

Standard Chartered's third quarter 2022 results presentation

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(Amended in places to improve accuracy and readability)

<<Bill Winters – Group Chief Executive, Standard Chartered>>

Good morning, and good afternoon, everyone, and thank you for joining us for today's third quarter results presentation. I'll be giving you a few introductory remarks, and then Andy will take us through the results in more detail, and we'll then both be available for Q&A as usual.

We posted strong results for the third quarter, against what has been another volatile and challenging three months for the global economy and for our markets. Our profit before tax grew 35% year-on-year, the strong business momentum driving an impressive 22% top line growth on a normalised basis. The Financial Markets continued its year of record-breaking performance, taking advantage of exceptional client risk management activity, but also building on the depth and breadth of this world-class business.

This, together with a strong double-digit growth in net interest income, helped the group to achieve a 10.1% return on tangible equity. The strong results are also testament to the ongoing focus of our five strategic actions which we set out back in February this year. In CCIB, Simon and the team have continued to focus on managing down low-returning risk-weighted assets, delivering another \$3.6 billion of RWA efficiencies in the quarter, making that \$10.5 billion of saves so far this year.

In CPBB, Judy and team have made strong progress on their cost savings target for 2022 and are comfortably on track to deliver their \$200 million target for this year, having delivered over \$170 million up to the end of September. CPBB has also reported a cost income ratio of 69%, which is an improvement of 4 percentage points over last year and well on the way to our 2024 target of 60%.

Now turning now to our China strategy, Ben and team are continuing to make encouraging progress despite the macro challenges that we are all facing. A great example of this is the double-digit income growth that we delivered so far this year, both onshore and offshore. So, we're staying disciplined on costs, and we've delivered a positive income-to-cost jaws of 10% in the quarter and 5% year-to-date. And with the total group efficiency savings of \$330 million being delivered so far this year, we're making great progress on achieving our 3-year target of \$1.3 billion.

Lastly, we completed the \$500 million share buyback program announced last quarter, taking the total shareholder distribution so far this year to \$1.4 billion. A few other things to comment on, we launched our second digital-only bank called Trust in September in partnership with the FairPrice Group in Singapore. We've leveraged our learnings from Mox in Hong Kong and got Trust up and running much faster and in a more cost-effective way than could otherwise have been the case.

The early progress of Trust has been simply remarkable, way better than what we had planned or expected, with over 200,000 customers onboarded in the first month alone. We are extremely encouraged by the early success.

Now turning to sustainability. We continue to see strong income momentum in our Sustainable Finance business with year-to-date income up 33%. And we see ourselves as a market leader in product innovation in this space with over 30 new product variants launched.

Now if I could turn briefly to our comments on the outlook. In the markets in our footprint, we see plenty of reasons to be optimistic about 2023. And we see a continued recovery post the pandemic. We see economic growth rates remaining healthy and inflation is not on the same scale or the same issue as we see in the West. We're well aware of the many challenges we face across our markets but feel well prepared for these adverse turns as they may come, Re-assured by the evidence of strong risk management that we have demonstrated over the past several years.

Against this backdrop, and our own strong performance so far this year, we remain confident of achieving our target of 10% return on tangible equity by 2024, if not earlier. We've continued strong business momentum and further NIM progression whilst maintaining positive income-to-cost jaws. Our strategy is working, and our momentum should see us through the challenges we face.

I will update you in more detail at the full year 2022 results. In the meantime, I will hand over to Andy, and we will then both be back for Q&A.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Thank you, Bill, and good morning and good afternoon to everybody. So, starting on slide 3 with the usual financial snapshot. I'll cover this slide briefly and then go into more detail in a moment.

Starting at the top, operating income is up on a normalised basis, 22% to \$4.3 billion. This is the strongest quarterly income print the group has delivered in a very long time. Approximately half of this increase was driven by interest rates and encouragingly, the other half was the result of underlying business activity and it was achieved against the backdrop as the Wealth Management market still being subdued.

Moving down the slide to expenses. In the third quarter, they were 9% higher on a constant currency basis. But with a number of cost reduction initiatives scheduled for Q4 delivery, we remain on track for a full year of \$10.6 billion print. We have maintained positive income-to-cost jaws of 10% on a constant currency basis. Credit impairment at \$227 million was up \$120 million on the same period last year but still moderate by historic standards. This primarily includes further provisioning on China commercial real estate names and the impact of two further sovereign downgrades.

All this led to an underlying profit before tax of \$1.4 billion, a 35% or \$0.3 billion improvement at constant currency. This contributed to a return on tangible equity of 10.1% for the quarter, 60% higher than a year ago. Our CET1 is 13.7% which is in the upper half of our 13% to 14% target range. We intend to continue to operate dynamically within the full CET1 range and we'll update you on our capital plans at the full year results presentation in February. Lastly, we continue to make progress on the exit of the AME businesses, which we announced earlier this year. The results of these markets will continue to be reported within our headline numbers until the end of the year.

So, let's start looking in more detail at our income performance starting on slide 4. As I previously said, overall income was up 22% or \$0.7 billion. Around half that increase came from rates, which as can be seen from the left of the top chart, particularly benefited Retail Deposit income, up 184% and Transaction Banking Cash income, up 124%. The other half was largely due to Financial Markets, which produced another record performance, up 21%. This was driven by a 43% increase in Macro Trading as a consequence of both increased client flows and increased volatility. Within the year-to-date FM income number, there is an accumulated mark-to-market gain of \$239 million on liabilities resulting from the current market volatility, this will reverse when conditions stabilise and spreads narrow.

This performance was partially offset by the 15% decline in Wealth Management income, which continues to be negatively impacted by weaker market sentiment and the ongoing COVID restrictions in China and Hong Kong, albeit we have continued to deliver positive Wealth Management net new sales both in the third quarter and for the year so far despite the challenging environment.

You'll also see in the top chart that Treasury and Other income was down \$123 million, which primarily reflects the increasing impact of our structural and short-term hedges, all of which is included in the treasury income. With the current shape of the yield curve, this is set to continue. I'll talk more about this

later. Finally, on this slide, the bottom right-hand chart shows the sequential year-on-year income growth rate per quarter. It illustrates nicely that for the successive quarter, we are in growth mode after the challenges of the pandemic years.

And now turning to slide 5. I'll spend a little bit more time on net interest income and margin. The headline here is that adjusted net interest income was up 25% at constant currency. Our reported third quarter net interest margin was 143 basis points, up 8 basis points from the second quarter. This is the fourth consecutive quarter of NIM expansion, and we expect this trend to continue for the remainder of 2022 and well into next year. It is the same mix of factors at play that we talked about at the time of our half year results, rising interest rates driving NIM expansion, mix and beta changes and then the dampening effect of our hedging activity.

In the third quarter, we've seen the increase in interest rates across all major currencies which collectively added about 23 basis points to our NIM. As expected, we experienced a further 3 percentage point mix shift between current accounts and time deposits which reduced NIM by around 4 basis points. In both CPBB and CCIB, we have seen deposit betas picking up, and they should remain within our previously guided range. However, as we said at the first half results presentation, our hedging activity has reduced our NIM. And in the third quarter, the impact was 11 basis points.

We expect to see a similar set of moving parts around the NIM in the fourth quarter, resulting in a full year average NIM of around 140 basis points. Rolling this forward into 2023, we now think that the 2023 NIM will be around 165 basis points.

Just a bit more detail on the hedges. As the U.S. dollar yield curve has steepened over the last few months, so the negative hedge impact is now more significant. The hedge positions totalled \$44 billion, which is less than 10% of our average interest-earning assets. It comprises two main elements. \$16 billion of structural hedges, which have been built since the fourth quarter of 2021 to smooth longer-term net interest income and to support our NIM as and when rates fall and \$28 billion of short-term hedges, 60% of which will roll off in February 2023 and the remainder in 2024.

We have included a slide in the appendices, slide 17, setting out the details on the hedges and their impact on our NIM to the end of next year. As we said at our half year results, our Hong Kong dollar sensitivity is lower from the migration of mortgages to the prime cap rate and our U.S. dollar sensitivity is impacted by hedging. We will refresh our sensitivities at the year-end.

And just spending a moment looking at the balance sheet on slide 6. There are a number of components impacting the balance sheet numbers. So, we set out a simple analysis to show the underlying picture. In these charts, we've stripped out the impacts of currency translation, RWA optimisation and other reclassifications to show underlying asset growth of 1% in the third quarter and 3% so far this year. This is in line with our expectations of low to mid-single-digit growth for full year 2022.

Now to look at performance through the geographic lens on slide 7. Unlike the increasingly prominent inflationary and recessionary concerns being experienced in certain Western markets, in the majority of the markets, we're actually seeing economic activity picking up as those economies progressively put the COVID pandemic behind them. This gives reasons to be cautiously optimistic about 2023 and beyond.

Just to illustrate these points, we have set out the third quarter and year-to-date income performance in six of our larger markets and the projected GDP growth rate for 2022. This is a striking chart. Four of these markets delivered in excess of 20% income growth in the third quarter, and all of them are strong RoTE contributors.

Hong Kong, which has had its fair share of challenges in the last few years, has recorded its best ever quarterly income number. And China, which is slower to emerge from COVID than most is still delivering 11% income growth this year and delivered an impressive 22% growth in the third quarter. The Network income picture is also improving strongly with overall year-to-date Network income, up 18% year-on-year.

I'll move on to cover expenses now on slide 8. Turning to expenses. The first thing to note is that we have delivered strongly positive jaws in both the third quarter and the year-to-date. The quarterly expense run rate in the top chart shows expenses increased slightly in the third quarter. This was driven primarily by a planned increase in investment spend and we do expect the year-on-year growth rate to reduce somewhat in the fourth quarter as, for example, cost efficiency actions such as further branch closures and technology systems are decommissioned. The year-to-date picture in the bottom chart shows that after allowing for FX and performance-related pay, expenses have increased by 6%.

Salary inflation has run at around 3% and we have selectively added headcount where there is a sound business case. We have also seen an increase in expense lines that were subdued during the pandemic, travel being the most obvious example. The effect of these expense increases has been in part offset by our cost efficiency saves. We are making good progress here having delivered \$330 million for total sales so far this year with CPBB delivering \$173 million.

Now turning to credit impairments and asset quality on slide 9. Whilst credit risk remains elevated, our overall portfolio remains stable and resilient. Looking specifically at the third quarter, credit impairment of \$227 million is up \$120 million year-on-year. The third quarter charge comprises three main components: China commercial real estate, sovereign downgrades and the regular flow charges and releases in CPBB and CCIB.

We have taken an incremental \$130 million of provisions for the China commercial real estate portfolio. This represents specific net new provisions of \$103 million and a top-up to our CRE overlay of \$27 million. We see the China CRE issue as one which will go on well into next year and we have provided additional granularity on our exposures in the appendices to the main slide pack. We have also taken a \$96 million charge from sovereign downgrades relating to Pakistan and Ghana and we've included a slide in the appendices, slide 19, setting out our main sovereign risks.

Lastly, on the Management Overlays, we now have a total of \$204 million remaining, \$153 million for China CRE and \$51 million for COVID. This has resulted in a year-to-date loan loss rate of 18 basis points. The stock of high-risk assets in our CCIB portfolio across the three indicators in the bottom left graph, has declined by \$2 billion with a \$2.6 billion decline in Early Alerts, largely a consequence of client regularisations out of Early Alerts, offset by downgrades into CG12 and Net Stage 3 accounts.

And finally, to complete the financial overview, risk-weighted assets and capital on slide 10, starting with the chart at the top. Overall, RWAs were down \$3 billion or 1% in the quarter to \$252 billion. We experienced increases of \$4 billion in respect to client-driven asset growth and \$3 billion from credit migrations, which were largely due to the sovereign downgrades. These increases were more than offset by a further \$4 billion of mainly CCIB efficiency actions and \$6 billion of positive currency translation movements. We maintain our view that full year RWA will be broadly similar to the end of 2021 at constant currency.

Turning to the CET1 chart at the bottom, we remain strongly capitalised with a CET1 ratio of 13.7% in the upper half of the 13% to 14% range within which we will operate. The CET1 was down 22 basis points in the quarter, mainly from the impact of the AT1 dividends, the share buyback and a small amount of incremental RWA, which more than offset the retained earnings for the quarter. Having proactively taken steps to manage the risk, FVOCI movements in the third quarter have not been material.

As we said at the half year results, we intend to operate within the full 13% to 14% target CET1 range, and there is no change to that intent. As usual, we will provide an update on our capital management plans and shareholder returns with the 2022 full year results in February.

And now on the final slide before we open the line for questions. Just to pull together our updated guidance. With a strong year-to-date income performance and continued NIM expansion, we are increasing our 2022 income guidance and we now think income for the full year will grow at around 13% on a constant currency basis, which is broadly the same as it has for the first nine months of the year.

This projection takes into account the continuing benefits of rising rates, but also recognises the weaker market conditions in Wealth Management. This is supported by the early trading numbers for October, where we continue to see good levels of client flows in Financial Markets. It's also worth remembering that we usually see a seasonal downturn towards the end of the year, particularly in the Financial Markets, where our fourth quarter income is usually the lowest of the year.

We continue to expect the full year 2022 average net interest margin to be around 140 basis points. For expenses, whilst there is some incremental positive impact from currency translation since we last updated you, this is not a sufficient scale to move our estimate of around \$10.6 billion for the full year. On credit impairment, we now expect the full year loan loss rate to be slightly above the year-to-date loan loss rate of 18 basis points, but below the medium-term loss rate of 30 to 35 basis points, which we have previously guided to.

Looking further ahead, we are confident of achieving our target of 10% RoTE by 2024, if not earlier, with continued strong business momentum in income supported by the NIM, reaching an average of around 165 basis points in 2023 and maintaining positive jaws.

And in closing, I wanted to highlight that Judy and members of our management team will be hosting a virtual investor event on 22nd November, focusing on Affluent client business.

So with that, I'll hand back to the operator, so Bill and I can take your questions.

Question and Answer session

<<Operator>>

We will now take our first question. And your first question comes from Joseph Dickerson, Jefferies.

<<Joseph Dickerson - Head of European Banks Research, Research Division, Jefferies LLC>>

Congrats on a good quarter. I was just intrigued by your slide 17 where you've laid out in green the NIM forecast, excluding the hedges, where it looks like the 2024 "forecast" in green, is around a little bit above 180 basis points with the actual NIM forecast ex or inclusive of hedges, somewhere around 180. I think that's about call it, 13 to 15 bps ahead of where the current consensus is for 2024, which is actually quite material in pre-provision terms. Is that the right way to look at somewhere around 180 for 2024?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Yes. Joseph, let me take that question. So, we previously, I think, is indicated about 160 and the 165 is for the 2023 year is 165. So, this chart is showing essentially the exclusive of hedges and the inclusive of hedges numbers, but guidance for 2023 is 165.

<<Joseph Dickerson - Head of European Banks Research, Research Division, Jefferies LLC>>

Right. But you've shown a 2024 number in there to show the roll-off of the hedges. Is that the glide path we should think about?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Correct. So, glide path, you will see we have studiously avoided putting a precise number on it in 2024, but you would not be wrong to put your slide-rule over it to come to somewhere around the 180 number for '24, that's right.

<<Operator>>

And your next question comes from the line of Robert Noble from Deutsche Bank.

<<Robert Noble - Research Division, Deutsche Bank AG>>

Two, please. Is the 8% to 10% revenue growth that you've highlighted in the past, is that still achievable on a higher-than-expected 2022 revenue base going forward? And second, can you just give us an idea on how Mox is progressing and the other ventures as well and what their revenue contributions have been so far and if they're on track with your targets?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Robert, let me start then with the revenue growth. So, you are right. Clearly, we have got a slightly higher base point, but equally, we've seen rates rise a little bit earlier than we would have anticipated. So, 8% to 10% is very much still within our sights. And that is, I think, consistent if you take that NIM guidance with what we would seek to do. So, it's a high base and we are still aiming for that 8% to 10% range.

On the ventures, Mox has continued to build. And we are very pleased with the progress that we have got there. I think probably the standout for us has been slightly more on the Trust side. So, Trust, as Bill mentioned earlier, 200,000 customers in its first month was ahead of what we had been hoping for, which is good, 1 million transactions.

As of today, we've got Mox with about 400,000 customers and Trust now moving up above the 200,000 level. The financial contributions for those are still relatively low. Obviously, it does take time to build up the income. But the bottom line is we are very happy to progress of both of those and particularly the relatively nascent Trust business has been a very encouraging start.

<<Bill Winters – Group Chief Executive, Standard Chartered>>

Robert, I'll just add a little bit of colour. I mean Andy answer is completely correct and comprehensive. And I'll say it's a real pleasure for me to be here with Andy, although, we're not in the same room. The 8% to 10% growth, obviously, is off of both a robust NII and NFI number. I'm most impressed actually by our non-financing income performance over the first part of the year because that's where the strategic focus that we've had on growing the Network business, focusing on the Affluent but of course, has been challenging, but nevertheless, is performing well, I think, in the circumstance, building out the digital partnerships, sustainable finance, et cetera, they're all showing really good progress.

And as Andy pointed out right up front, roughly half the growth that we've had so far is coming from interest rate increases, which we've also positioned well for in terms of our deposit base, obviously, not so well in terms of our hedging, but that's a whole other discussion. And as we've all pointed out, those hedges roll off and give us some incremental upside as those hedges roll off in the coming years, assuming rates don't go into complete reverse, which is not our expectation.

So, reaffirming the confidence that Andy shared on the ability to generate this growth. On the venture side, Andy mentioned Mox and Trust, which are two standouts, yet from an income perspective, where we started with Trust Bank is a credit proposition. And we did that largely because of our partner, NTUC had an existing credit card partnership with the local bank, which they exited in order to make room for us and Trust. So, we had an immediate uptake in credit cards on the Trust account in addition to debit cards and current account openings.

There's been balance transfers. We're building a nice loan balance early on, and that is with customers that are well known to us and our partner, that bodes very well for a relatively quick accession to profitability. Mox, was the first digital bank in Hong Kong to be offering credit product in scale, also building up some nice loan balances.

And that together, obviously with higher rates in the beginning of Hong Kong opening up. So, getting the travel-related benefits to our other partner there, which is Trip.com, all bodes well for achieving a decent level of profitability. It's not going to be a game changer for Standard Chartered Bank anytime soon, but I think it's an enormous affirmation of the value of the franchise that we built and something that we can build off of from there.

There's a couple of other things to mention. The SOLV platform is up to over 400,000 SME customers in India, continuing to go very strong. We've launched in Kenya, which has met a great reception. We have other partnerships and SOLV launches elsewhere in the world in Asia, which we've not announced yet, but which are in advanced stages. So that as a platform, I think, is extremely valuable.

As we pointed out at the half year, we sold a 10% stake to an external investor, I think reflecting the confidence that this is a platform that can grow quite nicely and generate profits over time. So, we could go on and on. But broadly, we're very comfortable with the progress that we're making on the Venture side.

<<Operator>>

And your next question comes from the line of Aman Rakkar from Barclays.

<<Amandeep Singh Rakkar - European Banks Analyst, Barclays Bank PLC>>

I have 2 questions, if I could. One, in relation to the hedges that you disclosed. So thank you very much for your new disclosure around the hedges and the impact on net interest income. I wondered in terms of the short-term hedging, can you just help me understand exactly what the difference is between that hedging and the structural hedging that you put on because it does look like you're taking the mark-to-market impact of the move higher in interest rates through net interest income as negative revenue on that portion of the hedge, but you're not on the structural hedge. So can you help me understand exactly why there's an accounting difference there? And also in your mind, strategically, what's the difference between those two hedges? Why would you put on that short-term hedge if its, with the benefit of hindsight, a drag in your net interest income?

And can I also just relatively ask around trading interest expense. Again, thank you very much for that disclosure. I think that actually complicates the comparison versus consensus, which I guess is a problem for us. But I think you talked about \$700 million of trading-related interest expense. Can you help us think about the associated trading income? Is there a kind of one-for-one trading income expectation that we should kind of put into our numbers presumably that comes through Financial Markets or Treasury income?

I guess the final one I'd just sneak in there is just around your capital ratio. You're at 13.7%, I can't see much by the way of draws on that kind of capital ratio in Q4 given that you're operating towards the kind of top end of that range or towards the top end, you've resisted the temptation to do a buyback at Q3. Just interested in your thinking there, please?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Okay.

<<Bill Winters – Group Chief Executive, Standard Chartered>>

Andy, I know you're going to answer, but I just wanted to comment on the hedging up front. I'm not going to get into the accounting distinctions, which Andy will explain thoroughly. But we took a decision towards the end of last year and in the beginning of this year when rates had had their first leg up, obviously, they've moved much further subsequently that it made sense for us to take a little bit of our rate sensitivity off the table. Of course, that was a positive carry at the outset. That wasn't the objective. The objective was to desensitise a bit as we went through a crucial strategic period for our company.

And as we were taking very, very deliberate decisions to accelerate our return to a 10% plus return on tangible equity. So we put on some short-dated hedges to take some of that sensitivity off in the first year or two of that ongoing strategic acceleration for the Group. And with the benefit of hindsight, our timing was wrong. No if, and or buts about that.

But given that these were hedges of our existing sensitivity to rising rates, and it was a relatively small percentage of our overall sensitivity, that's the call that we took. And we'll continue to take calls like that with the best information that we've got and after a very careful deliberation. But that was the short-term hedging strategy that we put in place at the time.

Because as you point out in your question, is I think from the structural hedging, which was effectively hedging the long duration of our equity, which is a mechanism that's used by other banks regularly although we were relatively light in terms of structural heading until recently. But I just wanted to give that a little bit of context on the approach to hedging, Andy can get into the specifics of your question.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

So, the accounting side is pretty straightforward. I mean the difference between the short term and the structural in essence, is duration. And secondly, the accounting for both the short term and the structural is the same. So whatever rate we have locked in as an income is shown as an income and whatever our funding cost is, which is now higher than it was before, is shown as a cost. And that is applied equally to both of them. So therefore, the NII is shown on entirely the same basis, but obviously, just with different rates and different durations.

On the funding cost, we have tried to make that a little bit clearer. We do include the detail on the slide. But in essence, it is a switch between one type of income and another. It is therefore neutral in terms of the overall income for the bank but if you're trying to build a model up off the basis of a NIM and a balance sheet, you need to make that adjustment in order to come back to the net interest income and the other income split. So hopefully, that has made that a little bit clearer.

On the capital front and the buyback front, we have said that we will provide an update on capital management in February. We are comfortable at 13.7% with where we are at in this point in time. And as has been the case evidentially in the recent past, if we do think that the surplus then will come back, but we will not do that every quarter, and we will monitor that as we move forward to an update on that in February.

<<Amandeep Singh Rakkar - European Banks Analyst, Barclays Bank PLC>>

On the trading cost point of view, should we be thinking about some trading income offsetting that through Financial Markets?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

The trading income is already in other income. So, it is in the numbers. This is purely a reclassification of the cost for the purpose of calculating a NIM.

<<Operator>>

And your next question comes from the line of Tom Rayner from Numis.

<<Thomas Andrew John Rayner - Research Division, Numis Securities Limited>>

Two questions, please. Just the first one. Can I just stick on slide 17 and the margin chart because this does look like new guidance for 2024. I don't think you've given margin guidance beyond '23 before, but the chart clearly suggests that the margin is going to close to 180. And I think currently, your consensus is 167. So, it's quite material uplift versus consensus. I'm just wondering, was it intended to be this? Or was that chart really to illustrate the impact of the hedge? I mean, and have you worked through, say, in your 2024 assumptions market-implied rates, deposit betas, deposit migration, the effect of the Hong Kong mortgage cap, et cetera? I'm trying to get a sense of is this really firm guidance for '24. And I have a second on costs, please.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Okay. Well, let me take that one, Tom, and then we'll go on to your second one. Is it firm guidance? I guess the answer is no. Is it directionally where we think things could end up if we play out the various factors you have referred to, and if the current outlook for rates, et cetera, continues to hold, yes, that is the space that we would expect to be in. So, we're not just purely putting this chart in to show the difference being hedged and unhedged, we are actually also looking at how we think the business will evolve. And as we've said before, there is a rollover of the balance sheet and actual momentum that means that some of the rate benefit comes through in later periods as the book reprices. And by inference, versus saying, we don't think that '23 would be the peak if rates hold to where there at, at the moment, there would be a little bit more in the tank in the subsequent year 2024.

<<Thomas Andrew John Rayner - Research Division, Numis Securities Limited>>

Okay. That's very clear. Just the second question on costs, I'm a little bit concerned. I think your guidance for the full year on a currency adjusted growth rate is about 7%, full year on full year. The consensus has

got that slowing to 4% per annum for '23 and '24. And I'm just trying to get a sense of is that still achievable given the inflationary world that we're now living in? Or do you think that the 4% slowdown from 7% to 4% is going to be challenging, but maybe revenue is going to be good enough that's not necessarily a problem regarding your return targets? So I'm just trying to get a sense on where you think the costs are going.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

So you're right, Tom, the 10.6%, I think, is about 7% growth. There's a bit of profit-related pay, etc, but 7% is where we think we would end up to the current year. We are very focused on the cost front. As you know, the program to take \$1.3 billion out remains very much on track, and the performance on that this year has been good. And I've got every confidence that will continue through next year and the year beyond it.

Cost inflation, certainly, Western markets is a little bit higher at the moment, but not necessarily so much in some of the Asian markets, the pressures are probably a little bit less than that. Our intent, and we, I think, communicated this before, is to be growing the jaws 2 percentage points per annum, and that remains very much the objective over the next couple of years if we can do better than that, we'll do better, but at least the 2% jaws. So I would think when you're looking at your forward projections that you should focus upon that 2% as a number and model it in that way.

<<Thomas Andrew John Rayner - Research Division, Numis Securities Limited>>

Okay. And just to be clear, that 2% jaws is pre the benefit of higher interest rates, is that correct?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

No, that is a reported number. Unadjusted.

<<Operator>>

And your next question comes from the line of Omar Keenan from Credit Suisse.

<<Omar Keenan - Research Analyst, Crédit Suisse AG>>

I've got two questions, please. My first one is also on slide 17. So can I ask about the NIM forecast on financial year '24 and just help me understand, that is a reflection of the average U.S. rates as of the 21st of September in the chart above. And we can see that it's assuming an average of over 400 basis points in financial year '23 before coming down in financial year '24. But the chart below shows the NIM forecast, excluding hedges continuing to go up. So, could you perhaps just talk a little bit about the mechanics and maybe the delay in terms of the rate benefits coming through? And maybe just give us an idea of what deposit pass-through assumptions are being made from here going forwards?

And my second question is just on impairments. I know Standard Chartered uses the multiple economic scenarios and give some helpful model provisions for specific circumstances like Central Bank over-reaction. But could you perhaps give us an idea of how changes in GDP, unemployment and real estate prices will affect IFRS 9 provisions, just given the economic environment has somewhat deteriorated and there are questions over real estate prices... Having these sensitivities would be quite helpful.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Omar, I'm rapidly thinking we should have made slide 17, slide 1 in our pack. But anyway. So, to your first question, I mean there's two or three reasons why the profile of the top chart and the profile of the bottom chart won't just 100% correlate. The first is the top chart is a U.S. dollar specific. And obviously, we are lending in various currencies. It is not only U.S. dollar. So, you'd have to have the profiles of different other currencies, et cetera, to get the fuller multi-currency picture.

Secondly, there is the effect of hedges rolling off, and that obviously comes in at different points in time as we have evidenced. And thirdly, you've got the issue that some of the balance sheet is contracted for certain periods of time. So, when the rates do change, you don't necessarily get the benefit of that immediately, you will only get it later, on the subsequent repricing. So, it's taking all of those into account.

We've gone through betas. We've done this at major market level, and that is why you can't just extrapolate essentially from the top chart to get to the bottom chart.

On the impairment side, you're right. We run a whole series of Monte Carlo simulation models we update those every quarter, as you would expect for our latest view on GDP and unemployment and everything like that. And then we go and run the engines. We make sure that what comes out looks sensible. So, in occasional circumstances, but we do try to make it occasional, if we feel that maybe the data isn't quite keeping up with more current events we may apply some overlays. So the most two obvious examples of that is COVID, where it was very difficult for any model to go and catch up with the full COVID impact. So, we had the overlay I think that peaked at \$450 million at one stage. That is now down to \$50 million. And over a period of time, that will work its way out in the system totally.

And then the other one is the China commercial real estate where we have clearly topped up the provisioning on that front just because of the currency of what is happening there versus the models we just want to make sure that we are as real time as we possibly can be. So that approach is applied consistently. I think it produces reasonably consistent outcomes. We certainly try to make sure that it does do, and over a period of time, certainly, the overlay side will come and it will go and who knows three years from now, maybe there will be something different in there, but that is broadly how we go about it.

<<Operator>>

And your next question comes from Nick Lord from Morgan Stanley.

<<Nicholas Lord - Head of ASEAN Banks Research, Morgan Stanley>>

I just want to ask a little bit about the China commercial real estate move the discussion on slide 18 of the pack. I mean, you've obviously got some pretty high provision levels there. I think you talked about a 77% cover ratio for CG13 and 14. And yet you're still cautioning that you might need to make more provisions next year. So I'm just trying to understand, and you said you've got an overlay, I'm just trying to understand what would be the events that would cause you to have to provide more? And I guess the question is when do we get to a stage where we may see recoveries or releases on this?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Good question, Nick. So context wise, slide 18, \$3.5 billion that compares we've got \$300 billion of loans and advances in total. So, it's just over 1% of the total book. So, I think that's quite important context-wise. As you can see from slide 18, we've got \$1 billion of that, that is in what we call CG13-14. So, the area that we are potentially concerned by.

And as you say, 77% of that is covered either directly by provisioning or by collateral that we have got. So, it is a high proportion covered. Things that can go wrong, the other \$230 million, we don't recover. So theoretically, but it is a high proportion that is covered. The overlay that we've got there is slightly more against what is not in the CG13-14, where we specifically reserved, but is against the CG12, the CG6-11, so what is in there that could yet be a problem that is not visible to us at this point in time. And we have got the overlay of \$150 million, which gives us some cushion against that.

But I guess your question of what can go wrong, things that at the moment look as if they are in that middle bucket actually theoretically could pop up into the higher bucket at a point in time. And until the whole sector has fully settled, we can't eliminate that as a possibility.

That having been said, I don't think in the overall scheme of our numbers, that should be something which would be at all unmanageable. Let's look at this \$220m-odd of total provision in the quarter, pretty much all of that is the sovereigns and this issue. The rest of our book has actually been almost net 0. So, the rest of the book is in a good shape. Obviously, we will keep an eye on that. And obviously, with interest rates rising, we have to be diligent on it, but I think the book is in good shape. And I think to the extent that there may be possibly some more exposure in the CRE space over the next year whilst the whole market settles down, maybe, but I do think it will be at a manageable level for us.

<<Bill Winters – Group Chief Executive, Standard Chartered>>

I was just going to give a little bit more color. I know there's a lot of focus on China CRE, both because of the exposure itself but also because what it says about what's going on in China more broadly. The fact is the segment in China is still highly distressed. There's a bit of a buyer strike. There's a concern that prices will fall. And as a result, the prospective buyers or actual buyers are relatively sidelined. Cash flows are down even for high-quality companies with high-quality projects that don't have heavy development agendas.

And so, the entire sector is feeling that. There has been quite a bit of policy support for the sector, but it's not turned the tide as yet. So, I think as Andy said, we're taking a cautious approach. I'm extremely comfortable with the level of provisioning right now. But we've taken a cautious approach in terms of both provisioning but also guiding to outlook because the sentiment in the sector has not yet turned. And as the sentiment doesn't turn, yes, it is possible the challenge creeps up to the quality stack into what we look at today is much higher quality: borrowers with low loan-to-values and good cash flow coverage. But the pressure is there. And we just have to acknowledge that until that turns, we'll probably continue to hit a note of caution on that sector.

In terms of how that's spilling over to the broader China market, obviously, there's a huge amount going on in China right now with the combination of the leadership adjustments and changes, the policy pronouncements and the uncertainty about the precise direction of travel. And obviously, some material uncertainty around when the restrictive COVID policies are relaxed and then lifted.

We're seeing those, yet what we're seeing very clearly is a very good steady growth in our business. With both onshore and offshore, growing very nicely. Good ongoing advances on the consumer credit side through the partnerships that we've arranged, and outright good prospects on the Wealth side, although clearly impacted by the market environment. So, the sentiment that is acutely negative in the commercial real estate sector is not shared across the rest of the portfolio. And that, for us, is quite encouraging. Hand back to you, Nick.

<<Nicholas Lord - Head of ASEAN Banks Research, Morgan Stanley>>

Yes, that's very helpful. And just, I mean, linked to that, I mean I know you've hardly made any provisions outside of the sovereign exposures, but are there any areas that you're just focusing on especially in about continued slow GDP growth in China and areas that potentially could come up as risk areas?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

We scan across markets; more fragile economies obviously we give more focus to. But at this point in time, there is nothing that I would particularly call out, there are no, across the board, areas of real concern. Interest rates rising, obviously can put some pressure on some corporates, so we just need to be alert to more highly geared corporates. But at this point in time, the overall book does seem to be behaving okay.

<<Bill Winters – Group Chief Executive, Standard Chartered>>

I'm completely with Andy as you'd expect. There's been a lot of pain in the leveraged finance sector. We are a meaningful leverage finance player, but we've avoided the losses, I don't think I can be more subtle about it. And that's really good. It means I think we're in a good position to take advantage of some opportunities that could come up as that market settles out. But apart from the people that are exposed structurally to higher interest rates or a strong U.S. dollar, and that's primarily the sovereigns in our case (sovereigns and companies that are close to them) beyond that, we're not seeing any acute signs of stress.

<<Operator>>

Your next question comes from the line of Perlie Mong from KBW.

<<Perlie Mong - Research Division, Keefe, Bruyette & Woods Limited>>

Just staying on impairment. On sovereign downgrades, obviously, for the reasons you've outlined stagflation, U.S. dollar, et cetera, how much more are you worried that might be coming in terms of sovereign exposures in the markets that you operate in? So that's number one.

And the second question is, it's another quarter of RWA reduction from efficiency actions in the CCIB, which you've delivered for three quarters now. Can I just ask you to go into a little bit more details about exactly what actions you've taken? Just to help us understand the sustainability of the RWA reduction.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Thank you. So, we've put a slide in, slide 19 actually gives a little bit more detail on the sovereigns that we have been particularly watchful of where there have been downgrades. And I think as we see it at the moment, that is the situation. Time will obviously tell. We'll see how some countries spare over a period of time. But at this point in time, that is where we're at and the situation that we see.

On your other question on the RWAs, we said back at the start of the year that actually reducing the lower-returning risk-weighted assets was going to be a key part, particularly for our corporate business that sits alongside the need to get the income return on our risk-weighted assets in our corporate business up. And I think we've actually made some really good progress on that in pretty short order. So we were, I think, the income return on the risk-weighted assets, we were below 5% at the start of this year and said that we really need to get 6.5%. The year-to-date number is 6.3%. So, we've gone a huge way up that curve.

And then in terms of the risk-weighted asset reduction, we'd said \$22 billion out by 2024. And we've actually done very nearly half of that at the 9-month point in a 3-year period. So, I do think that we're not just talking about things, we are doing things. That is being achieved by being more thoughtful about the returns that we are prepared to accept on new business.

And sometimes, we will decline to be involved if we don't think the returns are quite high enough. Sometimes this is on preexisting and at a point when we can rotate. Other times, it will actually be about managing the RWA numbers themselves. Are there different ways that we can secure those, get collateral, et cetera, that will actually manage the risk weight, but nonetheless, still give us the income return.

We also said that we would move a little bit more towards Financial Institutions, where the income returns are slightly higher. And that again has been happening over a period of time. I think the Financial Institutional income was about 41% of the corporate income, now that is 44%. So, it's collective of all of those that I think really has been making a difference.

And it's great to see the focus of that within the business has actually really started to come through and also coming through in terms of the return on tangible equity that we are getting third quarter in the corporate bank, 17.5% RoTE is clearly a great print and significantly up on the 10% of a year ago.

<<Perlie Mong - Research Division, Keefe, Bruyette & Woods Limited>>

So back on sovereign exposure. So other than Pakistan, Ghana and Sri Lanka, are you broadly comfortable with the other markets you're operating in, it's under control as it were?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Yes.

<<Operator>>

I will now hand back for webcast questions.

<<Investor Relations, Standard Chartered>>

If we could now turn to couple of questions from the webcast and turning to you Andy, Manus Costello from Autonomous, has raised two questions. His first question is, thanks for the helpful new disclosure on China CRE. You have taken 25% losses on the Hong Kong booked CRE exposure so far, where do you

think this loss could bottom out given the current outlook? And the second part of this question is on cost. 2% jaws on +8% to 10% revenue growth. So cost +6% to 8% for full year 2023?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

So, taking those in turn, and I think I will be repeating slightly what I said before, but the China commercial real estate, we have provisioned to what we think is an appropriate level at the end of the third quarter. What Bill and I have said is that is still a movie that is still playing out, and therefore, one can't totally eliminate the prospect that there could be some more provisioning over a period of time, but we do think it is going to be at a manageable level and that it should not be something that will cause major disturbance.

In terms of the income and the costs, 8% to 10%, you will take your own views as to where in that range you think we can get to, off the NIM guidance and then the other income, obviously, forming a view on that. As I said, on the jaws, 2% is what we had said that we would seek to do over the period. If we can get the jaws up slightly higher than 2%, I would like to do that. And by inference, that means the cost increase would be a bit lower than it would be at the 2% level.

But directionally, I think we've got a couple of years ahead of us where there should be good jaws progression. And indeed, you need to see that in order to get to a 10% RoTE in this business. So, the fact we are reconfirming absolutely that the 10% we think is there for the taking in '24, if not earlier is very consistent with that.

<<Investor Relations, Standard Chartered>>

Thank you, Andy. The next question is from Robin Down from HSBC. Coming back to a question on margins in slide 17 again. As mentioned earlier, it looks like ex hedges, you're signaling a margin for 2024 of say 180 basis points, but that's assuming the hedges disappear entirely. But will the structural hedges not remain a drag in 2024 with a longer duration? They appear to make up half of the current hedge drag to NIM.

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

So the 180 number we talked about, again, is directional, just to stress that. What we will see is the short-term hedges rolling off during that period. Now obviously, over the next 2-2.5 years, we will form views as to whether there is any more short term that we need to do to replace it. But if we did, then clearly, that certainly as at the moment, will be at much higher rates and the projections there do include the assumption that longer-term structural hedging does continue in place, and that will be a feature for the longer term, which is implicit in the word structural. So, it does factor that in.

<<Investor Relations, Standard Chartered>>

Thank you, Andy. I'm handing it back to Sharon again to take a couple of more phone questions.

<<Operator>>

We'll take our next phone question now. And your next phone question comes from the line of Andrew Coombs from Citi.

<<Andrew Philip Coombs – Director, Research Division, Citigroup Inc.>>

Two follow-ups and sorry to touch on the same ground. So firstly, with regards to the structural hedge, you said that's grown to \$16 billion. Do you expect that to grow further in notional going forward? And perhaps you could just discuss the duration of that hedge. You've been very explicit on the short-term hedge, but perhaps you could just add some color around the duration of the structural hedge.

And then the second question, just going back to Chinese commercial real estate. The overlay you've now increased to \$153 million, can you just provide us an idea of the sensitivity of that overlay relative to further declines in commercial real estate prices? How does the sensitivity work for every 10 percentage points, for example?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

Okay, Andrew. So, the structural \$16 billion I think at the moment, we feel the aggregate of the hedging is at a volume that we are comfortable with and the overall duration profile we're okay with. So, we will keep monitoring, but I'm not expecting significant changes in that regard. The structural hedging tends to be more in the 5- to 10-year period whereas the short term, by definition, is much shorter, and we've shown the duration of that in there.

The CRE provisioning, we run a lot of models in this. The overlays are to try to take account of where we think that things have moved a little bit quicker than the data that would be in the model. So, it is slightly more judgmental. It's not as simple as an X percent reduction in market prices gives a Y percent change in our credit impairment outlook, but I would just reiterate that I think we are provisioned to an appropriate level at this point in time. We can't rule out there being some more charges, but I do think that they will be of a manageable level and I just repeat again the point that this is about 1% of our total exposure group-wide. And although it's the prickly 1 at this point in time, it is 1%, it's not bigger than that.

<<Operator>>

We will now go to our last question. And your last question today on the phone lines comes from Yafei Tian from Citi.

<<Yafei Tian - Research Division, Citigroup Inc.>>

I really have a more big picture question around asset quality guidance that you have for future years of 30 to 35 bps. Given the very uncertain macro outlook, the 30 to 35 bps looks perhaps a little bit low, if there is any shock event that's happening. And it also certainly looks a little bit low compared to probably the COVID years you have seen or maybe the average that we have seen in some of the historical crisis. So, what gives you the confidence in that 30 to 35 bps credit cost guidance?

Along with that question is around the outlook in the RWA. How much further optimisation is left to drive that low single-digit RWA growth that you're guiding to? At which point should we start to see credit migration driving RWA a bit higher?

<<Andy Halford – Group Chief Financial Officer, Standard Chartered>>

So, the 30 to 35, forward forecasting credit impairment is not easy. If you actually looked at COVID from a distance, you would have actually expected far larger credit impairment charges than we actually incurred. And actually, the cost to the business was on the low interest income, low interest rates rather than on the credit side.

The 30 to 35 is derived from looking back over multiple time series in the past and seeing what happened, but it is not a precise science. Some of those time periods had slightly different interest rates the ones we've got now, and there clearly is a relationship between the height of the rate and the amount of impairment that one takes. We have got IFRS 9 that has come in, which wasn't around during some of the reference points.

But overall, when we look at the book, we look at what we've done to tighten our credit control procedures over multiple years recently. The fact that the book is behaving well at this point in time, we feel that 30 to 35 range is a reasonable range. And we are operating quite a lot lower at the moment, but we think it is a reasonable estimate as to where we might end up.

On the RWAs, we've taken the \$10 billion out so far year-to-date. We continue to push on those, whether we'll be able to do quite that same rate in the balance year? I don't know, but certainly is more that we can do there. And also, this is not a single year push, this is something that we will be driving over the full 3-year period, and I suspect well beyond the 3-year period. So, I do think that there is opportunity with the RWAs.

Overall, the adverse move on credit has more been about the sovereigns and the ratings of the sovereigns than they have actually been about the book. So, over a period of time, we will see what happens there. But let's not judge this by Western standards. But in a lot of the Asian markets we've got,

actually, the economic outlook has been built right upfront is looking quite encouraging and probably more encouraging than some of us might believe living in somewhat western parts of the world.

Good. Well, I think with that, we have come to the end of questions. So, thank you very much for your questions. We are certainly encouraged by the third quarter and slightly upping our guidance on the income this year and upping the NIM guidance for next year and reasserting the 10% 2024, if not earlier. Hopefully, are the main messages that you will take away. Thank you very much indeed for your time.

<<Bill Winters – Group Chief Executive, Standard Chartered>>

Thank you.