



# Half Year 2014 Results Presentation

06 August 2014

Here for good



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# **Sir John Peace**

## Chairman



# The core of our strategy

“We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.”







# Andy Halford

## Group Finance Director



# Performance summary

	H1 14	YoY% <sup>1</sup>	HoH% <sup>1</sup>	US\$m	YoY \$ <sup>1</sup>
Income	US\$ 9.3bn	(5)	4	Income	(482)
Profit before tax	US\$ 3.3bn	(20)	14	Financial Markets	(432)
Normalised earnings	US\$ 2.4bn	(20)	18	Korea (ex. Financial Markets)	(170)
Normalised return on equity	10.4%			Profit before tax	(820)
Common Equity Tier 1 ratio*	10.7%			Income drag from FM & Korea	(602)
Normalised EPS	96.5c	(21)		China commodities	(175)
Dividend per share	28.8c	0		Strategic investments	(71)

Note: Income excludes Own Credit Adjustments (OCA); Other impairment excludes impairment of goodwill in respect of Korea; EPS: Earnings Per Share; FM: Financial Markets

1) Better / (Worse); \* On a B3 end point basis



# Group performance

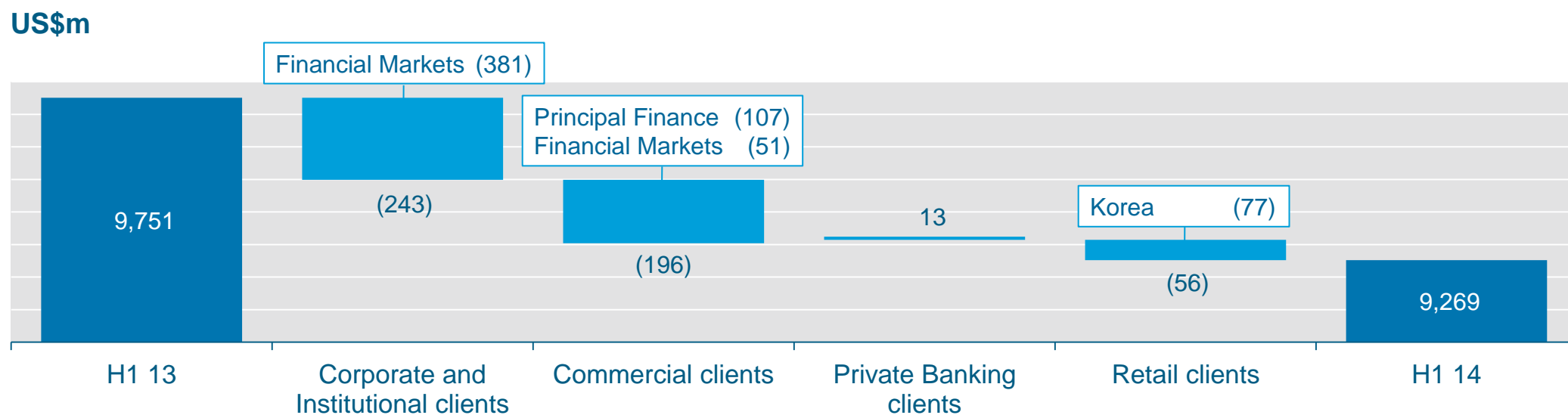
US\$m	H1 13	H2 13	H1 14	YoY%
<b>Income</b>	<b>9,751</b>	<b>8,920</b>	<b>9,269</b>	<b>(5)</b>
<i>Client income</i>	8,648	8,224	8,373	(3)
<i>Own account income</i>	1,103	696	896	(19)
<b>Expenses</b>	<b>(5,034)</b>	<b>(5,159)</b>	<b>(5,083)</b>	<b>(1)</b>
<b>Working profit</b>	<b>4,717</b>	<b>3,761</b>	<b>4,186</b>	<b>(11)</b>
Loan impairment	(730)	(887)	(846)	(16)
Other impairment	(11)	(118)	(185)	nm
Profit from associates	112	114	113	1
<b>Profit before tax</b>	<b>4,088</b>	<b>2,870</b>	<b>3,268</b>	<b>(20)</b>

Note: Income excludes Own Credit Adjustments (OCA); Other impairment excludes goodwill impairment in respect of Korea; nm = not meaningful



# Client segments income

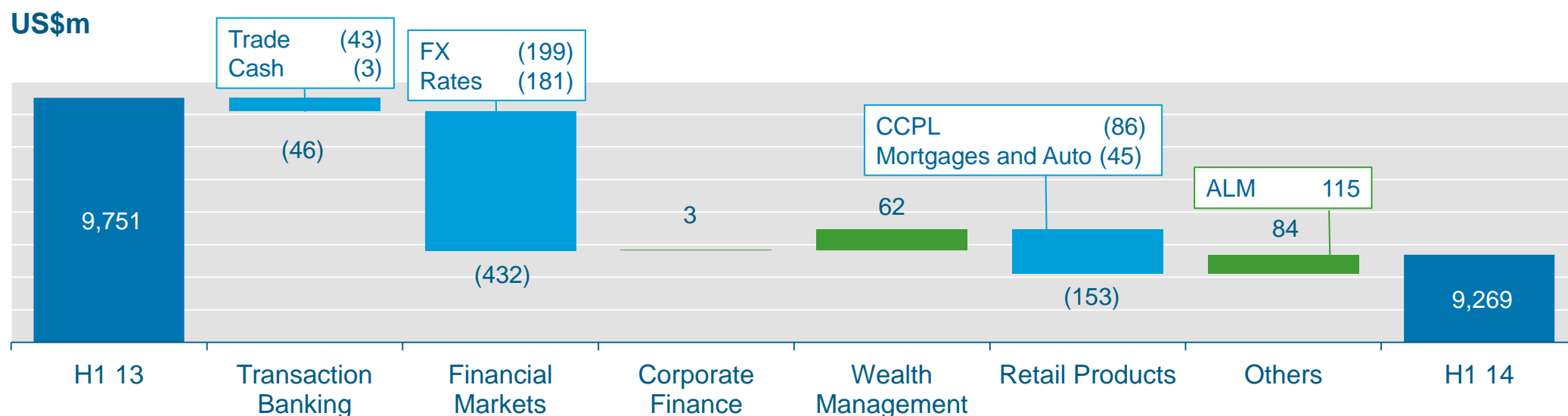
US\$m	H1 13	H2 13	H1 14	YoY%
Corporate and Institutional clients	5,577	5,079	5,334	(4)
Commercial clients	812	699	616	(24)
Private Banking clients	301	285	314	4
Retail clients	3,061	2,857	3,005	(2)
<b>Total Operating Income</b>	<b>9,751</b>	<b>8,920</b>	<b>9,269</b>	<b>(5)</b>





# Product income

US\$m	H1 13	H2 13	H1 14	YoY%
Transaction Banking	1,964	1,947	1,918	(2)
Financial Markets	2,212	1,644	1,780	(20)
Corporate Finance	1,238	1,281	1,241	0
Wealth Management	755	694	817	8
Retail Products	2,588	2,458	2,435	(6)
Others*	994	896	1,078	8
<b>Total Operating Income</b>	<b>9,751</b>	<b>8,920</b>	<b>9,269</b>	<b>(5)</b>



CCPL = Credit Cards and Personal Loans; ALM = Asset and Liability Management; FX = Foreign Exchange

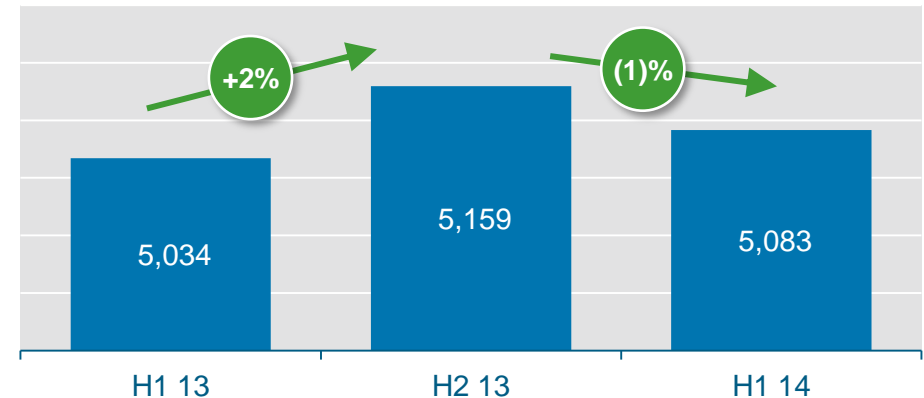
Others: ALM, Principal Finance and Lending and Portfolio Management



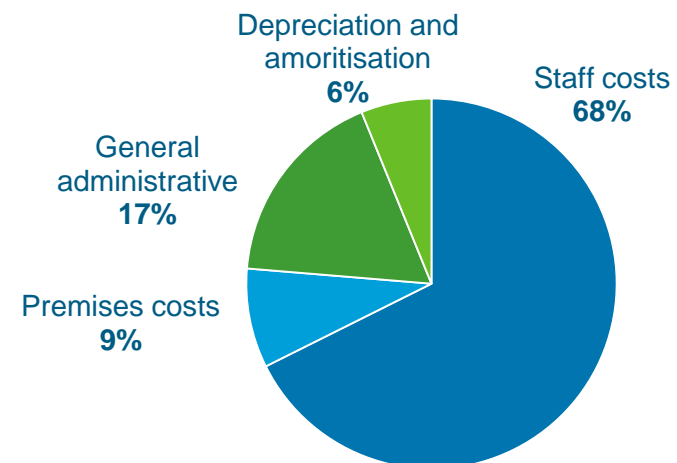
# Expenses

- Disciplined cost management, up 1% YoY or US\$ 49m, despite
  - Inflationary pressures across our markets
  - Continued investments
  - Increase in regulatory and compliance costs
- Continued tight cost control
- Staff costs account for c.70% of total costs

## Expense growth US\$m



## Expense split





# Impairment

US\$m	H1 13	H2 13	H1 14	YoY %
<i>Corporate and Institutional</i>	(197)	(291)	(266)	(35)
<i>Commercial clients</i>	(43)	(114)	(100)	(133)
<i>Private Banking clients</i>	(8)	-	-	nm
<i>Retail clients</i>	(482)	(482)	(480)	0
<b>Loan impairment</b>	<b>(730)</b>	<b>(887)</b>	<b>(846)</b>	<b>(16)</b>
<b>Other impairment<sup>1</sup></b>	<b>(11)</b>	<b>(118)</b>	<b>(185)</b>	<b>nm</b>
<b>Total impairment</b>	<b>(741)</b>	<b>(1,005)</b>	<b>(1,031)</b>	<b>(39)</b>

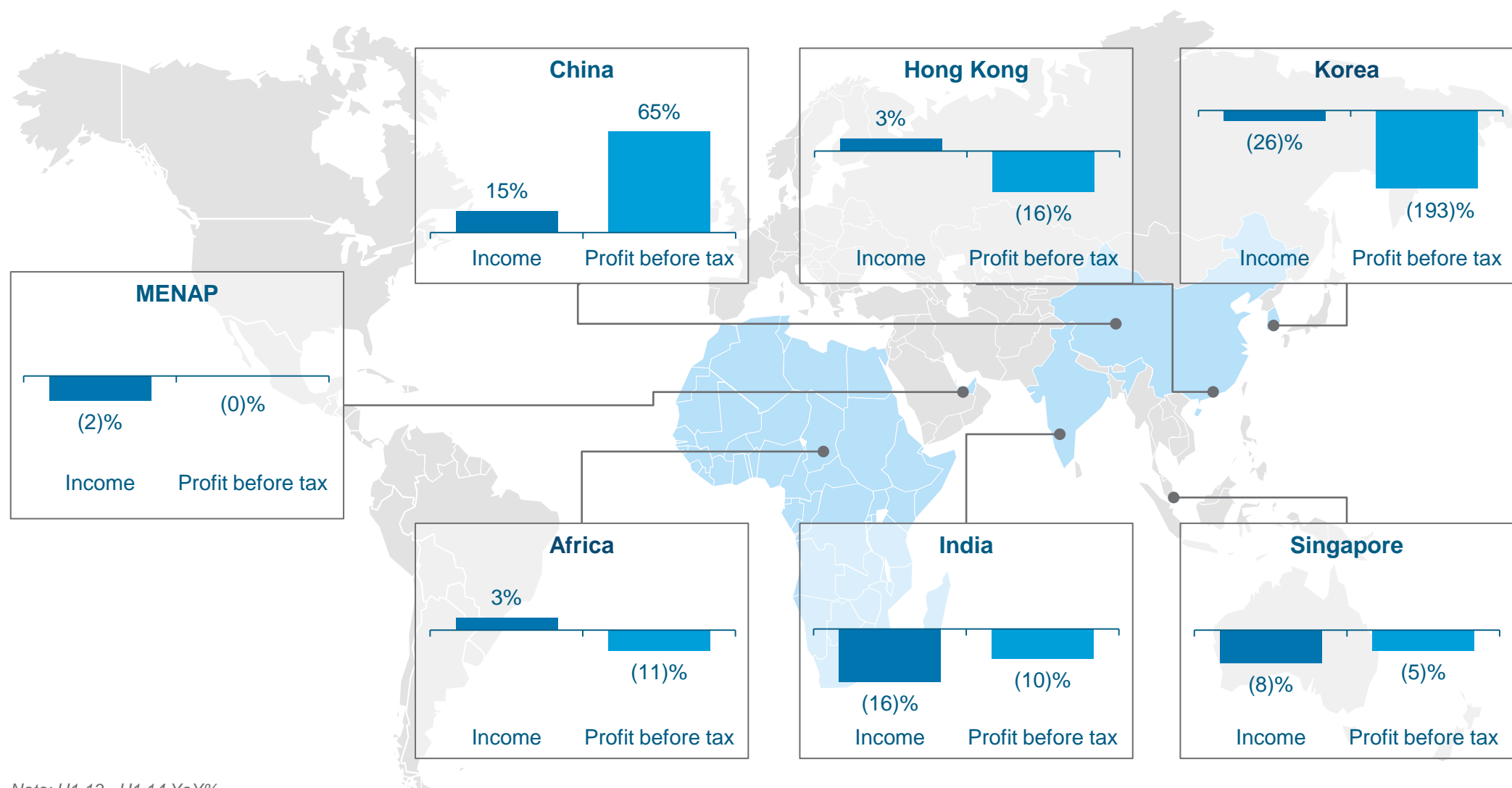
- Small number of impaired accounts
- Portfolio highly diversified
- Well collateralised and short tenor
- Broadly stable loss rates

	(US\$m)
<i>China commodities</i>	(175)
<i>Strategic investments</i>	(71)

1) Excludes US\$ 1bn of Korea goodwill in H1 2013



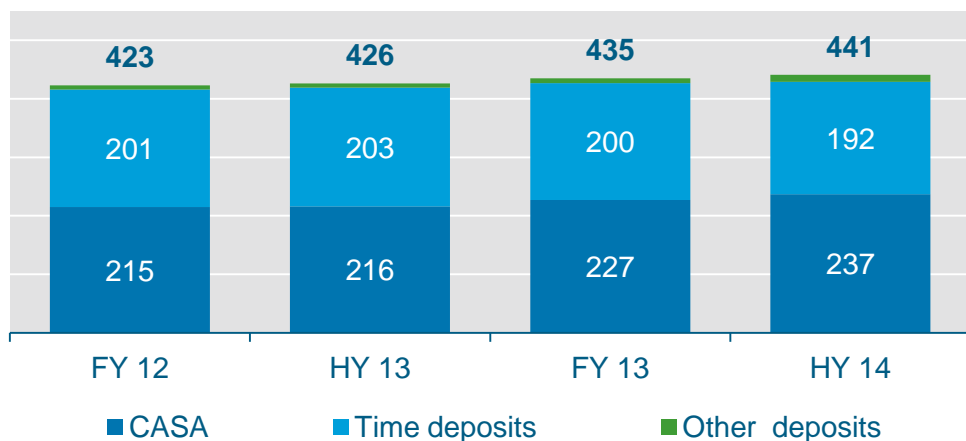
# Geographic performance



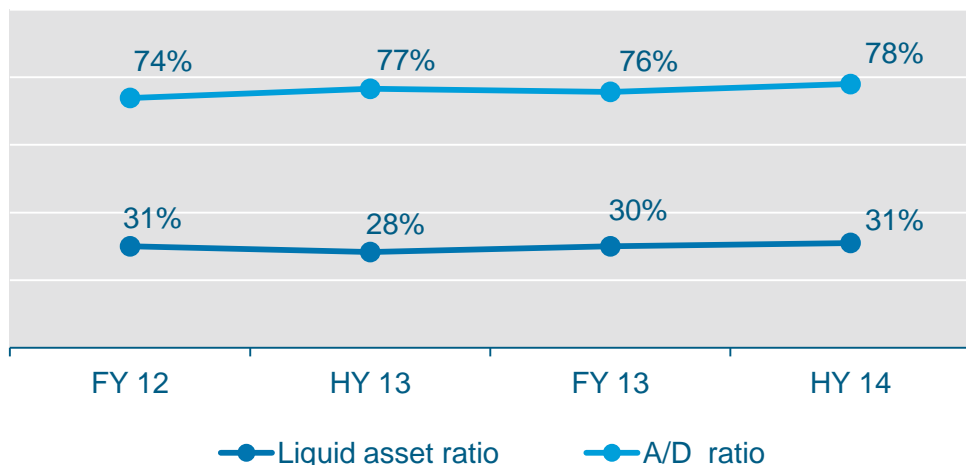


# Group balance sheet – Liabilities

## Total deposits US\$bn



## Liquidity ratios %



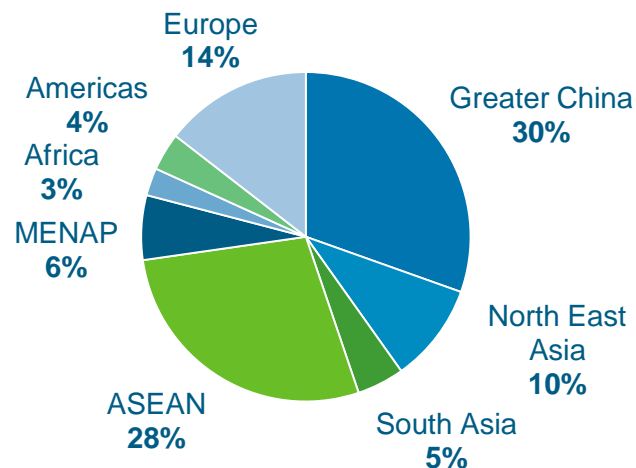
- Customer deposit funded franchise
- CASA up 4% since year end (54% of total)
- A/D ratio of 78.1%
- Liquid asset ratio of 30.5%
- Issued around US\$ 7bn of Tier 2 and senior notes
- NSFR and LCR requirements met

CASA = Current Account and Savings Accounts; NSFR = Net Stable Funding Ratio;  
LCR = Liquidity Coverage Ratio; A/D ratio = Advances to Deposit ratio

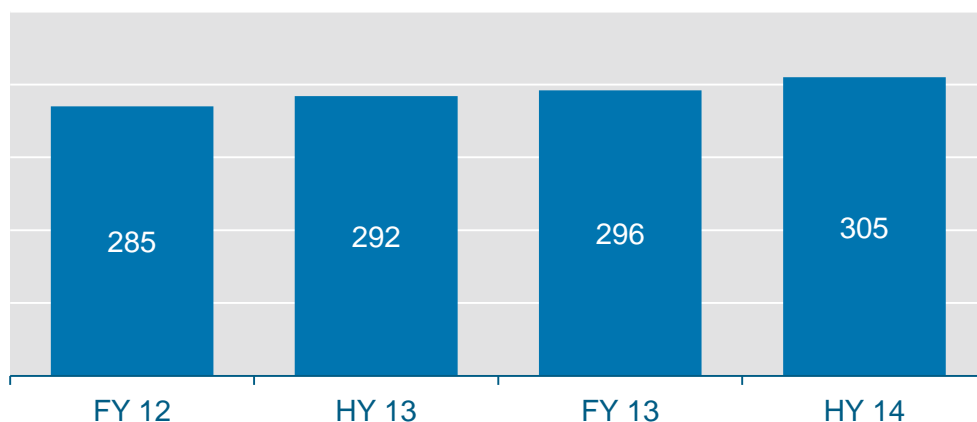


# Group balance sheet – Assets

## Total customer loans and advances



## Total customer loans and advances US\$bn

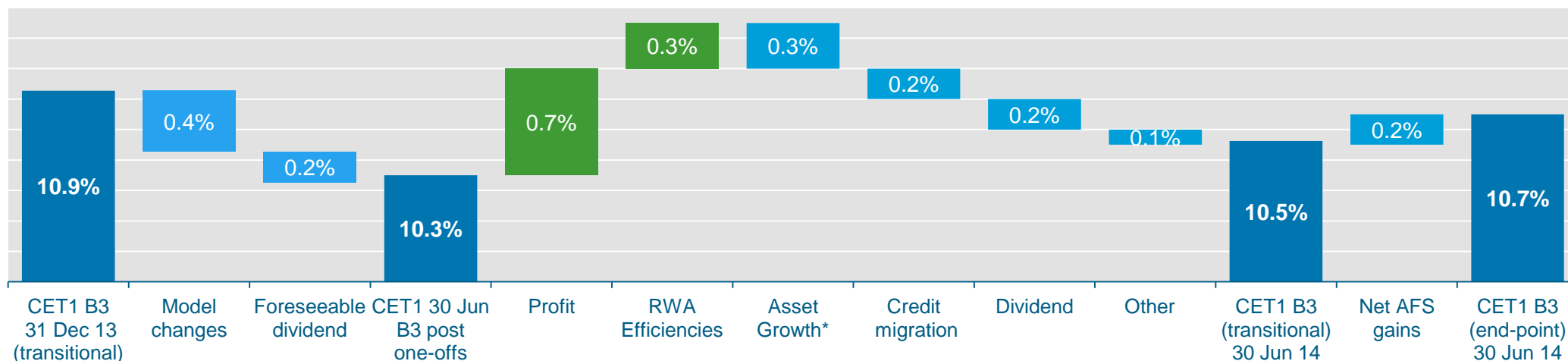


- Customer loans up 3% since year end
- Supported client growth and financing needs
- Continued to de-risk Retail unsecured
- Low exposures to problem asset class
- Mortgage volumes impacted by property market cooling measures

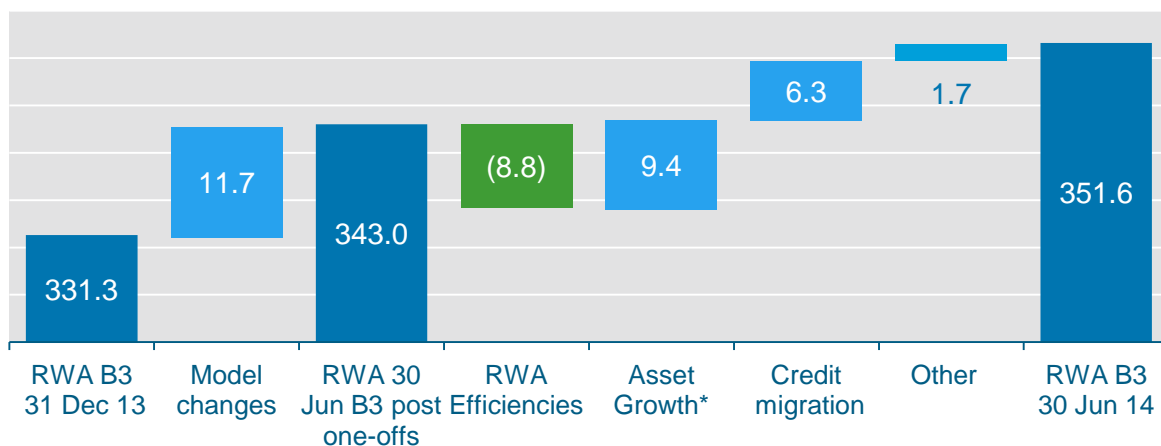


# Capital - Basel III

## Common Equity Tier 1 (CET1) %



## Risk weighted assets (RWA) US\$bn



- Well capitalised with CET 1 ratio of 10.7%
- Capital accretive ex model and foreseeable dividend changes
- Assertive RWA management
- Leverage ratio 4.8%

Note: Asset growth net of \$5.2bn RWA redeployment in H1 2014; AFS: Available for sale securities



# Summary



- External environment remains challenging
- Momentum ahead of the second half last year
- Financial Markets remains uncertain
- Managing costs and risks tightly
- Continue to be:
  - Well capitalised
  - Highly liquid
  - Diverse





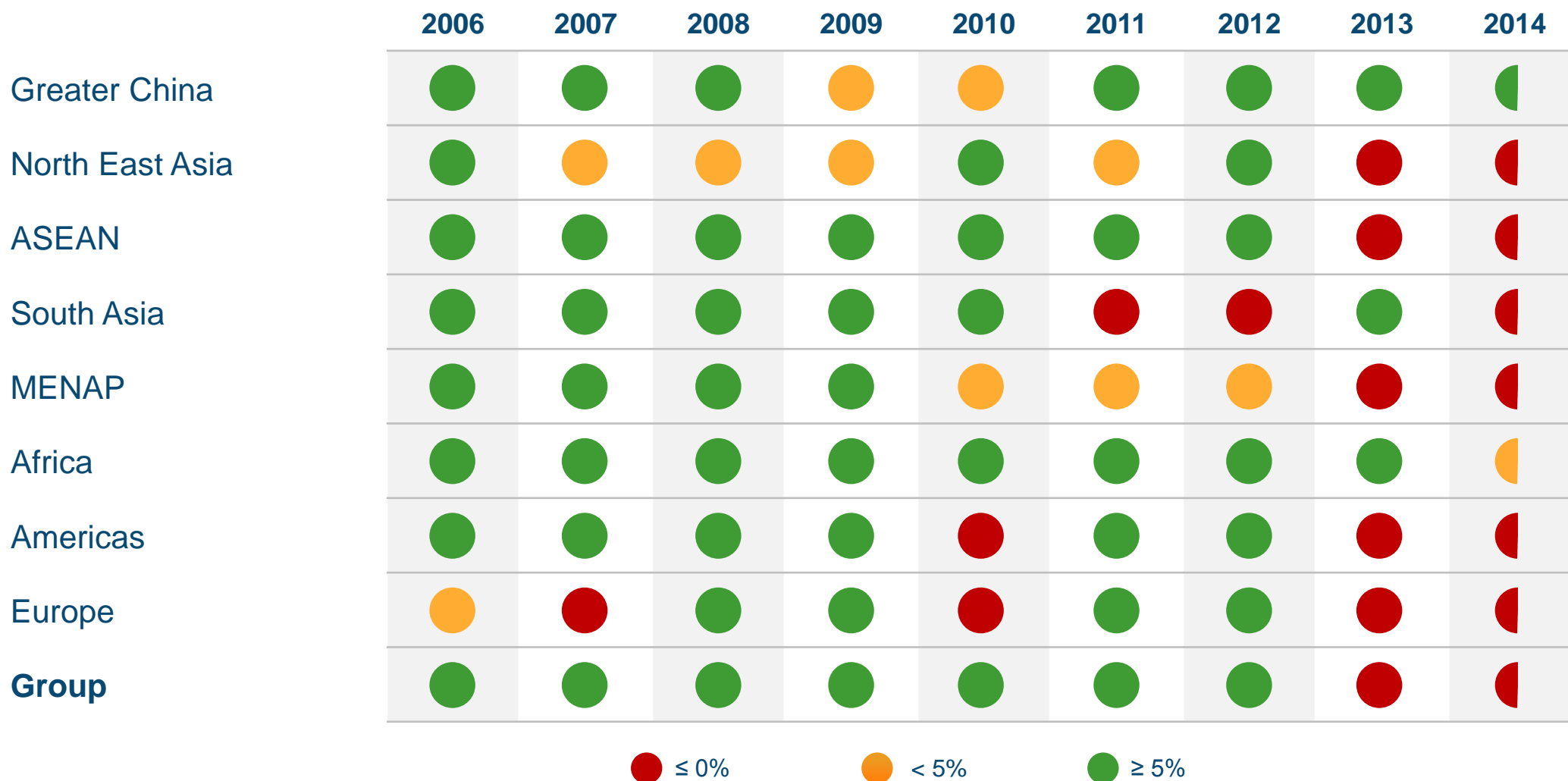
# **Peter Sands**

## Group Chief Executive



# Historical income performance

## Income growth (YoY%)





# Making the strategy happen

“We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.”



## Execution in H1 2014 - Examples

- Set out 5 strategic aspirations – relationships, investment, trade, wealth and relevant scale
- Implemented far-reaching reorganisation
  - Aligned the group to the strategic priorities
  - Broke down silos
  - Defined new segment strategies
- Reviewed businesses against the ‘5 tests’
  - Exiting subscale, non-strategic businesses
  - Reconfiguring businesses to align to the sharpened strategy
- Took decisive action to redeploy capital from low return relationships and businesses
- Stepped up ‘Raising the bar on conduct’ e.g.
  - Financial Crime Risk Mitigation Program
  - Customer Due Diligence remediation
  - Substantially increase resources
- Sharpened investment spend prioritisation and cost discipline
- Reallocating sales and marketing resources
  - Exited third party client sales
  - Shifted FM resources from structured / trading to sales / flow
- Defined integrated “roadmap” for implementation of strategy

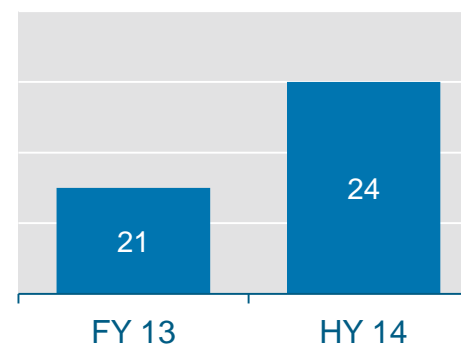


# Financial Markets

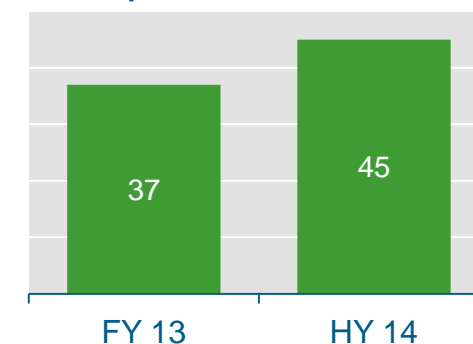
US\$m	H1 13	H2 13	H1 14	YoY%
Foreign Exchange	835	578	636	(24)
Rates	552	365	371	(33)
Commodities and Equities	288	219	262	(9)
Capital Markets	283	275	284	0
Credit and Other	254	207	227	(11)
<b>Total Financial Markets</b>	<b>2,212</b>	<b>1,644</b>	<b>1,780</b>	<b>(20)</b>

## Notional volume increase % YoY

### Cash FX

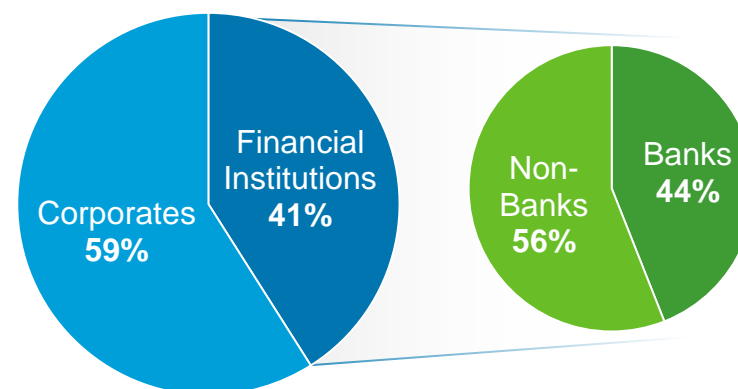


### FX Options



- Client driven business
- Regulatory changes and low volatility environment
- Strong volume growth, gaining market share
- Strong returns

## Income composition



Note: FX = Foreign Exchange



# Korea

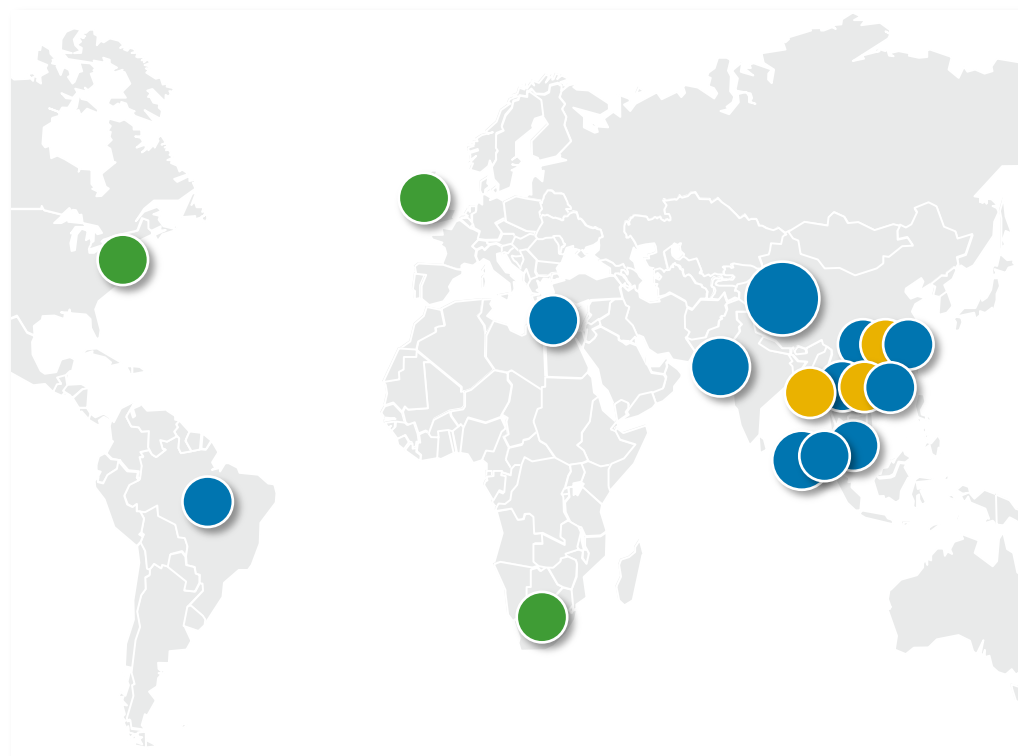
US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>898</b>	<b>669</b>	<b>(26)</b>
Expenses	(549)	(587)	(7)
<b>Working profit</b>	<b>349</b>	<b>82</b>	<b>(76)</b>
Total impairment	(212)	(209)	1
<b>Profit before tax</b>	<b>137</b>	<b>(127)</b>	<b>(193)</b>

## Actions taken in H1 2014

- Reshaping the business
  - Headcount down 9% YoY (~590)
  - Branches down 47 YoY to 314
- Sold Consumer Finance and Savings Bank
- De-risking Retail unsecured

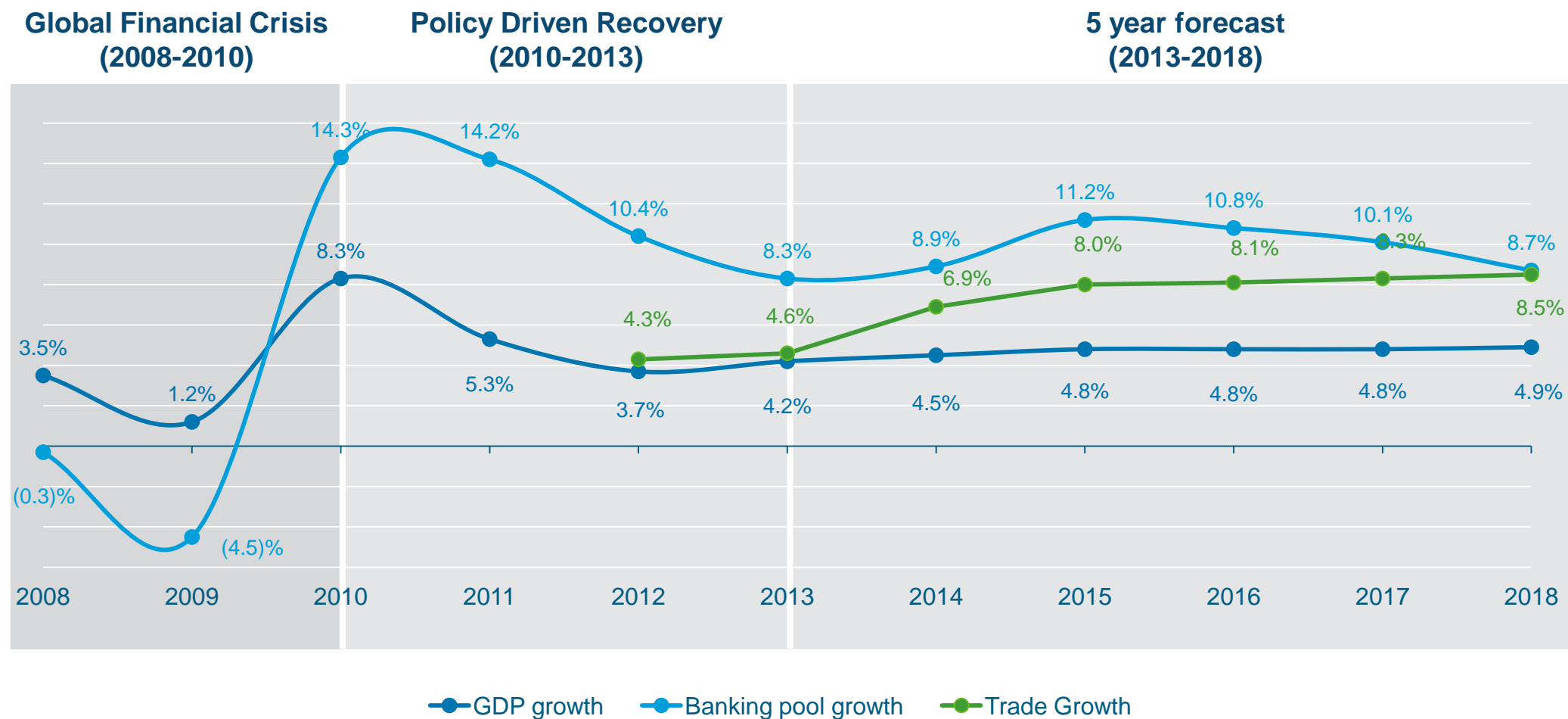
## Strengthening offshore client support

- 2013 year end – 18 desks in 11 markets
- H1 14 - added 3 desks in Hong Kong, Thailand & Vietnam
- H2 14 – to add 3 desks in US, UK and South Africa





# Growth in our markets



Source: IMF, WTO, McKinsey Global Banking Pools (Based on July 29 2014 version)

1. Real GDP, Trade and Banking Revenue Pool growths are based on weighted average of SCB's top 12 markets (weighted as per SCB's 2013 RWAs).
2. Banking revenue pool excludes 'Mergers & Acquisitions' and 'Discretionary Pension Distribution' related revenues.
3. Trade growth based on USD value of total merchandise trade (Imports + Exports).



# Our aspirations



## Relationships

- ▶ Build trusted relationships with the people, companies and institutions shaping our markets' future



## Investment

- ▶ Play a leading role in facilitating investment and deepening financial markets in our economies



## Trade

- ▶ Become the undisputed leader in commercial payment and financing for and in Asia, Africa and the Middle East



## Wealth

- ▶ Be recognised as a leader in growing and protecting our clients' wealth



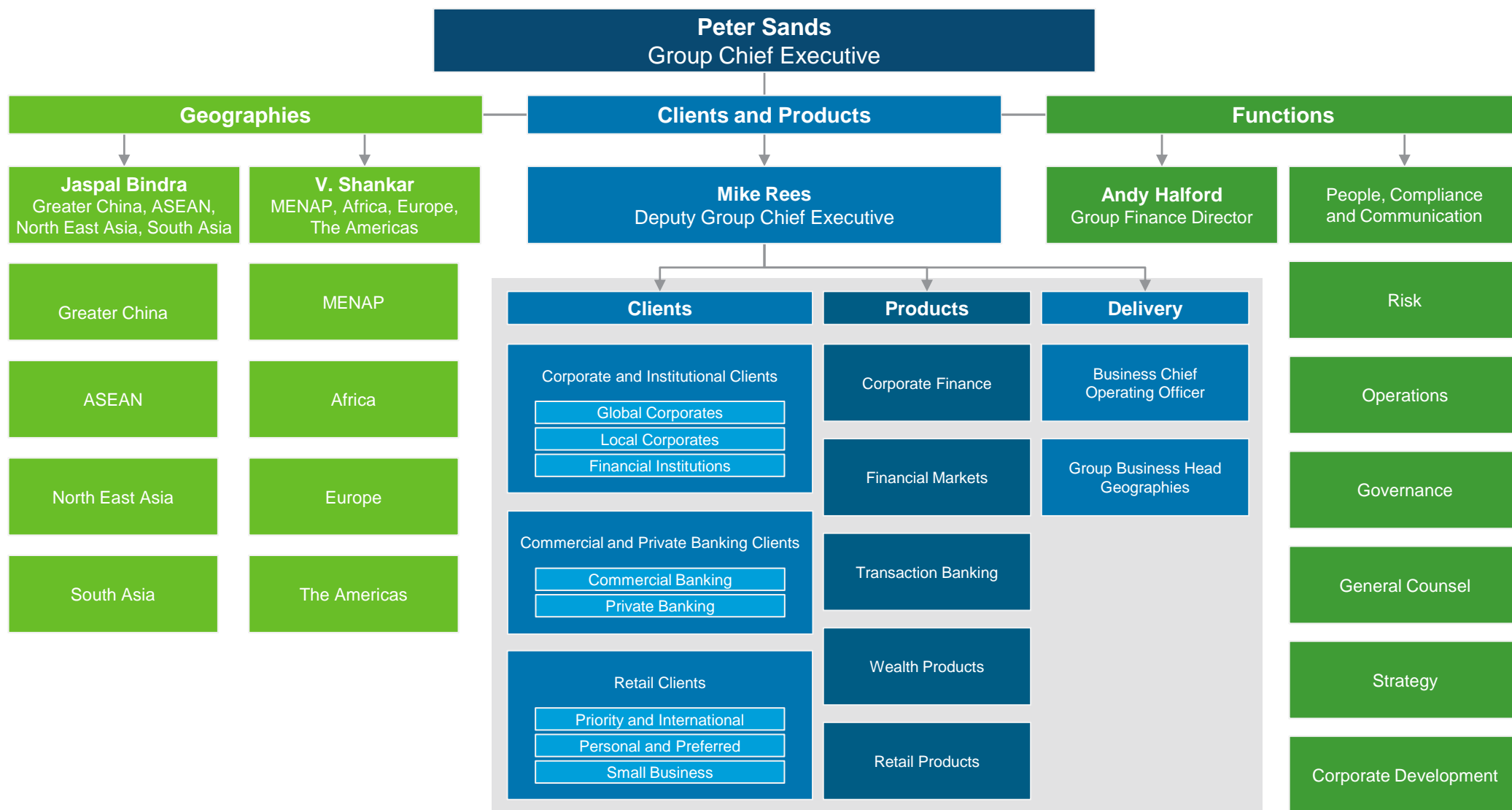
## Relevant scale

- ▶ Establish sufficient scale, balance sheet and franchise strength to be relevant and influential in our key markets





# Organisation structure





# Corporate and Institutional Clients

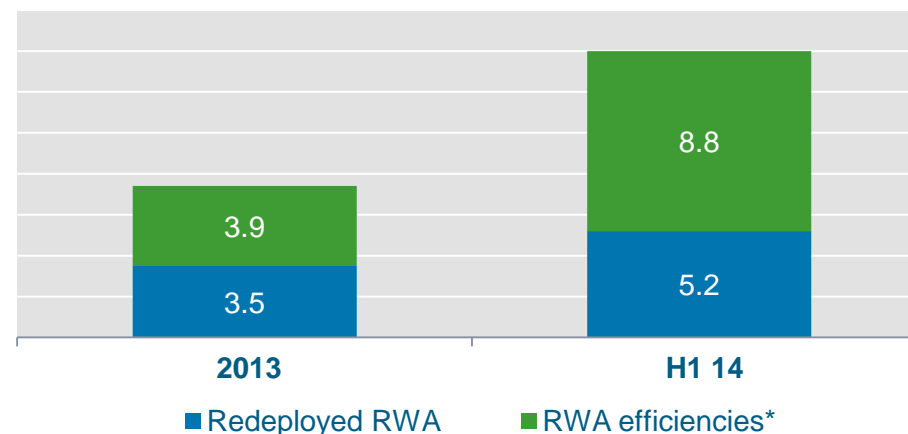
US\$m	H1 13	H1 14	YoY%
Income	5,577	5,334	(4)
Expenses	(2,500)	(2,546)	(2)
Working profit	3,077	2,788	(9)
Total impairment	(225)	(435)	(93)
Profit from associates	79	90	14
Profit before tax	2,931	2,443	(17)

- Around 60% of Group income
- 87% client income
- Building deeper relationships
- Focusing on cross border, network business

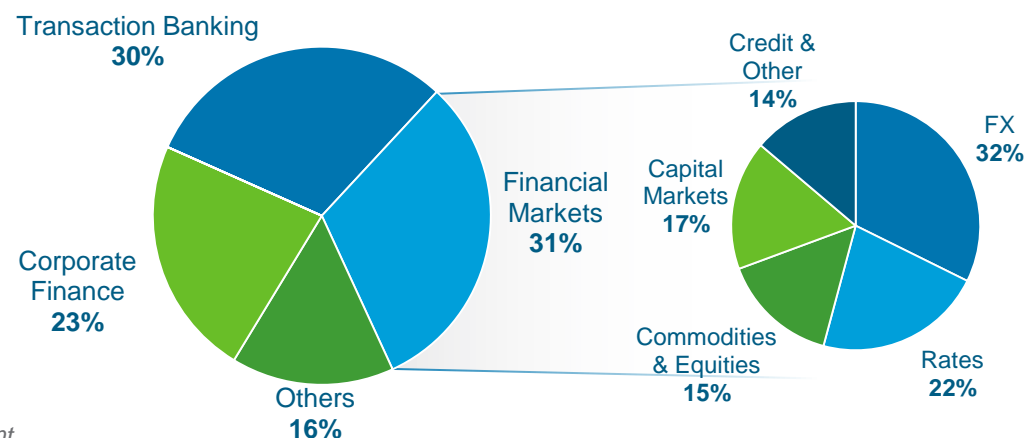
Note: Significant majority of RWA efficiencies are from the Corporate and Institutional client segment

## Redeploying RWA to improve profitability

US\$bn RWA redeployed



## Income split by product

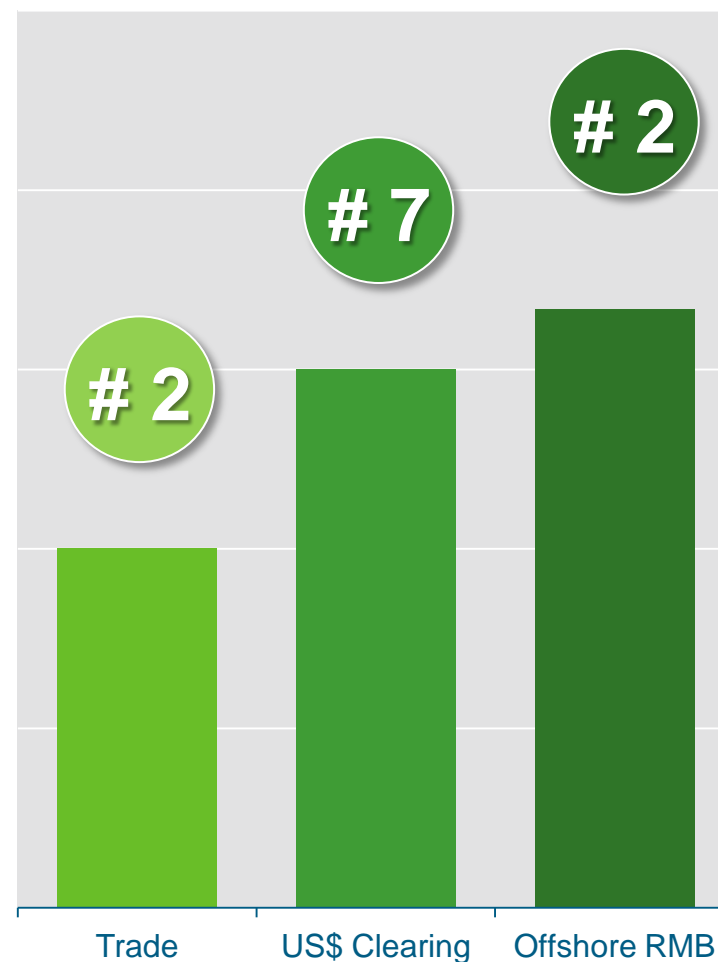




# Market position



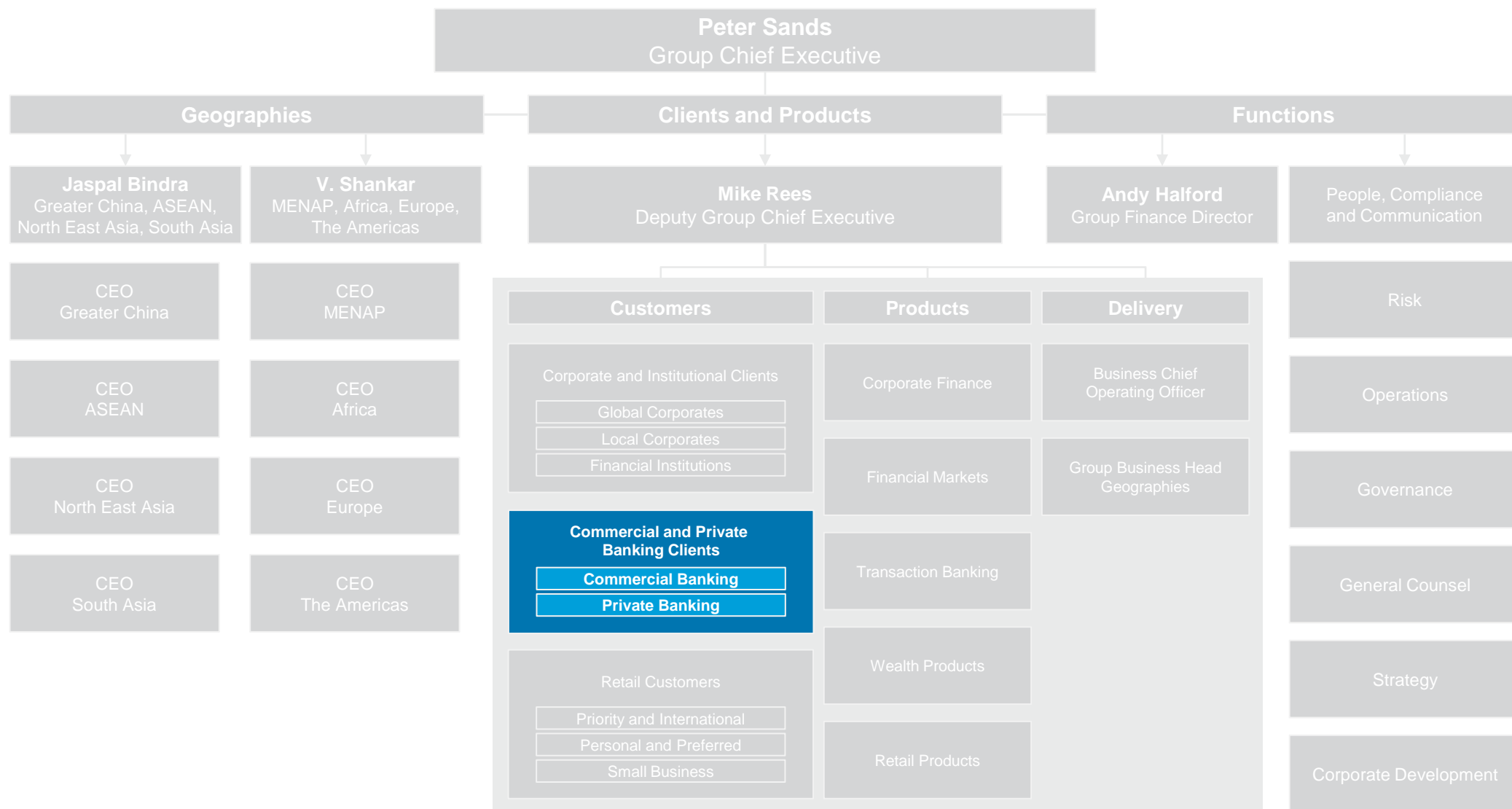
## Global market position



Source: Market research, CHIPS data; East & Partners Asian Institutional Transaction Banking Markets Program



# Organisation structure





# Commercial Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>812</b>	<b>616</b>	<b>(24)</b>
Expenses	(374)	(362)	3
<b>Working profit</b>	<b>438</b>	<b>254</b>	<b>(42)</b>
Total impairment	(29)	(100)	(245)
Profit from associates	17	11	(35)
<b>Profit before tax</b>	<b>426</b>	<b>165</b>	<b>(61)</b>

## Profit change

*Principal Finance*  
*Financial Markets*  
*Loan impairment*

YoY \$

**(261)**

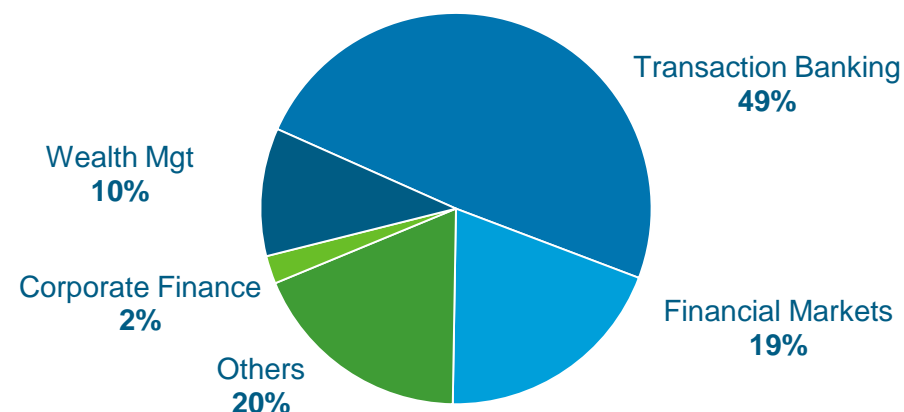
**(107)**

**(51)**

**(57)**

- 50,000 clients across 19 markets
- 90% of revenue from top 9 markets
- Deepening linkages between business owners and Private Banking

## Income split by product



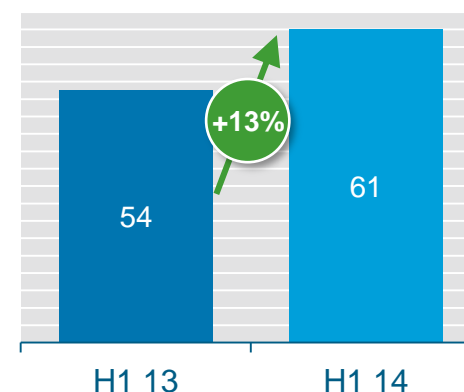


# Private Banking Clients

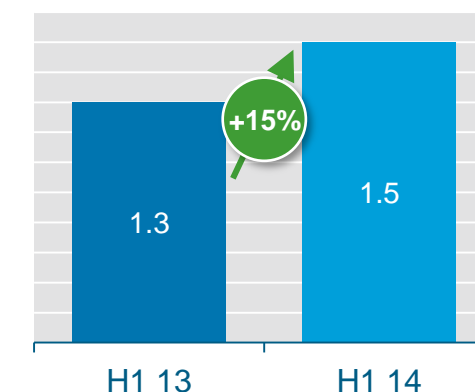
US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>301</b>	<b>314</b>	<b>4</b>
Expenses	(213)	(227)	(7)
<b>Working profit</b>	<b>88</b>	<b>87</b>	<b>(1)</b>
Total impairment	(8)	(16)	(100)
Profit from associates	1	-	nm
<b>Profit before tax</b>	<b>81</b>	<b>71</b>	<b>(12)</b>

## Private Banking

Consumer AUM - US\$bn



Net new money - US\$bn



- Significant market growth opportunity
- Aspiration to double AUM by 2020
- Investing to better serve client needs
- Rationalising sub-scale booking centres (e.g. Geneva)

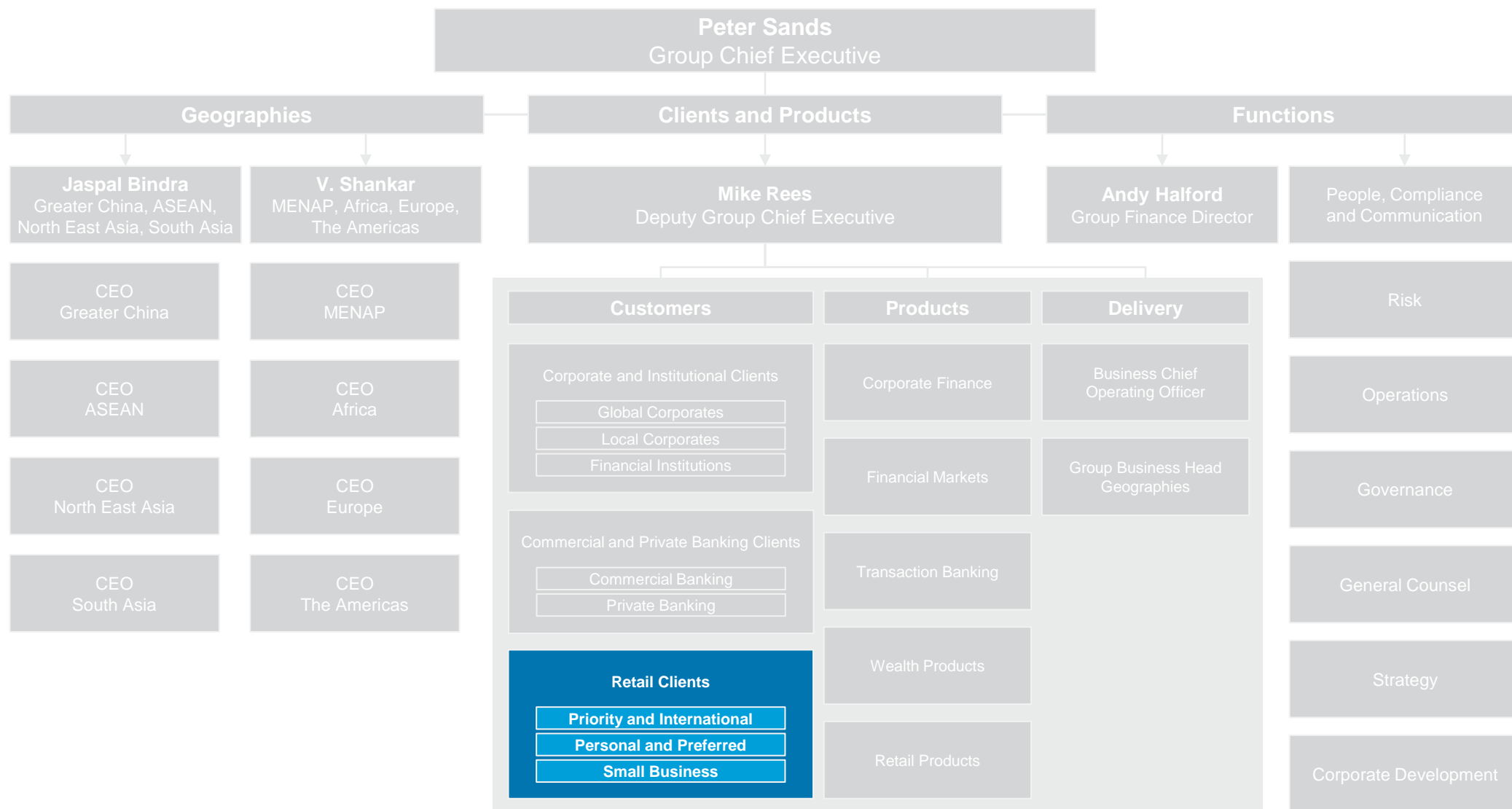
## Private Banking income growth in key centres



Note: nm = not meaningful; 1) H1 14 on H1 13



# Organisation structure

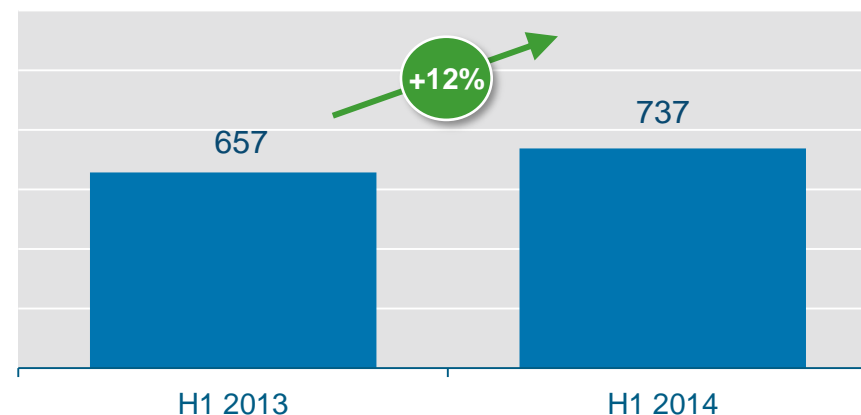




# Retail Clients

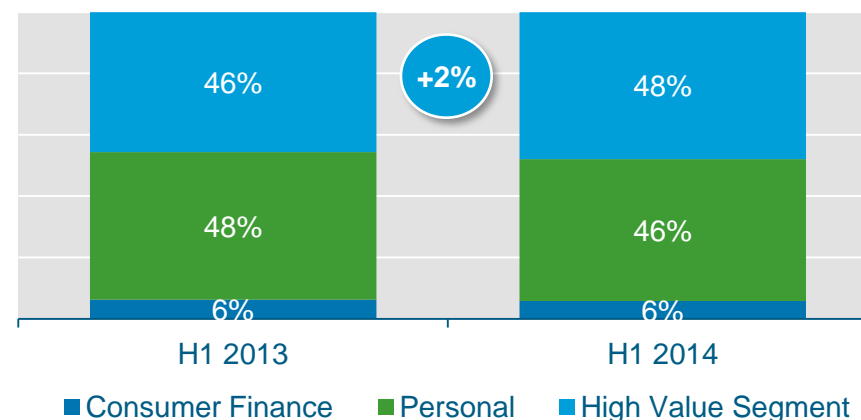
US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>3,061</b>	<b>3,005</b>	<b>(2)</b>
Expenses	(1,947)	(1,948)	0
<b>Working profit</b>	<b>1,114</b>	<b>1,057</b>	<b>(5)</b>
Total impairment	(479)	(480)	0
Profit from associates	15	12	(20)
<b>Profit before tax</b>	<b>650</b>	<b>589</b>	<b>(9)</b>

## Retail clients profit before tax ex. Korea (US\$m)



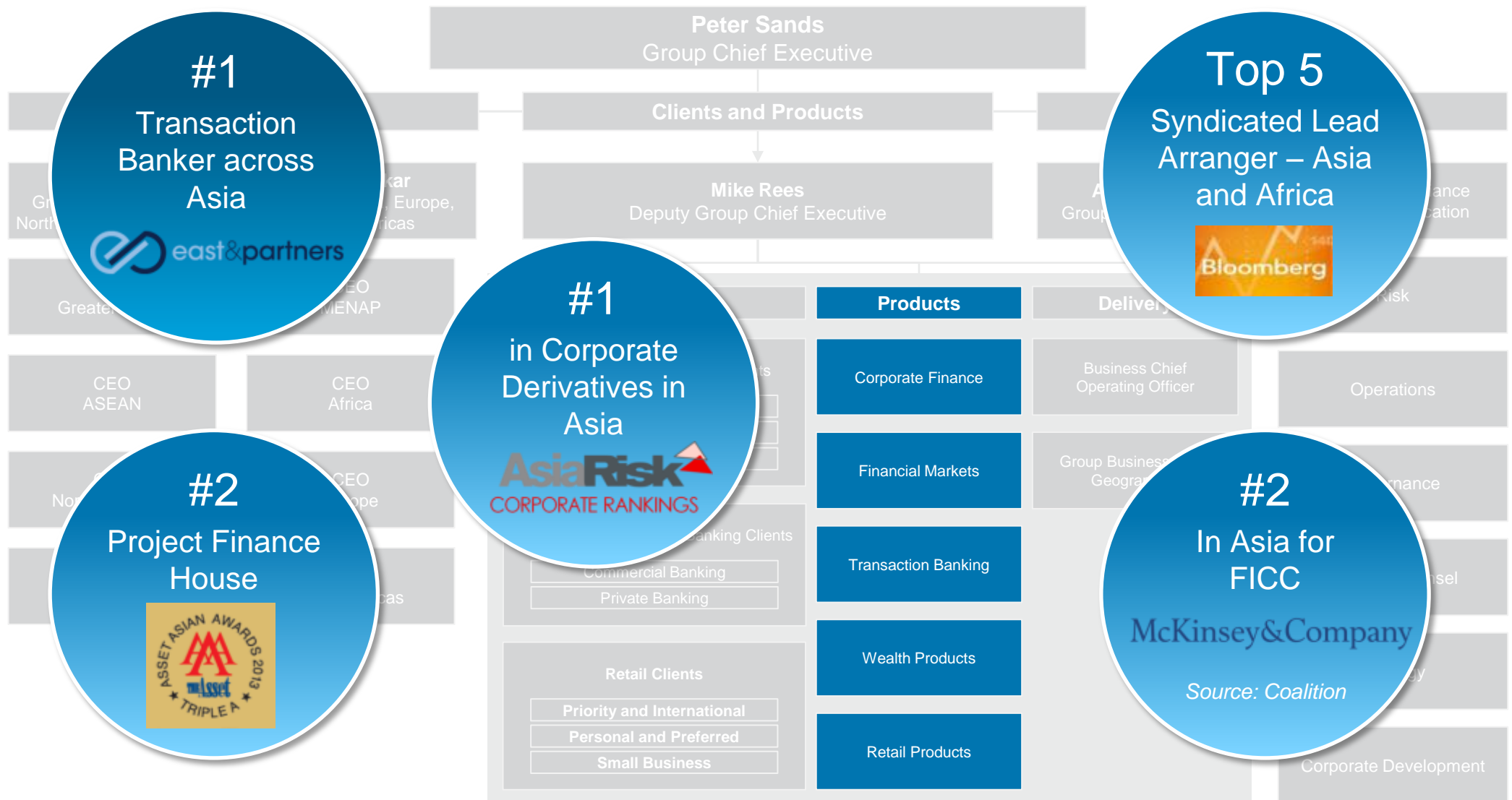
- Strong growth in Hong Kong, Singapore and Africa
- Taking action in Korea, de-risking and reshaping
  - Sale of Consumer Finance and Savings Bank
  - PDRS remains elevated
  - Greater emphasis on High Value Segment and Wealth
  - Exiting third party direct sales

## Increasing focus on high value segment (US\$m)





# Linking clients / products / infrastructure





# Linking clients / products / infrastructure

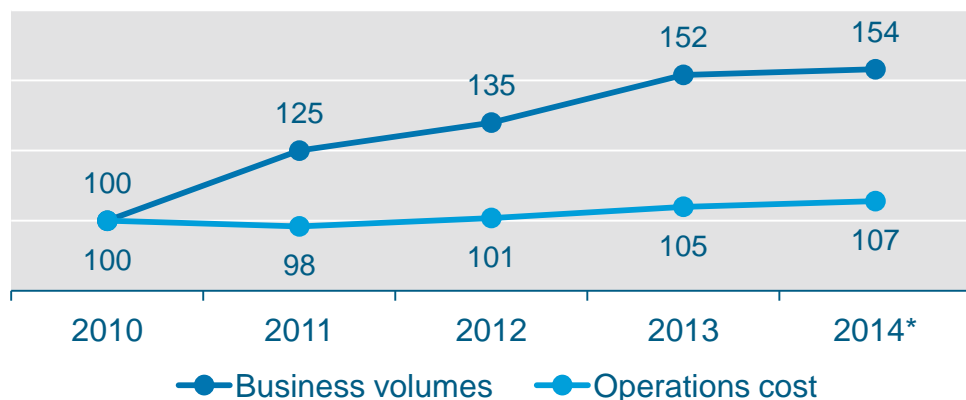




# Improving efficiency

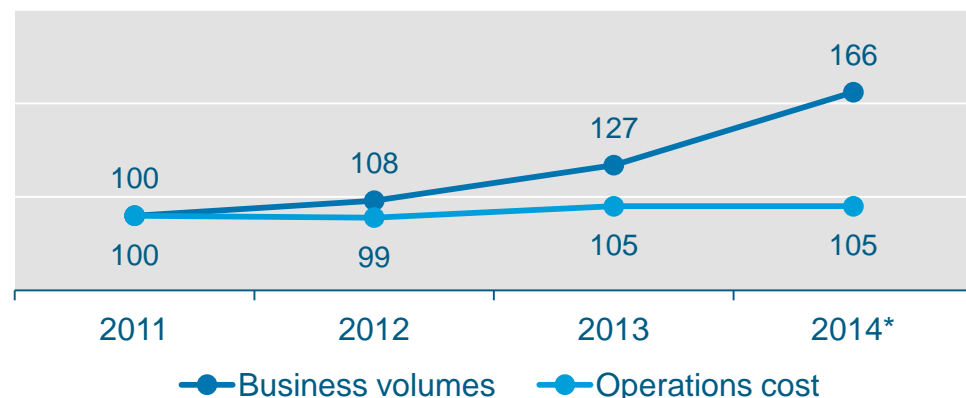
## Trade Finance

Indexed operations costs vs volumes



## Foreign Exchange

Indexed operations costs vs volumes



Note: H1 2014 annualised

- Technology driven innovation
- Investing in systems and driving productivity
- Greater straight through processing
- Costs saves and improved risk management
- In 2013 alone, saved 400 operations staff
- FX system (Razor) now available 24/7 across 43 markets



# Raising the bar on conduct

“ We've told the world that we're Here for good... we need to prove it in every interaction we have and every decision we make. ”

“ لقد قلنا للعالم أجمع  
هنا دائمًا للأفضل ”  
جوهر ما نحن عليه  
بحاجة إلى إثبات ذلك  
تعاملاتنا وفي كل قرار نتخذه. ”

“ 우리는 전 세계에서  
Here for good을 표방해  
왔습니다. 이것은 우리의  
본질입니다. 하지만  
우리는 모든 거래를 하고  
모든 결정을 내릴 때  
이를 증명해야 할 필요가  
있습니다. ”

“ 我們已向全世界承諾，  
守「一心做好，  
」的承諾。這是  
足之本，每一次  
和每一種決策都  
這個原則。 ”

“ ”

“ 我們已向世界宣  
“一心做好，始  
是我們的立足之

“ Kita telah menyatakan  
kepada dunia bahwa kita  
Here for good. Ini adalah  
esensi keberadaan  
kita. Namun kita harus  
membuktikannya dalam  
setiap interaksi yang kita  
lakukan dan keputusan  
yang kita buat. ”

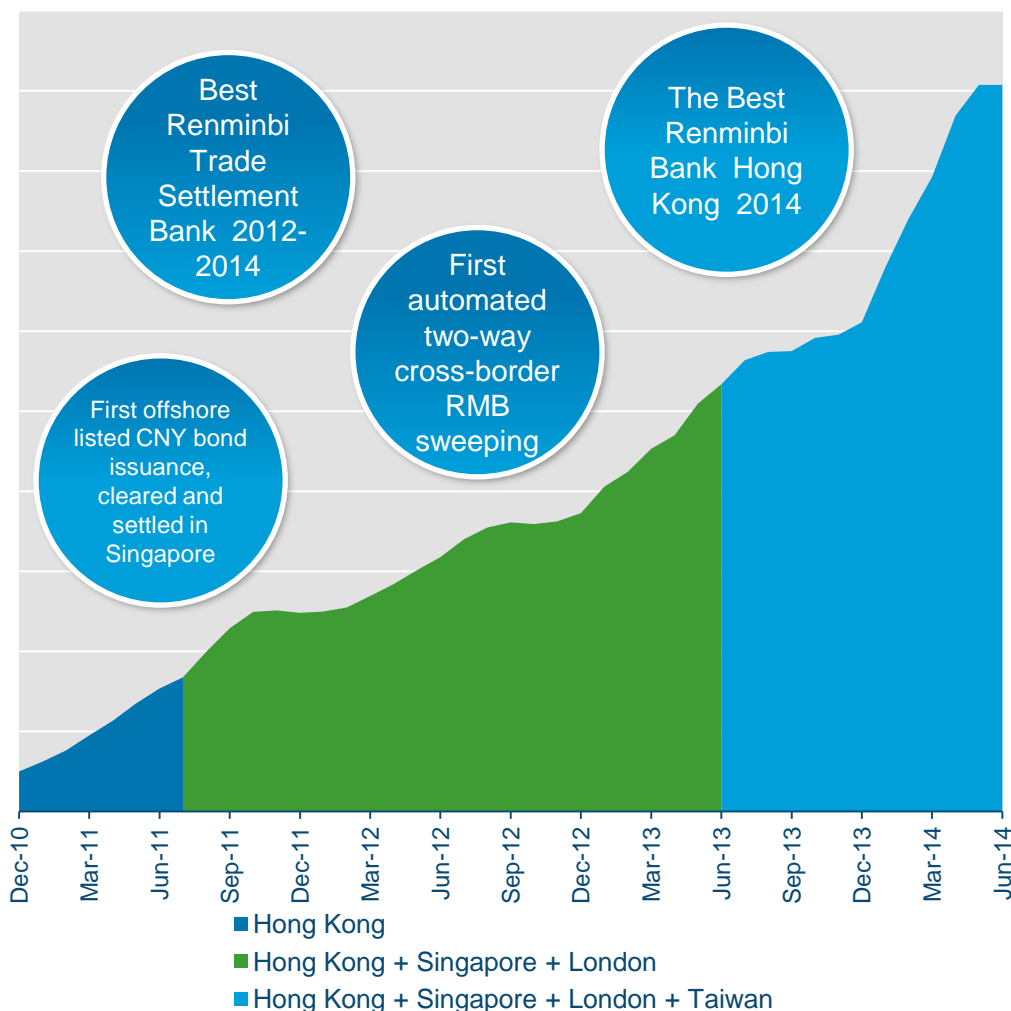
“ เรามอกกับทุกคนว่าเรา Here  
for good นี่คืหัวใจหลัก  
ที่แสดงว่าเราคือใคร ไม่ใช่  
เพียงเท่านั้น แต่เราต้องการ  
พิสูจน์ให้เห็นว่าสิ่งนี้รวมอยู่  
ในทุกสิ่งที่เราทำและทุก  
การตัดสินใจของเรา ”

“ 当行は「Here for good」  
を標榜しています。「Here  
for good」は当行のビジネ  
スの本質であり、当行は、  
あらゆる活動や決断におい  
て、これを実践しなければ  
なりません。 ”



# RMB

## Standard Chartered Renminbi Globalisation Index (RGI)



Source: The Asset Triple A Awards: Best Renminbi Trade Settlement Bank 2012-2014; The Best Renminbi Bank Hong Kong 2014

## RMB internationalisation

- 9th most actively traded currency globally
- Daily trading volume nearly quadrupled to US\$ 120bn (between 2010-2013)
- 17% of China's trade currently settled in RMB

## Liberalisation actions in H1 2014

- Launch of Shanghai Pilot Free Trade Zone
- Widening of the RMB trading band
- Abolishment of the lending rate
- Shanghai-Hong Kong Stock Connect
- RMB clearing service in Seoul
- Appointment of the first clearing bank outside Asia for RMB in London



# Outlook



- External environment remains challenging
- Momentum ahead of the second half last year
- Financial Markets remains uncertain
- Managing costs and risks tightly
- Continue to be:
  - Well capitalised
  - Highly liquid
  - Diverse





# Q&A

Here for good