported in underlying performance in 2019.

	31.12.18 \$million			01.01.18 \$million		
	Ongoing business	Liquidation portfolio	Total	Ongoing business	Liquidation portfolio	Total
Gross loans and advances to customers ¹	260,094	1,361	261,455	255,589	2,248	257,837
Of which stage 1 and 2	254,445	86	254,531	249,046	22	249,068
Of which stage 3	5,649	1,275	6,924	6,543	2,226	8,769
Expected credit loss provisions	(3,932)	(966)	(4,898)	(4,704)	(1,626)	(6,330)
Of which stage 1 and 2	(838)	(4)	(842)	(1,048)	–	(1,048)
Of which stage 3	(3,094)	(962)	(4,056)	(3,656)	(1,626)	(5,282)
Net loans and advances to customers	256,162	395	256,557	250,885	622	251,507
Of which stage 1 and 2	253,607	82	253,689	247,998	22	248,020
Of which stage 3	2,555	313	2,868	2,887	600	3,487
Cover ratio of stage 3 before collateral (%)	55	75	59	56	73	60
Cover ratio of stage 3 after collateral (%)	78	93	81	78	88	81
Credit grade 12 accounts (\$million)	1,437	86	1,523	1,483	22	1,505
Early alerts (\$million)	4,767	–	4,767	8,668	–	8,668
Investment grade corporate exposures (%)	62	–	62	57	–	57

¹ Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$3,151 million at 31.12.18 and \$4,566 million at 01.01.18

Restructuring and other items

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.

The Group has made a provision of \$900 million for potential penalties relating to previously disclosed matters, namely, the US investigation into historical violation of sanctions laws and regulations, the decision notice from the Financial Conduct Authority concerning the Group's historical financial crime controls, and investigations related to foreign exchange trading issues. Further details of these and other legal and regulatory matters can be found in the notes to the financial statements in the Annual Report.

Standard Chartered PLC - Group Chief Financial Officer's review

Restructuring charges of \$478 million related primarily to Principal Finance and included a \$158 million charge following the announced agreement to sell the majority of the business's related investment portfolio. The total restructuring charge arising from the Group's planned actions announced in 2015 totalled \$3.4 billion.

As well as the fourth quarter restructuring charge related to Principal Finance the Group has as a result of the refreshed strategic priorities announced today incurred a \$124 million expense to reduce ongoing costs and \$34 million other impairment related to the decision to discontinue the ship leasing business. The Group expects to incur a further \$500 million of restructuring charges over the next three years in order to execute the refreshed priorities.

Following the Group's decision that its joint venture investment in PT Bank Permata Tbk is no longer core, profits related to it will in 2019 be reported in restructuring.

	31.12.18 \$million			31.12.17 \$million	
	Provision for regulatory matters	Restructuring	Other items	Restructuring	Other items
Operating income	–	(248)	69	58	78
Operating expenses	(900)	(283)	–	(297)	–
Credit impairment	–	87	–	(162)	–
Other impairment	–	(34)	–	(10)	(320)
Profit from associates and joint ventures	–	–	–	58	–
Profit/(loss) before taxation	(900)	(478)	69	(353)	(242)

Balance sheet and liquidity

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

Loans and advances to customers were up 2 per cent to \$257 billion with broad-based growth across a range of products.

Customer accounts were up 6 per cent as the Group continued to focus on improving the quality and mix of its liabilities.

The advances-to-deposits ratio decreased slightly to 65 per cent.

As a result of classification and measurement of financial assets under IFRS 9, \$45 billion of reverse repurchase agreement assets and \$38 billion of repurchase agreement liabilities were on 1 January 2018 reclassified as financial assets held at fair value through profit or loss. Further details are provided in the notes to the financial statements in the Annual Report.

	IFRS 9 31.12.18 \$million	IFRS 9 01.01.18 \$million	IAS 39 31.12.17 \$million	31.12.18 vs 01.01.18 Increase/ (decrease) %	31.12.18 vs 31.12.17 Increase/ (decrease) %
Assets					
Loans and advances to banks ¹	61,414	62,295	78,188	(1)	(21)
Loans and advances to customers ¹	256,557	251,507	282,288	2	(9)
Other assets	370,791	348,963	303,025	6	22
Total assets	688,762	662,765	663,501	4	4
Liabilities					
Deposits by banks	29,715	30,945	30,945	(4)	(4)
Customer accounts	391,013	370,509	370,509	6	6
Other liabilities	217,682	210,365	210,240	3	4
Total liabilities	638,410	611,819	611,694	4	4
Equity	50,352	50,946	51,807	(1)	(3)
Total equity and liabilities	688,762	662,765	663,501	4	4
 Advances-to-deposits ratio ²	 65%		67%		
Liquidity coverage ratio	154%		146%		

1 Includes reverse repurchase agreements and other similar secured lending balances held at amortised cost

2 Excludes reverse repurchase and repurchase agreements and other similar secured lending and borrowing balances

Risk-weighted assets by business and type

Since 31 December 2017, total risk-weighted assets (RWA) reduced by 8 per cent or \$21.5 billion. On a constant currency basis RWAs were 5 per cent or \$15.6 billion lower.

Credit Risk RWA was \$15.1 billion lower or \$9.4 billion on a constant currency basis with decreases primarily in Corporate & Institutional Banking due to net positive credit migration and ongoing RWA efficiency actions.

Market Risk RWA decreased by \$3.9 billion due primarily to reduced trading book debt security holdings and changes to models.

Operational Risk RWA was \$2.4 billion lower due to a decrease in the average income over a rolling three-year time horizon, as lower 2017 income replaced higher 2014 income.

	31.12.18 \$million	31.12.17 \$million	Increase/(decrease) \$million	Increase/(decrease) %
By client segment				
Corporate & Institutional Banking	128,991	147,102	(18,111)	(12)
Retail Banking	42,903	44,106	(1,203)	(3)
Commercial Banking	30,481	33,068	(2,587)	(8)
Private Banking	5,861	5,943	(82)	(1)
Central & other items	50,061	49,529	532	1
Total risk-weighted assets	258,297	279,748	(21,451)	(8)
By risk type				
Credit Risk	211,138	226,230	(15,092)	(7)
Operational Risk	28,050	30,478	(2,428)	(8)
Market Risk	19,109	23,040	(3,931)	(17)

Capital base and ratios

The Group's capital and liquidity positions are strong with all metrics remaining above regulatory thresholds. The CET1 ratio of 14.2 per cent was 60 basis points higher, notwithstanding a significant regulatory provision, driven by lower RWA.

The Group invited holders of a number of GBP-denominated subordinated and senior securities to tender their notes for repurchase by the Group. As a result of this liability management exercise and other movements, Tier 2 capital was lower by \$1.6 billion.

The Board has recommended a 36 per cent higher final ordinary dividend of 15 cents per share that, together with the interim dividend of 6 cents per ordinary share, would result in a full-year dividend of \$694 million compared with \$363 million in 2017 when no interim dividend was paid.

	IFRS 9 31.12.18 \$million	IAS 39 31.12.17 \$million
Common Equity Tier 1 capital	36,717	38,162
Additional Tier 1 capital instruments	6,684	6,699
Tier 1 capital	43,401	44,861
Tier 2 capital	12,295	13,897
Total capital	55,696	58,758
Common Equity Tier 1 capital ratio end point (%)	14.2	13.6
Total capital ratio transitional (%)	21.6	21.0
UK leverage ratio (%)	5.6	6.0

Summary and outlook

We have made good progress turning around the Group's financial performance with profits having increased significantly every year since 2015. We are delivering returns that are now much closer to the targets we set out in 2015 and we have clearly defined the actions required to get us above a 10 per cent return on tangible equity by 2021.

We have made a solid start to the year, although income is down slightly compared to the equivalent period in 2018 due to strengthening of the US dollar and buoyant conditions last year in Wealth Management and Financial Markets in particular. While sentiment remains more cautious in the near-term, robust fundamentals across our markets mean we remain optimistic about growth in the medium term.

This franchise is capable of much more. The refreshed strategic priorities we have laid out today will reinforce our positions of strength and differentiation that are driving profitable growth while also addressing underperforming businesses and improving structural efficiency. We are investing significantly more than we were in 2015 and an increased proportion is targeted at technology-enabled productivity improvements. Our balance sheet is fundamentally more resilient and the conduct and culture across the Group has improved markedly.

We know what our clients want from us, and what we need to do to become simpler, faster and more sustainably profitable.

Our actions will improve the client experience and create a differentiated proposition for all our stakeholders. We are confident that we can generate significant returns for shareholders, including a return on tangible equity in excess of 10 per cent by 2021.

Andy Halford
Group Chief Financial Officer

26 February 2019

Underlying performance by client segment

The following tables provide a breakdown of the Group's underlying operating income by product and client segment.

	31.12.18					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	2,887	20	811	—	—	3,718
Trade	729	20	374	—	—	1,123
Cash Management and Custody	2,158	—	437	—	—	2,595
Financial Markets	2,328	—	284	—	—	2,612
Foreign Exchange	829	—	172	—	—	1,001
Rates ¹	527	—	28	—	—	555
Commodities	168	—	24	—	—	192
Credit and Capital Markets ¹	312	—	12	—	—	324
Capital Structuring Distribution Group	285	—	24	—	—	309
Other Financial Markets	207	—	24	—	—	231
Corporate Finance	1,325	—	98	—	—	1,423
Lending and Portfolio Management	315	—	203	—	—	518
Wealth Management	—	1,491	3	305	—	1,799
Retail Products	—	3,535	4	211	—	3,750
CCPL and other unsecured lending	—	1,310	—	—	—	1,310
Deposits	—	1,603	4	175	—	1,782
Mortgage and Auto	—	537	—	36	—	573
Other Retail Products	—	85	—	—	—	85
Treasury	—	—	—	—	1,223	1,223
Other ²	5	(5)	(12)	—	(63)	(75)
Total underlying operating income	6,860	5,041	1,391	516	1,160	14,968

1 Following a reorganisation of certain product teams within Financial Markets, \$46 million of income that was in H1 2018 reported within Credit and Capital Markets has been transferred to Rates during Q3 2018. Prior periods have not been restated.

2 Others includes group special asset management from 2018 onwards. Prior periods have not been restated

	31.12.17					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Transaction Banking	2,564	18	747	—	—	3,329
Trade	793	18	386	—	—	1,197
Cash Management and Custody	1,771	—	361	—	—	2,132
Financial Markets	2,266	—	278	—	—	2,544
Foreign Exchange	779	—	164	—	—	943
Rates	503	—	32	—	—	535
Commodities	136	—	21	—	—	157
Credit and Capital Markets	365	—	11	—	—	376
Capital Structuring Distribution Group	254	—	25	—	—	279
Other Financial Markets	229	—	25	—	—	254
Corporate Finance	1,390	—	86	—	—	1,476
Lending and Portfolio Management	284	—	212	—	—	496
Wealth Management	—	1,438	4	299	—	1,741
Retail Products	—	3,376	6	201	—	3,583
CCPL and other unsecured lending	—	1,366	1	—	—	1,367
Deposits	—	1,245	6	168	—	1,419
Mortgage and Auto	—	692	—	32	—	724
Other Retail Products	—	73	(1)	1	—	73
Treasury	—	—	—	—	1,143	1,143
Other	(8)	2	—	—	(17)	(23)
Total underlying operating income	6,496	4,834	1,333	500	1,126	14,289

Standard Chartered PLC - Client segment reviews

	31.12.18					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Operating income	6,860	5,041	1,391	516	1,160	14,968
Operating expenses	(4,396)	(3,736)	(923)	(530)	(879)	(10,464)
Operating profit/(loss) before impairment losses and taxation	2,464	1,305	468	(14)	281	4,504
Credit impairment	(242)	(267)	(244)	—	13	(740)
Other impairment	(150)	(5)	—	—	7	(148)
Profit from associates and joint ventures	—	—	—	—	241	241
Underlying profit/(loss) before taxation	2,072	1,033	224	(14)	542	3,857
Provision for regulatory matters	(50)	—	—	—	(850)	(900)
Restructuring	(350)	(68)	(12)	(24)	(24)	(478)
Gains arising on repurchase of senior and subordinated liabilities	3	—	—	—	66	69
Statutory profit/(loss) before taxation	1,675	965	212	(38)	(266)	2,548
Total assets	308,496	103,780	31,379	13,673	231,434	688,762
Of which: loans and advances to customers including FVTPL	146,575	101,635	27,271	13,616	10,274	299,371
loans and advances to customers	104,677	101,235	26,759	13,616	10,270	256,557
loans held at fair value through profit or loss	41,898	400	512	—	4	42,814
Total liabilities	369,316	140,328	37,260	19,733	71,773	638,410
Of which: customer accounts	243,019	136,691	34,860	19,622	2,989	437,181
Risk-weighted assets (unaudited)	128,991	42,903	30,481	5,861	50,061	258,297
Underlying return on risk-weighted assets (unaudited)	1.61%	2.41%	0.73%	(0.24)%	1.08%	1.49%

	31.12.17					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
Operating income	6,496	4,834	1,333	500	1,126	14,289
Operating expenses	(4,409)	(3,585)	(881)	(500)	(745)	(10,120)
Operating profit before impairment losses and taxation	2,087	1,249	452	—	381	4,169
Credit impairment	(658)	(375)	(167)	(1)	1	(1,200)
Other impairment	(168)	(1)	(3)	—	3	(169)
Profit from associates and joint ventures	—	—	—	—	210	210
Underlying profit/(loss) before taxation	1,261	873	282	(1)	595	3,010
Restructuring	(275)	(19)	(13)	(15)	(31)	(353)
Net gains on businesses disposed/ held for sale	—	—	—	—	78	78
Goodwill impairment	—	—	—	—	(320)	(320)
Statutory profit/(loss) before taxation	986	854	269	(16)	322	2,415
Total assets	293,334	105,178	31,650	13,469	219,870	663,501
Of which: loans and advances to customers	131,738	103,013	28,108	13,351	9,343	285,553
Total liabilities	353,582	132,819	36,385	22,203	66,705	611,694
Of which: customer accounts	222,714	129,536	33,880	22,222	3,372	411,724
Risk-weighted assets (unaudited)	147,102	44,106	33,068	5,943	49,529	279,748
Underlying return on risk-weighted assets (unaudited)	0.9%	2.0%	0.9%	0.0%	1.2%	1.1%

Corporate & Institutional Banking

Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets, providing solutions to over 5,000 clients in some of the world's fastest-growing economies and most active trade corridors.

Our clients include large corporations, governments, banks and investors operating or investing in Asia, Africa and the Middle East. Our strong and deep local presence across these markets enables us to connect our clients multi laterally to investors, suppliers, buyers and sellers and enable them to move capital, manage risk, invest to create wealth, and provide them with bespoke financing solutions.

We collaborate increasingly with other segments, introducing Commercial Banking services to our clients' ecosystem partners – their networks of buyers, suppliers, customers and service providers – and offering our clients' employees banking services through Retail Banking.

Finally, we are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities and environment.

Strategic priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice and data-driven analytical insights, and strengthening our leadership in flow business
- Generate high-quality returns by driving balance sheet velocity, improving funding quality and maintaining risk controls
- Partner with clients and strategically selected third parties to expand capabilities and to address emerging client needs while driving innovation and efficiency

Progress

- Completed on-boarding of over 100 new OECD clients, and continued to deepen relationships with existing clients
- More closely aligned the Corporate & Institutional Banking and Commercial Banking segments, generating synergies across deal origination and capital allocation
- Our momentum in developing and connecting our clients ecosystems continues with over 81 buyers¹ (2017: 43) and 2,625 suppliers¹ (2017: 2,099) on-boarded
- Improved balance sheet quality, with investment-grade clients now representing 63 per cent of customer loans and advances (2017: 57 per cent) and high-quality operating account balances improving to 49 per cent of Transaction Banking customer balances (2017: 48 per cent)
- Co-founded the Trade Information Network which aims to be the first inclusive global multi-bank, multi-corporate network in trade finance. The network will provide clients and participants with a standardised platform driving improved financing optionality, pricing transparency and efficiency

Performance highlights

- Underlying profit before taxation of \$2,072 million was up 64 per cent year-on-year primarily driven by higher income and lower credit impairment
- Underlying income of \$6,860 million was up 6 per cent year-on-year primarily driven by Cash Management and Financial Markets income which partially offset margin compression in Corporate Finance and Trade Finance. Good balance sheet momentum with loans and advances to customers up 11 per cent year-on-year
- RoE improved from 3.9 to 6.8 per cent and RoTE improved from 4.4 to 7.4 per cent

¹Buyers: CIB clients/Suppliers: CIB clients' network of buyers/suppliers, end-customers and service providers

Retail Banking

Segment overview

Retail Banking serves over nine million individuals and small businesses, with a focus on affluent and emerging affluent in many of the world's fastest-growing cities. We provide digital banking services with a human touch to our clients with services spanning across deposits, payments, financing products and wealth management, as well as supporting their business banking needs.

Retail Banking generates approximately one-third of the Group's operating income and one-quarter of its operating profit. We are closely integrated with the Group's other client segments; for example, offering employee banking services to Corporate & Institutional Banking clients, and Retail Banking provides a high-quality liquidity source for the Group.

Increasing levels of wealth across Asia, Africa and the Middle East support our opportunity to grow the business sustainably. We aim to improve productivity and client experience through driving digitisation, cost efficiencies and simplifying processes.

Strategic priorities

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

Progress

- Increased the share of income from Priority clients from 45 per cent in 2017 to 47 per cent as a result of strong Wealth Management and Deposit income growth and increasing client numbers
- Launched the first digital-only bank in Côte d'Ivoire with a plan to roll out across other markets in the Africa & Middle East region and develop stand-alone digital banking propositions in key markets in Asia
- Launched real time on-boarding in India, enabling straight-through current and savings account opening and more efficient Credit Cards and Personal Loan applications with significantly improved customer experience
- Launched Premium Banking in eight markets
- A further improvement in digital adoption, with 49 per cent of clients now actively using online or mobile banking compared to 45 per cent in 2017

Performance highlights

- Underlying profit before taxation of \$1,033 million was up 18 per cent year-on-year as income growth and lower credit impairment more than offset increased expenses
- Underlying income of \$5,041 million was up 4 per cent year-on-year with growth of 8 per cent in Greater China & North Asia, and 4 per cent in ASEAN & South Asia, partially offsetting a 6 per cent decline in Africa & Middle East
- Strong income momentum from Deposits with improved margins and balance growth together with growth in Wealth Management, particularly in the first half of the year. Together, Deposits and Wealth Management income, representing 61 per cent of Retail Banking income, grew 15 per cent year on year
- RoE improved from 9.2 to 10.8 per cent and RoTE improved from 10.3 to 11.8 per cent

Commercial Banking

Segment overview

Commercial Banking serves over 45,000 local corporations and medium-sized enterprises in 26 markets across Asia, Africa and the Middle East. We aim to be our clients' main international bank, providing a full range of international financial solutions in areas such as Trade Finance, Cash Management, Financial Markets and Corporate Finance.

Through our close linkages with Retail Banking and Private Banking, our clients can access additional services they value including employee banking services and personal wealth solutions. We also collaborate with Corporate & Institutional Banking to service their clients' end-to-end supply chains.

Our clients represent a large and important portion of the economies we serve and are potential future multinational corporates. Commercial Banking is at the heart of the Group's purpose to drive commerce and prosperity through our unique diversity.

Strategic priorities

- Drive quality sustainable growth by deepening relationships with existing clients and on-boarding new clients, focusing on rapidly growing and internationalising companies
- Improve balance sheet and income mix, accelerating cash and FX growth
- Continue to enhance capital allocation discipline and credit risk management
- Improve client experience, leveraging technology and investing in frontline training, tools and analytics

Progress

- On-boarded over 6,400 new clients in 2018, of which 19 per cent came from our clients' international and domestic networks of buyers and suppliers
- Increased share of income from cash and FX products to 44 per cent (up from 39 per cent in 2017)
- Strengthened foundations in credit risk management and improved asset quality, with RWA¹ efficiency improving from 78 per cent in 2017 to 74 per cent in 2018. However, gross credit impairments remain elevated, partially offset by recoveries
- Increased Straight2Bank utilisation by Commercial Banking active clients from 52 per cent in 2017 to 58 per cent in 2018
- Rolled out new digital platform to empower frontline staff with client analytics and data-driven insights into our clients' needs

Performance highlights

- Underlying profit before taxation of \$224 million was down 21 per cent year-on-year due to higher credit impairments in Africa & Middle East
- Underlying income of \$1,391 million was up 4 per cent year-on-year mainly driven by growth from Cash. Income was up 11 per cent in Greater China & North Asia and up 4 per cent in ASEAN & South Asia, partially offsetting a 6 per cent decline in Africa & Middle East
- RoE declined from 3.9 to 3.1 per cent and RoTE declined from 4.4 to 3.4 per cent

Private Banking

Segment overview

Private Banking offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high-net-worth individuals across our footprint.

Our investment advisory capabilities and product platform are independent from research houses and product providers, allowing us to put client interests at the centre of our business. This is coupled with an extensive network across Asia, Africa and the Middle East which provides clients with relevant market insights and cross-border investment and financing opportunities.

As part of our universal banking proposition, clients can also leverage our global Commercial Banking and Corporate & Institutional Banking capabilities to support their business needs. Private Banking services can be accessed from six leading financial centres: Hong Kong, Singapore, London, Jersey, Dubai and Mumbai.

Strategic priorities

- Leverage the significant wealth creation and wealth transfers taking place in our markets to achieve greater scale in the business
- Make it easier for clients to access products and services across the Group
- Improve clients' experience and grow the share of our clients' assets under management by enhancing our advisory proposition and reducing the turnaround time of the investment process
- Implement a rigorous controls enhancement plan to balance growth and controls

Progress

- Targeted marketing of our investment philosophy and advisory capabilities which are both focused on mitigating biases in clients' investment decisions, in order to continue our shift towards clients with more than \$5 million in assets under management
- Leveraged our new open architecture platforms for Equity Structured Products, Fixed Income and FX/FX Derivatives to significantly enhance trading activity and simplified critical processes to reduce client transaction time
- Continued investments in building a senior team of frontline relationship managers across our markets
- Strengthened our client position through the referrals programme to and from Commercial and Corporate & Institutional Banking

Performance highlights

- Private Banking generated an underlying income of \$516 million which was up 3 per cent year-on-year, making a second consecutive year of top line growth in our third year of transformation. The income growth was mainly driven by improved product margins across Retail Deposits and Wealth Lending and higher Managed Investment income. Wealth Management and Retail Products income were up 2 per cent and 5 per cent respectively
- There was an underlying loss before taxation of \$14 million however, compared with a loss of \$1 million in the prior period, due to non-recurrence of cost provision release in the prior year (\$10 million) and an increase in largely one-off costs including a regulatory fine (\$5 million)
- Assets under management decreased \$5 billion or 8 per cent from 31 December 2017, mainly impacted by negative market movements, offsetting net new money growth of \$0.7 billion during the year
- RoE and RoTE declined from (0.1) to (1.0) per cent

Underlying performance by region

	31.12.18					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
Operating income	6,157	3,971	2,604	1,670	566	14,968
Operating expenses	(3,812)	(2,711)	(1,810)	(1,453)	(678)	(10,464)
Operating profit/(loss) before impairment losses and taxation	2,345	1,260	794	217	(112)	4,504
Credit impairment	(71)	(322)	(262)	(83)	(2)	(740)
Other impairment	(110)	6	–	17	(61)	(148)
Profit from associates and joint ventures	205	26	–	3	7	241
Underlying profit/(loss) before taxation	2,369	970	532	154	(168)	3,857
Provision for regulatory matters	–	–	–	(50)	(850)	(900)
Restructuring	(106)	105	(100)	(8)	(369)	(478)
Gains arising on repurchase of senior and subordinated liabilities	–	–	–	3	66	69
Statutory profit/(loss) before taxation	2,263	1,075	432	99	(1,321)	2,548
Net interest margin	1.44%	2.06%	3.03%	0.47%		1.58%
Total assets	269,765	147,049	57,800	201,912	12,236	688,762
Of which: loans and advances to customers including FVTPL	130,669	81,905	29,870	56,927	–	299,371
Total liabilities	238,249	127,478	36,733	198,853	37,097	638,410
Of which: customer accounts	196,870	96,896	29,916	113,499	–	437,181

	31.12.17					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
Operating income	5,616	3,833	2,764	1,601	475	14,289
Operating expenses	(3,681)	(2,654)	(1,819)	(1,407)	(559)	(10,120)
Operating profit/(loss) before impairment losses and taxation	1,935	1,179	945	194	(84)	4,169
Credit impairment	(141)	(653)	(300)	(107)	1	(1,200)
Other impairment	(81)	(12)	(3)	(16)	(57)	(169)
Profit/(loss) from associates and joint ventures	229	(22)	–	–	3	210
Underlying profit/(loss) before taxation	1,942	492	642	71	(137)	3,010
Restructuring	35	(161)	(33)	(25)	(169)	(353)
Net gains on businesses disposed/ held for sale	–	19	–	–	59	78
Goodwill impairment	–	–	–	–	(320)	(320)
Statutory profit/(loss) before taxation	1,977	350	609	46	(567)	2,415
Net interest margin	1.36%	1.92%	3.34%	0.51%		1.55%
Total assets	257,692	148,467	59,166	185,345	12,831	663,501
Of which: loans and advances to customers	126,739	82,579	29,602	46,633	–	285,553
Total liabilities	228,093	128,165	39,413	177,525	38,498	611,694
Of which: customer accounts	186,517	95,310	31,797	98,100	–	411,724

Greater China & North Asia

Region overview

Greater China & North Asia generated the largest share of the Group's income in 2018, at 41 per cent, and includes our clients in Hong Kong, Korea, China, Taiwan, Japan and Macau. Of these, Hong Kong remains the Group's largest market, underpinned by a diversified franchise and deeply rooted presence.

The region is highly interconnected, with China's economy at its core. Our global footprint and strong regional presence, distinctive proposition and continued investment position us strongly to capture opportunities as they arise from the continuing opening up of China's economy.

We are building on the region's ongoing economic growth, the rising wealth of its population, the increasing sophistication and internationalisation of Chinese businesses and the resulting increased usage of the renminbi internationally.

Strategic priorities

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

Progress

- We have been active in the opening of China's capital markets, helping overseas investors do business through channels such as Bond Connect, Stock Connect and the Qualified Domestic Institutional Investor initiative
- Good progress in Retail Banking in Hong Kong. We attracted more than 51,000 new Priority clients during the year and increased our active qualified Priority clients by 11 per cent
- In August, we applied for a virtual bank licence in Hong Kong and have been working to develop a strong platform and client proposition
- We have delivered a small profit in Retail Banking Korea and refreshed the strategic agenda in Retail Banking China where performance remained broadly flat

Performance highlights

- Underlying profit before taxation of \$2,369 million was 22 per cent higher year-on-year with income growth and lower credit impairment partially offset by increased expenses as we continued to invest
- Underlying income of \$6,157 million was 10 per cent higher year-on-year, with broad-based growth across all markets and client segments particularly in Hong Kong and China. Retail Banking income grew 8 per cent and Private Banking was up 13 per cent year-on-year, driven by Wealth Management and Deposits with improving margins and strong balance sheet growth. Corporate & Institutional Banking and Commercial Banking income grew 12 per cent and 11 per cent year-on-year respectively driven by strong Cash Management and Corporate Finance
- Balance sheet momentum was sustained with loans and advances to customers up 3 per cent and customer accounts up 6 per cent year-on-year

ASEAN & South Asia

Region overview

The Group has a long-standing and deep franchise across the ASEAN & South Asia region. We are the only international bank with a presence in all 10 ASEAN countries and have meaningful operations across many key South Asian markets – which is a key component of our international offering to corporate and institutional clients. The two markets in the region contributing the highest income are Singapore and India, where we have deep-rooted presence for more than 160 years.

The region generates over a quarter of the Group's income. Within the region, Singapore is home to the majority of our global business and functional leadership, as well as SC Ventures, our innovation hub.

The strong underlying economic growth in the ASEAN & South Asia region supports our opportunity to grow and sustainably improve returns. The region is benefiting from rising trade flows, including activity generated from the Belt & Road Initiative, continued strong investment and a rising middle class which is driving consumption growth and digital connectivity.

Strategic priorities

- Deliver comprehensive client propositions in larger markets and a targeted offering in smaller, high-growth markets; invest in technology and digital capabilities to build scale and offer best-in-class client experience
- Support clients' cross-border activities and expansions building on the ASEAN corridor (intra-ASEAN, ASEAN-China, ASEAN-India) and leverage the strength of our international network in Asia, Africa and the Middle East
- Deploy cost and capital to higher returning businesses and reshape sub-scale and unprofitable ones

Progress

- Eight out of 12 markets grew in both income and operating profit, reflecting the actions taken to deliver broad-based growth
- Delivered strong growth in targeted client segments – we added 10,000 Priority Banking clients, 2,000 Commercial Banking clients; Global Subsidiary and Priority Banking income grew strongly
- Shift to capital-lite business making progress – Retail Banking and Transaction Banking current accounts and savings accounts (CASA) income grew double-digit and risk-weighted assets reduced by 9 per cent. As a result, over 50 per cent of our income was from capital-lite products
- Launched market-leading digital capabilities to drive a better client experience, including real-time on-boarding in India and Retail Banking digital journeys in Singapore, India and Malaysia

Performance highlights

- Underlying profit before taxation almost doubled year-on-year to \$970 million, underpinned by 4 per cent income growth, costs up 2 per cent and 51 per cent lower credit impairments from improved credit quality and recoveries
- Underlying income of \$3,971 million is 4 per cent higher year-on-year, with income growth in Retail Banking, Corporate & Institutional Banking and Commercial Banking offsetting an income decline in Private Banking which was impacted by slower market activity
- Risk-weighted assets declined by 9 per cent year-on-year as we improved the asset quality mix; customer deposits were up 2 per cent, customer loans and advances declined 1 per cent year-on-year mainly in mortgages

Africa & Middle East

Region overview

We have a deep-rooted heritage of over 160 years in Africa & Middle East and are present in 25 markets, of which the UAE, Nigeria, Pakistan and Kenya are the largest by income. We are present in more sub-Saharan African markets than any other international banking group.

A rich history, deep client relationships and a unique footprint in the region and across key origination centres in Asia, Europe and the Americas enable us to seamlessly support our clients. Africa & Middle East is an important part of global trade and investment corridors, including those on China's Belt & Road Initiative and we are well placed to facilitate these flows.

Macroeconomic and geopolitical headwinds in 2018 impacted income momentum across both the Middle East and Africa; however, we remain confident that the opportunities in the region will support long-term sustainable growth for the Group. We continue to invest selectively and drive efficiencies.

Strategic priorities

- Continue to provide best-in-class structuring and financing solutions and drive origination through client initiatives
- Invest in market-leading digitisation initiatives in Retail Banking to protect and grow market share in core markets; continue with our retail transformation agenda to recalibrate our network and streamline structures
- De-risk and improve the quality of income with continuous focus on return enhancements

Progress

- After a successful launch of a digital-only bank in Côte d'Ivoire in the first half of 2018, we are extending this to other markets in Africa
- Despite geopolitical and macroeconomic headwinds, enhanced risk profile and tighter underwriting standards led to lower credit impairments year-on-year
- Cost efficiencies have allowed investments to continue through the cycle

Performance highlights

- Underlying profit before taxation of \$532 million was down 17 per cent year-on-year driven by lower income partially offset by credit impairment with expenses largely flat. Good performance in East Africa and Saudi Arabia with underperformance in West Africa, Southern Africa and the UAE
- Underlying income of \$2,604 million was down 6 per cent year-on-year due to macro and geopolitical headwinds and material currency devaluation in some of our markets. Middle East, North Africa and Pakistan were 6 per cent lower and Africa was down 5 per cent. Transaction Banking and Wealth Management income was largely flat, Financial Markets income declined due to lower volatility while Corporate Finance and Retail products reported an income decline year-on-year with lower margins more than offsetting volume growth
- Credit impairment was down \$38 million year-on-year driven by improved risk profile through tighter underwriting standards
- Loans and advances to customers were up 1 per cent year-on-year and customer accounts declined 6 per cent

Europe & Americas

Region overview

The Group supports clients in Europe & Americas through hubs in London and New York as well as a presence in several European and Latin American markets. We offer our corporate and institutional clients rich network and product capabilities through our knowledge of working in and between Asia, Africa and the Middle East. We also have a Private Banking business, focused on serving clients with linkages to our Asia, Africa and Middle East footprint markets.

The region is a major income origination engine for the Group's Corporate & Institutional Banking business. Clients based in Europe & Americas generate over one-third of Corporate & Institutional Banking income, with two-thirds of that income booked in the Group's other regions where the service is provided.

The region is home to the Group's two biggest payment clearing centres and the largest trading room. Over 80 per cent of the region's income derives from Financial Markets and Transaction Banking products. Given this mix, the business we do across the Group with clients based in Europe & Americas generates above-average returns.

Strategic priorities

- Continue to attract new international corporate and financial institutional clients and deepen relationships with existing and new clients by banking them across more markets in our network
- Scale up our continental European business
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Grow our Private Banking franchise and assets under management in London and Jersey
- Leverage our network capabilities as new e-commerce based industries grow internationally

Progress

- Good progress in improving the share of business from targeted multinational corporate clients, with income up 48 per cent and 9 per cent from 'New 90' OECD and 'Next 100' client initiatives respectively
- Continued to diversify and selectively expand our client base in the region
- Delivered high returns through improved quality of income combined with risk-weighted assets optimisation
- Continued to improve the quality of our funding base by increasing the proportion of operating account liabilities relative to our balance sheet size
- Set up a new subsidiary in Frankfurt to continue to serve our European client base whether or not the UK leaves the EU

Performance highlights

- Underlying profit before taxation of \$154 million more than doubled year-on-year from continued growth in income and lower credit impairments driven by an improvement in underlying credit quality. Expenses grew 3 per cent as investments in platforms and people were offset by lower regulatory expense
- Underlying income of \$1,670 million was up 4 per cent year-on-year driven by strong momentum in Transaction Banking and Private Banking
- Income growth was broad-based with a number of markets growing at a double-digit rate and income generated by our clients, but booked elsewhere in the network, increased 8 per cent in 2018
- Loans and advances to customers were up 22 per cent year-on-year and customer accounts grew 16 per cent

Group Chief Risk Officer's review

Embracing innovation across the risk landscape

We took positive steps in 2018 to maintain lower credit impairment and improve asset quality, helping to further strengthen our risk position. At the start of the year we implemented our new Enterprise Risk Management Framework, identifying ten Principal Risk Types, including Compliance, Conduct, Information and Cyber Security and Financial Crime. This refreshed approach allows us to view our existing risks more holistically, while improving our ability to identify and proactively manage new Risk Types. As of 1 January 2019, we have integrated Conduct, Financial Crime and Compliance risks as a single CFCC function under the Management Team leadership of Tracey McDermott. We are also developing our data and analytics capabilities, harnessing digital and technological innovation to enhance the speed and quality of risk decision-making.

The Group remains well diversified across client segments, geographies and industry sectors, and maintains a strong liquidity and capital position. We are well positioned to identify and take new opportunities, while remaining vigilant for any new threats that may arise and areas that need improvement. We take a proactive approach to risk, with one example being our decision to place stricter standards on industries that have a high potential environmental or social impact in line with the launch of our updated Position Statements, which set out our approach to managing environmental, social and governance risks.

While we have made great strides in establishing a healthy risk culture, we recognise that threats to our business are constantly evolving, and only by continuing to explore all available opportunities to improve can we keep delivering on our brand promise of being Here for good. In an industry that faces much disruption, we are committed to building partnerships and embracing new technologies to strengthen our risk capabilities.

An update on our key risk priorities

2018 was a challenging but productive year for the Group. Our risk management approach is at the heart of our business and is core to us building a sustainable platform for growth. We want to embed innovation, digitisation and effective analysis as pillars of the function. Here is an update on our key priorities over the past 12 months:

- Strengthen the Group's risk culture – Embedding a healthy risk culture continues to be 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 regarding current and future risks. Our Enterprise Risk Management Framework sets out the guiding principles for our people, enabling us to have integrated and holistic risk conversations across all our Principal Risks. We continue to assess strategic initiatives and growth opportunities from both the financial and non-financial risk perspective, and our improved approach to effectiveness reviews facilitates challenge, learning from self-identified issues or weaknesses, and making improvements that are lasting and sustainable.
- Enhance information and cyber security – Information and cyber security is an area with an increased risk profile across financial services and other industries. Along with other organisations, we continue to invest and increase our capability in information and cyber security through the expansion and strengthening of our operating model. In 2018, we elevated Information and Cyber Security Risk to a Principal Risk Type, and a new framework was approved for implementation to ensure cyber risks are identified and managed in a consistent way across the Group. In addition, we are making further improvements through awareness campaigns, active participation in external partnerships including the UK Cyber Defence Alliance, and employment of an external adviser to provide insights to the Board on cyber security matters. These combined efforts help strengthen our defences and aid our efforts to keep pace with evolving cyber threats.

- **Manage financial crime risks** – Financial crime hinders economic progress and harms communities, and we are committed to fighting it. We have made substantial progress in building an effective and sustainable financial crime compliance programme and improving our controls, systems and processes. Our progress in this regard was recognised at the end of 2018, when the monitorship ordered by the New York State Department of Financial Services was permitted to expire as part of a Second Supplemental Consent Order was replaced by an independent consultant. The Order acknowledges that we had demonstrated our commitment to complying with state and federal anti-money laundering and sanctions laws and regulations and had substantially remediated and enhanced our anti-money laundering compliance programme. We continue to advocate for more modern ways of fighting financial crime, maintaining our involvement in public-private information sharing partnerships in the UK, US, Singapore and Hong Kong, and pursuing innovation by partnering with RegTech firms in the areas of surveillance and investigations. In addition, we are proud to support the United for Wildlife Financial Taskforce (of which our Group General Counsel, David Fein is Vice Chair), an initiative dedicated to increasing awareness of, and improving, how the financial industry can combat illegal wildlife trafficking. Initiatives like this are in line with our Sustainability Philosophy and target those at the heart of financial crime from multiple angles. By cutting off their sources of funds, we can help to make the financial system a hostile environment for criminals, while supporting economic development across all of our markets.
- **Strengthen our conduct environment** – Conduct remains a key focus across the Group. In 2018, we elevated Conduct Risk to a Principal Risk Type and made it a priority to review, refine and further strengthen our approach to conduct, ensuring that Conduct Risk is considered not just in the day to day but in all our strategic decisions and activities. While the Group Code of Conduct sets expectations for individual behaviour, the refreshed Conduct Risk Type Framework provides a more robust and consistent approach to allow us to assess and monitor Conduct risk across the Group's businesses and functions. A key priority in 2019 will be to embed Conduct Risk considerations into the other non-financial risks, to ensure that we make the right holistic decisions. While incidents cannot be entirely avoided across the Group, we have no appetite for breaches of laws or regulations, and we expect nothing less than the highest standards at all levels.
- **Enhance our compliance infrastructure** – In 2018, we established a multi-year programme to review and strengthen our existing structures and processes, and we have already delivered tangible progress in several areas. We implemented a new Regulatory Obligations Management system, and in the first quarter of 2019 we will install a refreshed system for Issue Management and Policy and Document Management. We rolled out an enhanced learning programme for our compliance officers, as well as a progressive development path. In the second half of 2018, we launched a shared service centre for surveillance in Kuala Lumpur, equipped with staff providing a broad range of capabilities across Trade and Communications Surveillance. We also implemented a knowledge-sharing tool that explains important trends in the world of technology and highlights the key compliance issues that may arise as a result. These improvements help our people to make better informed and consistent decisions and raise our ability to innovate in response to the ever-changing regulatory landscape.
- **Improve our efficiency and effectiveness** – The Group has continued to invest in improvements to infrastructure, including exposure management, data quality and stress testing. Further enhancements are planned for Operational Risk management, workflow and reporting. We are working with fintech partners and innovating internally to explore new opportunities with machine learning, artificial intelligence and data analytics infrastructure. We continue to streamline and simplify our processes to serve clients better and drive internal efficiencies.

Our risk profile and performance in 2018

The Group's portfolios remain strong and well diversified. Our continued focus on high-quality origination within a more granular Risk Appetite has enabled sustained improvements in the credit quality of our corporate portfolios, with the percentage of net exposure to investment grade clients increasing to 62 per cent (2017: 57 per cent) of total corporate net exposure. The Group's client exposures also remain predominantly short tenor. Despite this improvement we remain alert to broader geopolitical uncertainties that continue to affect sentiment. An example is Brexit, although the Group's credit portfolio should not be materially impacted by the UK's withdrawal from the European Union.

Our subsidiary in Germany is established and we are focused on managing the operational and regulatory risks that will arise as a result of Brexit. We continue to focus on early identification of emerging risks across all our portfolios so that we can proactively manage any areas of weakness. We also perform regular reviews and stress tests of our portfolio to help mitigate any risks that might arise. Our risk management capability has also improved through investment in credit structuring and distribution resources.

Credit impairment in the ongoing book reduced further in 2018 to \$740 million (2017: \$1,200 million), driven primarily by improvements in the Corporate & Institutional Banking portfolio where there was a decrease of \$428 million (2018: \$229 million, 2017: \$657 million). This reflects an improvement in the risk profile of the segment, through a continued focus on high-quality new origination and recoveries and releases that were observed across all segments.

Commercial Banking ongoing business credit impairment increased by 45 per cent (2018: \$244 million, 2017: \$168 million) compared to 2017, which saw a release of \$63 million of portfolio impairment provisions held against certain sectors of the portfolios that were no longer required. Africa & Middle East contributed 60 per cent of the full-year 2018 charge. Retail credit impairment continued to reduce (2018: \$267 million; 2017: \$374 million) driven by portfolio improvements, and run down of high-risk segments in several unsecured portfolios, as well as one-off provision releases in Korea and Indonesia.

Gross credit-impaired (stage 3) loans for the Group are down 21 per cent in the year, having decreased to \$6.9 billion (1 January 2018: \$8.8 billion) with a reduction of \$1.0 billion observed in the liquidation portfolio as we continued to exit these exposures. Gross stage 3 loans in the ongoing business decreased to \$5.6 billion (1 January 2018: \$6.5 billion); mainly driven by repayments and write-offs in Corporate & Institutional Banking. Stage 3/non-performing loan (NPL) inflows in Corporate & Institutional Banking were also significantly lower, as historically high inflows from stressed portfolios such as India and the Oil and Gas sectors were muted. Stage 3/NPL inflows in Commercial Banking were higher, driven by exposures in Greater China & North Asia and Africa & Middle East, with no specific industry concentration.

The stage 3 cover ratio in the total book has reduced marginally to 59 per cent in 2018 (1 January 2018: 60 per cent), largely driven by the impact of write-offs and settlements in the liquidation portfolio.

The Group maintains a strong liquidity position, with the liquidity coverage ratio higher at 154 per cent from 146 per cent in 2017, driven by an increase in our liquid asset position partially aligned to the growth in our overall balance sheet as we continued to focus on high-quality liquidity across our businesses. The advances-to-deposits ratio (2018: 64.9 per cent) decreased from the previous year (2017: 67.0 per cent). We remain a net provider of liquidity to the interbank markets and our customer deposit base is diversified by type and maturity. We have a substantial portfolio of marketable securities which can be realised in the event of a liquidity stress situation.

The Group's Common Equity Tier 1 ratio of 14.2 per cent was 60 basis points higher than 2017 mainly due to a lower level of risk-weighted assets, which reduced by \$21.5 billion. This was driven by a reduction in credit risk-weighted assets of \$15.1 billion.

The average level of total trading and non-trading VaR in 2018 was 20 per cent lower than in 2017 because of a reduction in the duration of the non-trading portfolio in the first half of 2018. However, by year end 2018 the non-trading VaR increased, driven by an increase in the portfolio inventory and reduced portfolio diversification in the second half of the year.

Further details of the 2018 risk performance are set out in the Risk update can be found in the Annual Report.

An update to our risk management approach

In 2018, we made good progress in delivering the key initiatives started in 2017 to implement a strong risk management approach. We have continued to build out the Enterprise Risk Management function which allows the Group to identify and manage risks holistically, ensuring that appropriate governance, oversight and information is in place to run a safe, secure and well-controlled organisation. It also strengthens the Group's capabilities to understand, articulate and control the nature and level of risks we take while still serving our clients effectively.

The Enterprise Risk Management Framework, launched in 2018, sets out a refreshed risk culture and a clear control framework with sharper delineation of responsibilities between the three lines of defence. Further details on the Group's Three Lines of Defence model are set out in the Enterprise Risk Management Framework section. We have also formalised the links between our strategy, Risk Appetite and stress testing to facilitate more dynamic risk identification and the integration of risk considerations into strategic decision-making.

We have developed distinct Risk Type Frameworks for our 10 Principal Risks which are being rolled out throughout the organisation. Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's Enterprise Risk Management Framework.

Through the development and approval of these Risk Type Frameworks, we have revised the definition of certain Principal Risk Types to describe the risks or failures more explicitly.

We have also established an Effectiveness Review process for the Enterprise Risk Management Framework and Risk Type Frameworks which provides an objective baseline against which progress can be measured over the coming years.

The 2018 Effectiveness Review concluded that the Enterprise Risk Management Framework has been effectively designed towards improving the Group's risk management practices.

Over the course of 2019, the Group aims to further strengthen its risk management practices. More details can be found in the Enterprise Risk Management Framework section.

The framework provides a structure for the monitoring and control of these risks through the Board-approved risk appetite. The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns. The table below shows the Group's Principal Risk Types and how they are managed.

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

Further details on Principal Risks can be found in the Annual Report.

Principal uncertainties

Principal uncertainties refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to materially impact our business. As part of our continual risk identification process, we have updated the list disclosed in the 2018 half year Report. The table below summarises the current principal uncertainties that the Group faces, and the steps we are taking to manage them.

Principal uncertainties	Risk trend since 2017	How these are mitigated/next steps
Geopolitical events, in particular: extended trade tensions, the Middle East political situation and Brexit implications	↑	- We monitor geopolitical events continuously to assess horizon risks and, where appropriate, manage the impact to the Group and our clients - We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events
Macroeconomic conditions, in particular: China slowdown and impact to regional economies with close ties to China, and Emerging Market risks	↑	- We have a Business Risk Horizon framework that provides a 12- to 18-month forward looking view of the economic, business and credit conditions across our key markets, enabling us to take proactive action - We monitor economic trends and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events - We continue to adjust our outlook and ratings based on political events and volatility
Climate-related physical risks and transition risks ¹	↑	- We have participated in the development of pilot scenario analysis tools for physical and transition risks for energy utilities clients and other high-emitting sectors. We are also involved in a wide range of collaborative initiatives related to climate risk management - We have reduced our risk appetite to carbon-intensive sectors by introducing technical standards for coal-fired power plants, and restrictions on new coal mining clients and projects. In September 2018, we announced that we would no longer provide financing for new coal-fired power plants anywhere in the world - We achieved, two years ahead of schedule, our public target to fund and facilitate \$4 billion toward clean technology between 2016 and 2020
Regulatory reviews, investigations and legal proceedings	↔	- We have invested in enhancing systems and controls, and implementing remediation programmes (where relevant) - We are cooperating with all relevant ongoing reviews, requests for information and investigations, and we actively manage legal proceedings - We continue to train and educate our people on conduct, conflicts of interest, information security and financial crime compliance in order to reduce our exposure to legal and regulatory proceedings
Regulatory changes	↔	- We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model - We have established relevant project management programmes to review and improve end-to-end processes in terms of oversight and accountability, transparency, permission and controls, legal entity level limits and training
New technologies and digitisation (including business disruption risk, responsible use of artificial intelligence and obsolescence risk)	↑	- We monitor emerging trends, opportunities and risks in the technology space which may have implications on the banking sector - We are engaged in building our capabilities to ensure 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 surveillance tools - We are actively targeting the reduction of obsolescent/end of support technology following a technology and innovation led approach
Increased data privacy and security risks from strategic and wider use of data	↑	- We have existing governance and control frameworks for the deployment of new technologies - We have designed a programme to manage the risks posed by rapidly evolving cyber security threats - We maintain a vigilant watch on legal and regulatory developments in relation to data protection to identify any potential impact to the business

↑ Risk heightened in 2018 ↔ Risk remained consistent with 2017 levels

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

Further details on principal uncertainties, including key changes since 2017, can be found in the Annual Report.

Summary

The external environment is becoming increasingly uncertain even as the expectations of our customers and shareholders continue to rise. Nonetheless, we continue to put our clients at the heart of all we do, and are strongly positioned to deliver our vision of increasing prosperity through taking risk. We are a function that champions innovation, and our focus remains on building a strong and sustainable business which will benefit our clients, our people, and our society for generations to come.

Mark Smith
Group Chief Risk Officer
26 February 2019

Supplementary financial information

Five-year summary¹

	2018 \$million	2017 \$million	2016 \$million	2015 \$million	2014 \$million
Operating profit before impairment losses and taxation	3,142	4,008	3,849	4,116	7,289
Impairment losses on loans and advances and other credit risk provisions	(653)	(1,362)	(2,791)	(4,976)	(2,141)
Other impairment	(182)	(179)	(612)	(855)	(1,161)
Profit/(loss) before taxation	2,548	2,415	409	(1,523)	4,235
Profit/(loss) attributable to shareholders	1,054	1,219	(247)	(2,194)	2,613
Loans and advances to banks ²	61,414	78,188	72,609	64,494	83,890
Loans and advances to customers ²	256,557	282,288	252,719	257,356	284,695
Total assets	688,762	663,501	646,692	640,483	725,914
Deposits by banks ²	29,715	30,945	32,872	28,727	44,407
Customer accounts ²	391,013	370,509	338,185	337,606	399,028
Shareholders' equity	45,118	46,505	44,368	46,204	46,432
Total capital resources ³	66,203	68,983	68,181	70,364	69,685
Information per ordinary share					
Basic earnings/(loss) per share	18.7c	23.5c	(14.5)c	(91.9)c	97.3c
Underlying earnings/(loss) per share	61.4c	47.2c	3.4c	(6.6)c	138.9c
Dividends per share ⁴	17.0c	–	–	13.71c	81.85c
Net asset value per share	1,319.3c	1,366.9c	1,307.8c	1,366.0c	1,833.9c
Net tangible asset value per share	1,167.7c	1,214.7c	1,163.9c	1,244.1c	1,610.9c
Return on assets ⁵	0.3%	0.2%	0.0%	(0.3)%	0.4%
Ratios					
Statutory return on ordinary shareholders' equity ⁶	1.4%	1.7%	(1.1)%	(5.3)%	5.5%
Statutory return on ordinary shareholders' tangible equity ⁷	1.6%	2.0%	(1.2)%	(5.9)%	6.3%
Underlying return on ordinary shareholders' equity ⁶	4.6%	3.5%	0.3%	(0.4)%	7.8%
Underlying return on ordinary shareholders' tangible equity ⁷	5.1%	3.9%	0.3%	(0.4)%	9.0%
Statutory cost to income ratio	78.8%	72.2%	72.6%	73.1%	60.2%
Underlying cost to income ratio	69.9%	70.8%	72.2%	67.8%	58.9%
Capital ratios:					
(CET1)/Tier 1 capital ⁸	14.2%	13.6%	13.6%	12.6%	10.5%
Total capital ⁸	21.6%	21.0%	21.3%	19.5%	16.7%

1 The amounts for the four financial years ended 2014 to 2017 are presented in line with IAS 39 and, therefore, not on a comparable basis to the current financial year presented in accordance with IFRS 9

2 Excludes amounts held at fair value through profit or loss

3 Shareholders' funds, non-controlling interests and subordinated loan capital

4 Dividend paid during the year per share

5 Represents profit attributable to shareholders divided by the total assets of the Group

6 Weighted average equity for 2018 is \$44,636 million (2017: \$44,420 million, 2016: \$44,831 million, 2015: \$44,363 million, 2014: \$45,873 million)

7 Weighted average tangible equity for 2018 is \$39,613 million (2017: \$39,450, 2016: \$40,166 million, 2015: \$39,859 million, 2014: \$39,952 million)

8 Unaudited

Analysis of underlying performance by key market

The following tables provide information for key markets in which the Group operates. The numbers are prepared on a management view. Refer to the notes to the financial statements in the Annual Report.

	31.12.18							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
Operating income	3,752	1,009	821	1,547	949	637	819	667
Operating expenses	(1,944)	(797)	(675)	(1,009)	(677)	(453)	(671)	(621)
Operating profit before impairment losses and taxation	1,808	212	146	538	272	184	148	46
Credit impairment	(57)	(1)	(30)	(115)	(130)	(196)	(51)	(36)
Other impairment	(109)	1	–	–	(1)	–	17	–
Profit from associates and joint ventures	–	–	205	–	–	–	–	–
Underlying profit/(loss) before taxation	1,642	212	321	423	141	(12)	114	10
Total assets employed	153,372	51,306	30,272	81,882	29,886	19,847	136,967	48,706
Of which: loans and advances to customers including FVTPL	71,971	33,435	12,894	46,342	16,567	10,749	41,248	13,464
Total liabilities employed	139,332	45,347	27,158	80,200	20,554	13,679	148,041	42,301
Of which: customer accounts	116,999	36,894	21,801	58,415	16,306	10,517	93,096	16,218

	31.12.17							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
Operating income	3,384	967	707	1,419	1,008	733	747	675
Operating expenses	(1,872)	(777)	(652)	(1,016)	(658)	(524)	(612)	(641)
Operating profit before impairment losses and taxation	1,512	190	55	403	350	209	135	34
Credit impairment	(48)	(53)	(17)	(218)	(251)	(94)	(50)	(57)
Other impairment	(78)	(3)	–	–	(3)	–	(14)	(2)
Profit from associates and joint ventures	–	–	229	–	–	–	–	–
Underlying profit/(loss) before taxation	1,386	134	267	185	96	115	71	(25)
Total assets employed	140,431	51,822	33,243	86,431	26,315	20,268	119,272	45,338
Of which: loans and advances to customers	67,292	34,891	12,899	45,495	16,515	11,328	34,694	10,092
Total liabilities employed	128,577	45,966	28,151	84,288	17,614	15,142	128,270	39,646
Of which: customer accounts	108,352	36,213	21,854	59,905	14,141	11,692	80,972	11,831

Analysis of underlying performance by Retail Banking and Commercial Banking segments

Retail Banking

	31.12.18				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
Operating income	2,886	1,352	765	38	5,041
Operating expenses	(1,959)	(1,083)	(668)	(26)	(3,736)
Operating profit before impairment losses and taxation	927	269	97	12	1,305
Credit impairment	(72)	(135)	(60)	–	(267)
Other impairment	(5)	–	–	–	(5)
Underlying profit before taxation	850	134	37	12	1,033
Restructuring	(18)	(20)	(30)	–	(68)
Statutory profit before taxation	832	114	7	12	965
Loans and advances to customers including FVTPL	67,718	27,812	5,595	510	101,635
Customer accounts	95,086	32,120	8,433	1,052	136,691

	31.12.17				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
Operating income	2,684	1,302	813	35	4,834
Operating expenses	(1,839)	(1,085)	(638)	(23)	(3,585)
Operating profit before impairment losses and taxation	845	217	175	12	1,249
Credit impairment	(150)	(146)	(79)	–	(375)
Other impairment	(1)	–	–	–	(1)
Underlying profit before taxation	694	71	96	12	873
Restructuring	(9)	2	(12)	–	(19)
Statutory profit before taxation	685	73	84	12	854
Loans and advances to customers	68,121	28,170	6,233	489	103,013
Customer accounts	88,850	30,544	8,950	1,192	129,536

Commercial Banking

	31.12.18			
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Total \$million
Operating income	584	523	284	1,391
Operating expenses	(389)	(330)	(204)	(923)
Operating profit before impairment losses and taxation	195	193	80	468
Credit impairment	(23)	(73)	(148)	(244)
Underlying profit/(loss) before taxation	172	120	(68)	224
Restructuring	(7)	(3)	(2)	(12)
Statutory profit/(loss) before taxation	165	117	(70)	212
Loans and advances to customers including FVTPL	13,926	9,118	4,227	27,271
Customer accounts	22,011	9,720	3,129	34,860

	31.12.17			
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Total \$million
Operating income	527	504	302	1,333
Operating expenses	(386)	(304)	(191)	(881)
Operating profit before impairment losses and taxation	141	200	111	452
Credit impairment	12	(110)	(69)	(167)
Other impairment	(3)	–	–	(3)
Underlying profit before taxation	150	90	42	282
Restructuring	(4)	(5)	(4)	(13)
Statutory profit before taxation	146	85	38	269
Loans and advances to customers	14,179	9,439	4,490	28,108
Customer accounts	19,879	10,959	3,042	33,880

Average balance sheets and yields and volume and price variances

Average balance sheets and yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2018 and 31 December 2017. 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.

	31.12.18			
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	24,724	32,730	364	1.11
Gross loans and advances to banks	1,338	86,028	2,293	2.67
Gross loans and advances to customers	–	301,897	10,618	3.52
Impairment provisions against loans and advances to banks and customers	–	(5,701)	–	–
Investment securities	2,540	143,181	3,989	2.79
Property, plant and equipment and intangible assets	10,660	–	–	–
Prepayments, accrued income and other assets	78,361	–	–	–
Total average assets	117,623	558,135	17,264	3.09

	31.12.17			
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	37,194	37,539	287	0.76
Gross loans and advances to banks	5,483	82,743	1,955	2.36
Gross loans and advances to customers	–	282,912	8,928	3.16
Impairment provisions against loans and advances to banks and customers	–	(6,342)	–	–
Investment securities	2,450	130,839	3,265	2.50
Property, plant and equipment and intangible assets	9,916	–	–	–
Prepayments, accrued income and other assets	85,978	–	–	–
Total average assets	141,021	527,691	14,435	2.74

	31.12.18			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Deposits by banks	6,320	34,497	811	2.35
Customer accounts:				
Current accounts and savings deposits	38,909	178,454	1,667	0.93
Time and other deposits	8,660	201,349	4,097	2.03
Debt securities in issue	136	53,988	1,129	2.09
Accruals, deferred income and other liabilities	95,214	–	–	–
Subordinated liabilities and other borrowed funds	–	15,780	767	4.86
Non-controlling interests	48	–	–	–
Shareholders' funds	50,241	–	–	–
Total average liabilities and shareholders' funds	199,528	484,068	8,471	1.75
Net yield				1.34
Net interest margin				1.58

	31.12.17			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Deposits by banks	6,696	41,565	891	2.14
Customer accounts:				
Current accounts and savings deposits	36,070	165,300	1,063	0.64
Time and other deposits	8,096	199,426	2,796	1.40
Debt securities in issue	581	51,914	756	1.46
Accruals, deferred income and other liabilities	84,881	22	–	–
Subordinated liabilities and other borrowed funds	841	17,205	748	4.35
Non-controlling interests	73	–	–	–
Shareholders' funds	49,903	–	–	–
Total average liabilities and shareholders' funds	187,141	475,432	6,254	1.32
Net yield				1.42
Net interest margin				1.55

Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the years presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the year and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	31.12.18 versus 31.12.17		
	(Decrease)/increase in interest due to:		Net increase/(decrease) in interest \$million
	Volume \$million	Rate \$million	
Interest earning assets			
Cash and unrestricted balances at central banks	(53)	130	77
Loans and advances to banks	88	250	338
Loans and advances to customers	660	1,030	1,690
Investment securities	346	378	724
Total interest earning assets	1,041	1,788	2,829
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	(69)	88	19
Deposits by banks	(166)	86	(80)
Customer accounts:			
Current accounts and savings deposits	124	482	606
Time and other deposits	39	1,260	1,299
Debt securities in issue	43	330	373
Total interest bearing liabilities	(29)	2,246	2,217

Standard Chartered PLC – Supplementary information

	31.12.17 versus 31.12.16		
	(Decrease)/increase in interest due to:		Net increase/ (decrease) in interest \$million
	Volume \$million	Rate \$million	
Interest earning assets			
Cash and unrestricted balances at central banks	(52)	126	74
Loans and advances to banks	129	544	673
Loans and advances to customers	485	(306)	179
Investment securities	112	387	499
Total interest earning assets	674	751	1,425
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	(131)	44	(87)
Deposits by banks	(13)	410	397
Customer accounts:			
Current accounts and savings deposits	121	90	211
Time and other deposits	272	189	461
Debt securities in issue	(142)	198	56
Total interest bearing liabilities	107	931	1,038

Shareholder information

Dividend and interest payment dates

Ordinary shares	Final dividend
Results and dividend announced	26 February 2019
Ex-dividend date	7 March (UK) 6 March (HK) 2019
Record date for dividend	8 March 2019
Last date to amend currency election instructions for cash dividend	16 April 2019
Dividend payment date	16 May 2019

Preference shares	1st half-yearly dividend	2nd half-yearly dividend
738 per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2019	1 October 2019
8¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2019	1 October 2019
6.409 per cent Non-cumulative redeemable preference shares of \$5 each	30 January, 30 April 2019	30 July, 30 October 2019
7.014 per cent Non-cumulative redeemable preference shares of \$5 each	30 January 2019	30 July 2019

Annual General Meeting

The Annual General Meeting (AGM) details are as follows:

Date and time	Location
Wednesday 8 May 2019	etc. venues
11.00am London time	200 Aldersgate
(6.00pm Hong Kong time)	St Paul's
	London EC1A 4HD

Details of the business to be transacted at the AGM are included in the Notice of AGM.

Interim results

The interim results will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong Limited, BSE Limited (Bombay Stock Exchange) and the National Stock Exchange of India Limited and put on the Company's website.

Country-by-country reporting

In accordance with the requirements of the Capital Requirements (country-by-country reporting) Regulations 2013, the Group will publish additional country-by-country information in respect of the year ended 31 December 2018, on or before 31 December 2019. We have also published our approach to tax and tax policy.

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered 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 receive any dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay.

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
Final 2006	11 May 2007	50.21c/25.17397p/HK\$3.926106	£14.2140/\$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK\$1.794713	£15.2560/\$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK\$4.380092	£16.2420/\$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK\$1.995046	£14.00/\$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK\$3.279597	£8.342/\$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK\$1.645304	£13.876/\$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK\$3.478306	£17.351/\$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK\$1.811274/INR0.984124 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	£7.7600/\$10.83451
Interim 2018	22 October 2018	6.00c/4.59747p/HK\$0.46978/INR0.3696175	£6.7104/\$8.51952

¹ The INR dividend is per Indian Depository Receipt

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.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account.

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.

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Fintech Private Limited, Karvy Selenium Tower B, Plot 31-32, Financial District, Nanakramguda, Hyderabad 500032, India.

Chinese translation

If you would like a Chinese version of the 2018 Annual Report and Accounts, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

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 Annual Report and Accounts, 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 Annual Report and Accounts 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.

Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

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

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

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

This information will be available on the Group's website at sc.com

Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at sc.com/investors

If you would like to receive more information, please visit our website at sc.com/shareholders or contact the shareholder helpline on 0370 702 0138

Further information can be obtained from the Company's registrars or from ShareGift on 020 7930 3737 or from sharegift.org

Please register online at investorcentre.co.uk or contact our registrar for a mandate form

You can check your shareholding at computershare.com/hk/investors

By Order of the Board
Elizabeth Lloyd, CBE
Group Company Secretary

Hong Kong, 26 February 2019

As at the date of this announcement, the Board of Directors of Standard Chartered PLC comprises:

Chairman:
José María Viñals Iñiguez

Executive Directors:
William Thomas Winters and Andrew Nigel Halford

Independent Non-Executive Directors:
Dr Louis Chi-Yan Cheung; David Philbrick Conner; Dr Byron Elmer Grote; Christine Mary Hodgson (Senior Independent Director); Gay Huey Evans, OBE; Naguib Kheraj (Deputy Chairman); Dr Ngozi Okonjo-Iweala; Carlson Tong and Jasmine Mary Whitbread