

Standard Chartered's third quarter 2023 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, and welcome to our third quarter 2023 results call. I'll make some opening comments, and Andy will dive in deeper before the usual Q&A.

We have continued to make strong progress against the 5 strategic actions outlined last year, delivering a solid set of results. We remain highly liquid, well capitalized, and we are confident in the delivery of our 2023 financial targets, including a RoTE of 10%. We're pleased with the progress we are making in our strategy. Our cross-border network business remains strong. Our affluent business has returned to excellent growth, both in customer numbers and income. Our digital banking strategy is working well, and our sustainable finance strategy is on track.

The macro picture is more mixed. Markets remain volatile as the global economy remains resilient, leading to shifting inflation and interest rate expectations. This is particularly the case in the U.S. where we have seen significant rises in long-term rates and an increasing conviction that we will be higher for longer.

Whilst we believe we are near the top of the current rate cycle, the higher for longer expectation has led to extended dollar strength, pressuring borrowers reliant on dollar funding. And we're encouraged by the recent economic data coming from China. Manufacturing and consumption are returning to normal levels, and the confidence is slowly rebuilding. We continue to expect GDP growth of around 5%, reassuring, given some of the narrative.

That said, the commercial real estate sector has only barely stabilised, and companies are succumbing to the extended period of weak property sales. This continues to impact our results. The Chinese authorities seem keen to deflate the property level without materially impairing the local financial system, something that they have managed well so far, but this policy is not without risk. That, together with lower NIMs across the banking sector in China, have led to weaker results for local banks and the resultant impairment of the carrying value of our stake in Bohai Bank.

On the flip side, our business in China is thriving. The offshore business, largely cross-border transactions, driven by China's actions to further open its economy and capital markets, is growing very strongly, up nearly 50% this year. The onshore business is resilient, up 2% so far in what's been a challenging year for China's domestic economy. So despite some material setbacks, we remain very confident that we will grow profits for years to come in and around our China franchise.

Our strategy is to capture the trade investment and wealth flows as well as financial markets activity in and out of China that derive from this ongoing opening of China's economy. I recently returned from China, and it's clear to me that in our focus areas, activity levels are booming, such as in cross-border flows and the new economy industries, especially those concentrated in the Greater Bay areas, such as electric vehicles, clean tech and high tech. Looking more broadly, we expect Asia GDP to be above 5% this year and next, making it the highest growth region globally.

In our recent global trade reports, increasing South-South or intra-emerging markets trade and growing services trade are expected to help offset the drag to trade from higher geopolitical tensions. Our unique regional footprint with presence in China, India, the Middle East, Africa and across ASEAN allows us to capture the opportunities from shifting supply chains and growing trade and investment flows within and between our regions.

Beyond the stress in China CRE and some sovereigns, corporate and consumer balance sheets, particularly in our markets, are in good shape, often better than those in some governments and have so far been resilient to higher rates.

Now on a sombre note, we have watched the events unfold in Israel and Gaza for the past weeks with shock and sorrow. We're hoping for a speedy resolution to the situation and that the tragic loss of life is brought to an end quickly. We have very limited presence in the currently impacted part of the Middle East. The principal transmission mechanism to our business would be a broader escalation of the conflict across the region, which results in higher oil prices, which in turn would put further pressure on the global economy and particularly on oil-importing sovereigns.

We made encouraging progress on our 5 strategic actions, and you can increasingly see that come through in the numbers. Our franchise offers superior growth prospects, and our investments are creating the platforms to ensure we capture that growth. We're convinced that we're in the right markets with the right strategy and are firmly on track to achieve our full year 2023 financial targets.

With that, I'll hand over to Andy to take you through the numbers and then re-join for the usual Q&A.

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

Thanks, Bill. Good morning, and good afternoon, everyone. So remembering that, unless I say otherwise, the comparisons I will give will be on a year-on-year and constant currency basis, let's get straight into the numbers.

Third quarter income of \$4.4 billion was up 7% compared with a strong third quarter in 2022, mainly due to the higher interest rates. Net interest income of \$2.4 billion was up 20% on strong performances in both cash management and retail deposits. The normalized net interest margin was up 24 basis points to 167 basis points after adjusting for 4 basis points of one-offs. Other income of \$2 billion was down 5% as the continuing recovery in Wealth Management was offset by a lower Financial Markets performance relative to a very strong prior year comparator.

Expenses of \$2.8 billion were up 8% due to inflation, investment and initiatives supporting business growth. But as guided, we were in line with, in fact, slightly lower than, the prior quarter's run rate. Credit impairments remained relatively low by historic standards, but were up \$62 million to \$294 million, mainly because of further charges relating to our China commercial real estate exposures.

Overall, we generated \$1.3 billion of underlying profit before tax. RoTE at 7% was depressed by a higher-than-normal effective tax rate mainly caused by increased rates-driven losses largely in the U.K., where we have insufficient profits to shelter these losses. The effective tax rate can move around materially on a quarterly basis, so I'd focus on the full year outcome, and we are taking various actions to ensure that the full year effective tax rate will be around 30%.

Now let me cover Bohai for a moment. We took a \$697 million below-the-line impairment charge relating to our Bohai investment, the details of which we have included in the slide in the appendices. Bohai's half year results were published in August and showed a meaningful reduction in net interest income, which accounts for most of their total revenue. This reduction, combined with a materially

lower domestic interest rate outlook, resulted in the impairment. It is important to remember that Bohai is a largely domestic China business, which is very different to our own China franchise, where we now generate more of our income outside China than within it.

Moving to year-to-date view, we are on track to meet our full year 2023 targets. Income is up 15% year-to-date. We continue to expect full year income growth to be in the 12% to 14% range. Costs are up 11% to date, resulting in 4% positive jaws. We remain on track for the around 4% jaws target for the full year and are willing and able to take more cost actions to protect that outcome. Credit impairment of \$466 million represents an annualized cost of risk of 20 basis points within our expected 17 to 25 basis point range. We are not seeing any new areas of credit pressure emerging. Year-to-date RoTE of 10.4% positions us well to achieve 10% RoTE overall in 2023.

Looking at NII and NIM in more detail. The headline here is that our NII was up 20% compared with the same quarter last year, albeit it was 2% lower quarter-on-quarter. The decline from the second quarter reflects the normalized NIM being 4 basis points lower at 167 basis points. We believe that this quarter-on-quarter dip is temporary and does not reflect a more fundamental change in structural pricing dynamics.

There are several moving parts, which explain the reduction. The 2 basis point benefit from higher interest rates, which was net of higher pass-through rates in the quarter was broadly offset by the impact on our hedging positions of the higher for longer rate environment. Adverse mix changes of 3 basis points were driven by 3 things: muted demand for client assets in a volatile rate environment; holding a higher level of treasury balances for most of the quarter as part of managing our elevated LCR; and some further CASA to TD migration in line with our expectations. We also saw a 1 basis point impact from asset margin compression in corporate lending.

Taken together, this gets you to the third quarter normalized NIM of 167 basis points. We now think the 2023 average NIM will be approaching 170 basis points, a slight detuning from our previous language of around 170 basis points. We do not expect further NIM erosion in the fourth quarter. In fact, we've seen an expansion and there are 4 primary reasons why this is the case.

Firstly, we have taken a conscious decision to normalize our LCR ratio, some of which occurred in the third quarter with more to follow in Q4. This has the effect of reducing lower returning treasury balances. Secondly, we expect negligible rate changes in the fourth quarter, so we do not expect an incremental drag from our hedges. Thirdly, we are progressively reducing our lower returning mortgage book. And fourthly, we see opportunities for further margin upside in treasury from reinvestment of some balances at higher yields. These actions should more than offset any underlying movements in pass-through rates or CASA to TD migration.

For 2024, we are not changing our NIM guidance. We continue to expect the average NIM to be around 175 basis points. There are a number of reasons for this. Regarding our hedge positions, we see a material and mechanical tailwind of 9 basis points, 8 of which come from expiry of our short-term income hedges and one of which is due to part of our existing structural hedge maturing and being reinvested at higher yields. Furthermore, in both a more stable and lower rate environment, we expect client asset demand to increase. We expect momentum to return across trade, lending and capital markets and see ongoing growth in unsecured lending in retail, driven by our new digital platforms and partnerships. In a lower rate environment, we would also look to increase our mortgage origination.

We also expect to see some mix benefit as higher-yielding client assets increase as a proportion of total assets relative to lower-yielding treasury assets. These benefits will be part offset by ongoing CASA to TD migration and higher pass-through rates. To date, deposit pass-through rates and migration have broadly performed in line with our expectations. In our top 4 retail markets in Asia, deposit betas have been broadly stable for much of the year, so appear to be performing better than some Western markets. All else equal, if interest rates decline, we would expect some moderation in both deposit pass-through rates and migration led initially by retail.

NIM is complex to forecast. It is dependent on many moving parts and assumptions, more so for us than for others and includes things beyond our control, such as rates curves and customer behaviour. We keep it under review, and we'll update you if any of those factors or our assumptions change.

As we approach the peak of the rate cycle, we are also looking to take further duration positions to dampen income volatility and mitigate the potential impact of a lower rate environment. We plan to build out our existing structural hedge position, mainly through increased use of hedge accounting swaps, which are efficient from a capital and leverage perspective. This hedge build-out should also support NIM if rates fall. More on this at the full year results.

Turning now to products. Third quarter cash management income was up 61% and deposits were up 50% as both businesses benefited from higher interest rates. This was supported by strong discipline on pricing and pass-through rate management. Trade was down 2% on lower volumes as trade activity was subdued, particularly in China and Hong Kong as clients preferred local currency financing. Lending was down 26%, principally due to lower origination volumes in challenging markets. Mortgage income was down 78%, reflecting market dynamics, including the prime cap in Hong Kong, which led to margin compression and accordingly, our decision to limit new origination. CCPL income was up 2% on higher volumes, in part due to momentum in our mass retail partnerships despite lower margins. The treasury loss of \$274 million was mainly driven by the impact of a higher rate environment on our hedge positions and a higher drag from deployment of the commercial surplus.

Moving to other income. In Financial Markets, market volatility was lower and 2022 was a strong comparator period. As a result, income of \$1.3 billion was 8% lower year-on-year or 6% lower after adjusting for \$28 million of one-off gains in 2022. Year-to-date, FM was flat or up 7%, adjusting for \$244 million of one-off gains in the prior period. Macro trading was down 11% as FX, rates and commodities saw lower income on reduced flows in a less volatile market. Credit markets was up 4% as lower credit trading income on lower volatility was offset by stronger financing revenues from good deal execution. We also saw market share gains in G3 bonds and loan markets despite a declining footprint market volume overall.

FM derives about 70% of its income from ongoing client liquidity and exposure management, including the business flows into FM from transaction banking. This flow income of \$910 million was up 3% on a reported basis, reflecting our past investment in digital platforms and cross-selling solutions. Conversely, the more episodic income of \$343 million, which is more event and mark-to-market driven was down 28% on a reported basis on subdued market volumes.

Wealth Management momentum was encouraging as the recovery here gained pace. Income of \$526 million was up 18% on last year and up 7% quarter-on-quarter, our best quarter in wealth since the first quarter of 2022. Performance was broad-based with all main Wealth Management product lines growing income year-on-year and quarter-on-quarter. Our 7 largest wealth markets grew income at double-digit rates. Treasury products and bancassurance were up 14% and 30%,

respectively. Encouragingly, both managed investments and secured wealth lending also picked up. Affluent net new money more than doubled to nearly \$18 billion, which is equivalent to around 9% of affluent AUM on an annualized basis. The addition of new-to-bank affluent customers continued at pace with account openings in the third quarter at their highest level since 2021. Our success in monetizing these new affluent relationships has driven the strong performance in wealth year-to-date and is expected to underpin performance in future quarters.

Turning now to the market view. Most of our main markets saw good momentum, albeit with strong rates tailwinds. Singapore and Hong Kong were standouts, with year-to-date income up 31% and 25%, respectively, delivering RoTE of 22% in Hong Kong and nearly 30% in Singapore. Across Asia, our income was up 18% and our underlying profit is up 37% year-to-date. The performance was broad-based with 8 markets delivering record third quarter income on a year-to-date basis and 11 of 17 markets achieving a year-to-date RoTE above 12%. In Africa and the Middle East, our income was up 30% and our operating profit up 54% year-to-date, which was particularly commendable, given the number of sovereign challenges in the region. The UAE was a particular standout with year-to-date income of \$612 million, up nearly 40% and a RoTE approaching 25%.

Looking at China, as Bill said earlier, notwithstanding a difficult domestic environment, our China franchise continues to do very well. Our China franchise is not a proxy for China's domestic economic performance, but is instead a proxy to the ongoing opening up of China's economy. Our strategy is to capture the trade investment, financial market and wealth flows in and out of China that derive from this opening and China's greater participation in the global economy. On a year-to-date basis, our overall income from our China business of \$2.5 billion was up 25%, comprising 2% growth inside and nearly 50% growth outside China. Our focus on the new economy is paying off as the revenue contribution from clients in this sector is increasing at a faster rate than traditional sectors and is now approaching half of new corporate origination. Year-to-date China-related profits are up threefold, notwithstanding taking further impairment charges in connection with the CRE sector. We're therefore making good progress on our aspiration to deliver \$1.4 billion of profit from China in 2024 compared with the \$0.7 billion that we delivered in 2021.

Turning to expenses. Costs of \$2.8 billion were up 8%, resulting in 1% negative jaws in the quarter. Importantly, as guided, costs came in below the second quarter run rate. We said we wouldn't necessarily deliver positive jaws in every reporting period, albeit on a year-to-date basis, we have delivered around 4% positive jaws, which remains our full year target. The main drivers of the cost increase continue to be inflation of around 4% and investments into business growth in FM, Wealth, Sustainable Finance and China, all of which will help deliver sustainable top line growth, reducing reliance on interest rate increases to grow income. For similar reasons, we continue to invest at pace in our digital initiatives with strong momentum in Trust and Mox, justifying our decision to invest into these businesses some time ago.

Investment spend was part offset by a further \$67 million of cost efficiencies, and we are now over halfway to our 2024 cost save target of \$1.3 billion. In retail, we are closing in on our 2024 \$500 million cost save aspiration, having delivered 2/3 so far. The credit impairment charge of \$294 million was up \$62 million, demonstrating the resilience of our portfolios, notwithstanding further pressure in China CRE. Retail impairment of \$115 million was driven by expected portfolio flows into default, and we saw an additional \$30 million charge in Ventures, mainly due to Mox growth. We do not expect the policy pressures in China CRE to ease in the near term. And with investor confidence at very low levels in China, we are not expecting a swift recovery.

We have proactively managed this portfolio through very difficult conditions for the sector, and our exposures have reduced by more than 30% since the end of 2021 to \$2.7 billion today. We continue to take a conservative approach and mark our books accordingly. We took a \$186 million charge on China CRE, mostly through top-ups on already defaulted accounts. Within this, we increased the management overlay by \$42 million to \$178 million to reflect further downside risk. We are not seeing contagion from the property sector into other parts of the Chinese economy. This suggests that the idiosyncratic policy pressures in China CRE have so far been contained by the authorities. Our China book outside CRE is performing well, and we have provided further disclosure in the materials.

Turning to sovereign pressures, assuming higher rates for longer, a consequent further period of U.S. dollar strength and more discerning capital markets, we are not out of the woods yet, notwithstanding the commendable efforts of affected markets and the IMF to improve the situation. In part, due to proactive management of our sovereign exposures, we saw a net recovery of \$7 million in the third quarter as additional provisions in Nigeria were offset by recoveries in Pakistan and Sri Lanka. Exposures in Pakistan, Ghana and Sri Lanka have reduced by more than half, about \$5 billion since the end of 2021, and we continue to actively manage our position in other vulnerable markets.

High risk assets were up \$0.5 billion in the quarter. Early alerts were up \$1 billion on new downgrades, including sovereigns, but this was partly offset by a \$0.5 billion reduction in Credit Grade 12 accounts and Net Stage 3 loans. On an underlying basis, customer loans were up \$2 billion or 1% to \$281 billion. Higher trade loans in part due to higher oil prices offset small reductions in Retail and Wealth management. In Retail, we continue to limit new origination in mortgages, which comprise about 2/3 of our total retail balance sheet due to unfavourable pricing dynamics. For the full year, we expect assets to grow on an underlying basis at a low single-digit rate.

Overall customer deposits were down 3% or \$14 billion to \$453 billion. Lower balances in cash management reflected business as usual or expected movements. The decline in Financial Markets and Treasury is mainly due to the decision to manage our LCR down towards more usual levels. As a result, the LCR ended up at 156%, down 8 percentage points in the quarter. The CCIB outflows were in part offset by an increase in retail time deposits. Time deposits are a high-quality source of liquidity and in our major retail markets are particularly return-accretive when used as an anchor product for affluent relationships.

Risk-weighted assets of \$242 billion were down 3% or \$8 billion in the quarter. Optimizations in CCIB and Treasury, model benefits, the Bohai impairment and favourable FX movements more than offset higher market RWA asset growth and mix changes and a small amount of credit migration. Around \$2 billion of further CCIB optimizations means we have nearly hit our 2024 optimization target of \$22 billion. As we said at the half year, if we can do more here, we will.

Looking ahead, we think RWA will be broadly stable this year to around \$245 billion at year-end. The CET1 ratio of 13.9% was down 11 basis points in the period. In the third quarter, profits and lower RWA were more than offset by distributions, including the full impact of the \$1 billion share buyback announced at the half year and a larger accrual for the final dividend for 2023. The Bohai impairment was a net 18 basis point impact to CET1 as the \$697 million impairment was partly offset by an RWA release of \$1.7 billion. Since the half year, we have completed the \$1 billion buyback announced in February and have completed around \$800 million of the \$1 billion buyback announced in July.

Several factors could move the CET1 as we approach the year-end, including RWA and inflation from credit migration and business growth and the completion of the sale of the aviation business. In the

light of these factors, we will reflect on further distributions at the year-end, balancing our investment and return aspiration with the need to maintain a robust capital position.

Just turning for a moment to what we are seeing since the end of the third quarter. In October, FM trading momentum improved as volatility has risen, although new deal financing and primary issuance levels are currently subdued. FM is a diverse business, which can generate sustainable growth through the cycle. The trading business does better in more volatile markets, whereas the financing and capital markets businesses tend to do better in more stable markets. Trade exposures remained resilient with further growth in working capital trade loans.

In Wealth Management, market sentiment has become more challenging recently. However, October momentum is broadly in line with September, although you do remember that we usually see some seasonality in wealth in the fourth quarter as we close out the year.

Our guidance for 2023 is, for the most part, unchanged. We still expect 2023 income to increase in the 12% to 14% range at constant currency. We now expect a full year 2023 average NIM approaching 170 basis points. Our jaws guidance remains around 4% for 2023, excluding the levy at constant currency and with the fourth quarter cost run rate expected to be similar to the second quarter. We continue to expect credit impairment to land within our 17 to 25 basis point range. We now expect an underlying effective tax rate of around 30% in 2023. We will continue to operate dynamically within the 13% to 14% CET1 target range. With one quarter to go, we remain on track to deliver 10% RoTE in 2023.

In conclusion, we have delivered a solid third quarter performance with strong progress on our 5 strategic actions. Our liquidity profile remains strong, and our capital levels remain robust. As Bill said, we remain optimistic on the outlook for our markets, which we expect to continue to grow at attractive rates, notwithstanding some near-term pressures in China CRE and some weaker sovereign markets. As we look ahead, we are confident that the investments we have made in China, wealth, financial markets and our digital platforms will support future top line growth in a lower rate environment.

Standing back, this is a business that has performed well through challenging markets in recent years. After 16% income growth last year and assuming, per our guidance, 12% to 14% this year and 8% to 10% next year, we are feeling positive about the outlook as we push through the 10% RoTE level for the first time in many years and on to 11% and above thereafter.

With that, I will hand back to the operator for Q&A.

Question and Answer session

<<Operator>>

Your first question comes from the line of Jason Napier from UBS.

<<Jason Napier – Head of European Banks Research, UBS Investment Bank>>

Two on net interest margins. The first around LCR management. I wonder whether you might just expand a little bit on what we've been told so far and in particular, focusing on what it is you're looking to do in the fourth quarter. Is it a matter of mix of HQLA, is it level? How low do you think the LCR ought to drift to optimize that piece of the equation?

And then second, perhaps a question for Bill. Just taking a step back, as you said, markets quite clearly are coming home to the view that we're going to have rates that are higher for longer. If most of the asset base other than the treasury holdings have swapped back to floating, I just wonder, is there a tailwind into next year from asset yields? 5.1% yield in Q3, certainly, for the developed markets is a pretty good income yield. Where does that go, absent with changes in pricing, over the next 12 months in terms of just asset yield on its own?

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

Okay. Jason, let me take the first one and then, Bill, the second. So on the LCR, if you go back in time, we've been operating more in the mid-140% range. Earlier this year, with other events going on, we bolstered that up to the 165% or thereabouts level. And as you can see from this print, we have slightly reduced that down to about 156%, I think it was at the end of Q3. And I think our intent will be to continue to normalize that over the next quarter in particular. Now, what we typically do, LCR obviously has many moving parts. It is partly net outflow basis, it is partly about the assets themselves, but where we can do, we are taking out the lower returning of the treasury assets. That was something that happened probably later in the third quarter through so to some of the NIM support for the fourth quarter, we will see more benefit of that coming through for the whole of the fourth quarter from the third quarter actions plus the fourth quarter actions. But overall, we are moderating the LCR back nearer to the sort of levels that we have historically been at. Bill, did you want to pick up on the asset side?

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

Yes. Jason, thanks for the question. Obviously, there's lots of follow through from the idea of higher for longer. Andy and I both commented on the pressures that this puts on a particular dollar borrowings for our sovereign clients and some corporations. We would also expect that this would keep the credit spreads on the assets across our portfolio at relatively high levels. And as we both pointed out, the credit portfolio itself is in very good shape with the obvious exception of China real estate, which is not interest rate driven. It's obviously price and volume and policy driven. So we would expect that there would be some reasonably interesting opportunities to take advantage of higher yields in asset markets, in particular in areas where we've been relatively underweight.

So Andy mentioned the continued build-out of our consumer credit portfolio where, certainly in the personal lending space, we would expect to see more attractive yields on our assets as we grow that book. And I would point to other areas in the corporate space where we think we'll be able to take advantage of higher yields, again, benefiting from the fact that we've got a very clean book going into what feels like a period of slightly more stress in markets ranging from leverage finance to general corporate credit.

I think that answers the question you asked, on balance we see the higher for longer as a positive thing, but we're fully aware of the pressures that come with that.

<<Jason Napier – Head of European Banks Research, UBS Investment Bank>>

So just to check that I understand, aside from mix change, we should really think about the loan book as a fully floating artifact and it's kind of done its thing for now. Is that right?

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

If you're talking about interest rate, yes. I mean the duration we're taking are clearly affected by the hedges and the composition of our treasury portfolio.

<<Operator>>

Your next question comes from the line of Joseph Dickerson from Jefferies.

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

Can you just explain in layman's terms what the system migration is the 4 basis points of NIM, just so we can understand why it's a one-off I've not really come across that? And staying on the NIM, you had EIR adjustment in Singapore. Is that something that you would expect to repeat? Or is that just a slow growing? And then, I guess, overlaying all of this, you've alluded to putting hedges on later in the year. Can you just elaborate on what your hedging policy actually is just so we can have some clarity?

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

Yes. Okay, Joseph. So let me pick those up. So the one-off adjustment in NIM, the origin of that was changing out a system. The system made visible a data feed that we had not been previously taking into account in the NIM calculation, which if we had done, we would have made a small adjustment in several prior quarters. We picked that up. And therefore, we had a several quarter corrections to make in the one quarter, and therefore, we have pulled it out as being a one-off because its impact actually is not unique to the single quarter, it is correcting for several quarters prior. That is by far the biggest component.

On the hedges, as I think we've talked about previously, a couple of years ago, we put in place essentially one longer-term structural hedge and two shorter-term hedges. Of the shorter-term hedges, one retired in February and the other one retires in the February coming. And our intent is at least one of those, we will be building up to replace, given that rates now are so much higher and that will provide more robustness in the event that the rates do peak and reduce. So we'll get the benefit of the drag being reduced, and that will be part of the reason why we're comfortable with the income growth projections we've got for next year, and we'll lock into the higher rates that are in the market at the moment.

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

And just on the EIR adjustment in Singapore, is that something that you see that wasn't that meaningful? But nevertheless, would be helpful to have any clarification there if that's something that's going to create some modest headwind to the margin going forward in other jurisdictions or also Singapore.

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

Yes. I mean the EIR is an adjustment that is made of an actuarial valuation from time to time, it was slightly bigger this time around, and it is a correction that is done that affects prior quarters. So again, because it was otherwise going to be hitting the one quarter when it actually represents more than one quarter, that is why we have pulled it out.

<<Operator>>

Your next question comes from the line of Matthew Clark from Mediobanca.

<< Matthew Clark - Equity Analyst, Research Division, Mediobanca >>

A couple of questions on loan growth, please. So firstly, the decline this quarter seems to be mainly coming from the corporate centre. So I was wondering if you could just remind us what are this kind of \$30 billion of loans in the corporate centre and whether the decline quarter-on-quarter is real or whether it's kind of repos or accounting noise.

And then secondly, if you could give us some outlook for loan growth next year or the moving parts, how you see loan growth developing from here, that would be helpful.

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

Yes. So Slide 15 has got the loans and advances to customers data on it. And you can see from that, the \$290 billion at the start of the quarter becoming \$281 billion. The majority of the change was in treasury positions, which links back to some of the comments earlier about the LCR management. If you strip those and the optimization and FX out, then the underlying was growth of 2%, so 2% in one quarter annualizing at 8% for the full year on \$281 billion is about 3% per annum underlying loan growth on an annualized basis. Now next year, we'll obviously see where that 3% goes to. I think there are a number of areas where we are feeling good about the prospects of the business. Clearly, Wealth Management side is growing at a clip. The Financial Markets, albeit moves around a bit by quarter, has been growing nicely. We have got the Mox and Trust businesses growing at a pace. So we'll see and we'll guide in February on where we see the asset growth side of things next year. But certainly, our sense is that we should be seeing a bit more demand for credit from clients over the period of the next 15 months or so.

<<Operator>>

We will take a short break from phone questions. I'd now like to hand over to Gregg for webcast questions.

<<Gregg Powell, Group Head, Investor Relations, Standard Chartered>>

Question from Manus Costello at Autonomous. Why is Ventures generating negative deposit income? And do you expect this to be the case in the future? Over the long term, will this business rely on revenue from unsecured consumer lending?

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

Yes. So overall, the Mox and the Trust businesses, we've been very happy with the performance of them. It is still really but fairly nascent in the development of both businesses, but the growth in customers, the feedback we got from customers, market shares, et cetera, have been very strong. Where you see negative is in part about promotions that we are doing to generate deposits, and that will play a bigger part in the business in its early days as it gets up and running and as it attracts the customer base. So it is a conscious decision we are taking, particularly in the CCPL area to make sure that we are stimulating enough demand. And over a period of time, we'd expect the proportion of promotion to income to change in a favourable way. So yes, there will be a bit more unsecured in there. It all goes through a very careful credit vetting. But over a period of time, we would see that negativity reducing and the two of those businesses continuing to grow strongly.

<<Gregg Powell, Group Head, Investor Relations, Standard Chartered>>

Can we go back to the phone lines, please?

<<Operator>>

Of course. And your next question comes from the line of Andrew Coombs from Citi.

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

One, just a point of clarification, on the increase in the early alerts. You mentioned sovereign, but perhaps you could just go into a bit more detail on what was driving that \$1 billion increase Q-on-Q (quarter-on-quarter).

Secondly, just on NIM trajectory. You talked about some of the moving parts. Obviously, you've changed your definition, it's now approaching 170 basis points. So it is quite a wide band, I think, for Q4 and the exit run rate. But given that you've got the 9 basis point hedge roll-off coming in February and yet you're still guiding to 175 basis points for the full year next year, do you expect the NIM to trend down throughout '24 underlying, ex that hedge roll-off?

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

Okay. So you can see, again, on the slide, the total of the credit quality is up about \$0.5 billion. Although if you go back to the same period last year, it's up a little bit less than that. What we have got is an increase in the early alerts, and we have got a reduction in Credit Grade 12 and Net Stage 3. So the latter actually are good in the sense that they are non-issues that have reduced. The early alerts are more a warning that things could be a bit more difficult. And particularly within that, there is a sovereign that we have put on early alert as they move through the various phases of their restructuring.

On the NIM, we have said that we expect Q4 to be slightly higher than Q3. We have not put a specific number. So there is some interpretation room for manoeuvre, I guess, on the word approaching, but limited to one quarter, it is not huge. So I think if you take a reasonable estimate of a slightly higher Q4 than Q3 and you had 9 basis points to it from the hedge alone, you'd get to around 175 basis points or thereabouts. Phasing of the 175 basis points within quarters by year, I'm sorry, we're not going to give you the phasing of it at this stage by quarter, but we are saying on the average, we think that the NIM for next year should be around that 175 basis points number, which remains our previous view, notwithstanding the slightly lower Q3 NIM itself, so 2024 NIM as we had previously envisaged.

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

And I guess the broader question is that if you look at the Fed curve, that's clearly moved up since you last gave that 175 basis points guidance. So presumably there's offsetting factors elsewhere, such as what's played out in Q3, then dragging your NIM guidance back to about 175 basis points.

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

Yes. So I think that's a fair way to look at it.

<<Operator>>

Your next question comes from the line of Rob Noble from Deutsche Bank.

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

Just a quick one. You stated EPS has been hit by Bohai impairment and the higher tax rate. Does it affect how you think about capital distributions at the end of the year? Or is it purely a capital ratio within the target ranges?

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

Yes. The decision on distributions will be very, very driven by the capital print, number 11; and number 2, the demand within the business for using capital to grow assets. The Bohai (impairment) has had an impact on the capital, but we still printed a very high capital print. That's probably a better way of putting it. So when we come to the end of the year, we obviously start the 13.9% after taking that hit. We've got a bit of an uplift coming through from the aircraft disposal, which will help. On the other hand, fourth quarter profits tend to be a little bit lower. But I'm sure in February, we'll take a view where we see asset growth needing funding. We will reserve capital for it, where we think we have got excess over and above that, then we can look at whether we do further returns.

<<Operator>>

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

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

Can I just come back to the previous question. So part of the reason why capital was probably better than expected despite the Bohai write-down was because RWAs came in lower. And when I look at the slide, it looks like the biggest benefit comes from optimization and efficiency. So just what actions have you taken specifically? And are there things that you are already working towards anyway? Or

have you taken further action to ensure that the RWA movement broadly offset the Bohai write-down as it were? Because looking at consensus, the RWA reduction towards the year-end, so I think that's flat to previous year at \$245 billion. And if you translate it to pre equity, I guess, it broadly absorbs the Bohai charges. So is that how you're thinking about it? That's the first question.

And the second one is on Mox again. Just noticing that impairment is very high this quarter at \$30 million versus \$4 million last quarter. Just wondering what's happening there was higher income this quarter and loan growth did grow, but it's only a 5% to 6% loan growth. So just wondering why it is that the impairment charge is so high this quarter?

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

Yes. So on RWA's, Bohai has clearly had some effect. The biggest effect, as you say, really, though, is on the optimization initiatives that we have been undertaking. Those are not new. At the start of 2022, we said that over a 3-year period, we expected the CCIB business to take out \$22 billion of low-returning RWAs and they are essentially at that \$22 billion number already. So they have delivered that well ahead of time. Now that is very helpful to the RoTE improvement because, obviously, the capital being lower, it helps on that front. It is a big focus upon profitability of customers, and that has helped the overall returns for the bank. So we're not going to give up just because we've got the \$22 billion number. But obviously, we have made a lot of progress there and that has been the major reason why we have had the RWAs behaving so well.

On Mox and the impairments, the accounting rules require us to accrue for a 12-month forecast impairment charge at inception of new client relationship and therefore, you do tend to have this slightly strange effect that one is building up quite a lot of reserving in the very early days ahead of some of the income coming through. But having done that, thereafter, then the income comes through for that to the customer. So it's an early days phenomena. It's more visible in the Mox business because it is separated out from the rest of our reporting. But the largest part of that is a formulaic application of accounting policy.

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

So I just want to clarify, your loan growth is only about 5%. So have you just got a lot of new customers on board, et cetera, that haven't taken out the loans? Is that what it is?

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

Sorry, you're going back to Mox, are you?

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

Yes

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

Yes. So as we take a new customer on, on day 1, we have to accrue for an expected loss from that customer accounting-wise. It's one of the accounting rules, not just for Mox, but we do it more generally, yes.

<<Operator>>

Your next question comes from the line of Aman Rakkar from Barclays.

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

Two questions. Around your 8% to 10% revenue expectations next year, I think you're possibly pointing to expectations of a kind of mid- to high single-digit NII growth next year, predicated on some NIM expansion and some volume growth and some double-digit fee income next year. So I guess the first part of it is could you just tell me roughly, does that sound sensible? Is there anything you push back

against there? I guess related to that then, when you talk about your cost envelope for '24 is it predicated on some fee income businesses that there must be an element of uncertainty around, I guess, we can't be sure exactly on loan growth, we can't be sure about Financial Markets, we can't be sure about Wealth Management in '24 because so many moving parts and uncertainty. So kind of what's your approach to setting the cost base or the cost envelope for next year, given that uncertainty? That's kind of a big question one.

The second one was a smaller one actually. I was just noting on Slide 31, the deposit dynamic, particularly within transaction banking. I noticed that you actually seem to have seen a step-up in the proportion of deposits in that CASA in Q3. So is there anything you can call out there? Is that a reflection of some of the optimization efforts that you're doing? Or is this a start of a trend as we've kind of peaked out on the U.S. dollar rate cycle and maybe the betas on CASA look more attractive than TD? Can you give us any colour there on whether that's the kind of start of a trend or not?

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

Okay. So a wide range of questions there. So let's take those in order. 8% to 10% on income for next year, I guess you can put various parts of the jigsaw together. So 175 basis points NIM versus 170 basis points is -- whatever that is a 2.5% to 3% increase. Take a view on what you think of volume growth on the balance sheet will be and you can probably get that to probably half that range or thereabouts. And then fee income obviously being the rest. I mean I could cut this a different way and say, 8% to 10%, 9% midpoint, the hedge benefit of 9 basis points on NIM, if you turn that into numbers, it's about 3 percentage points of income growth. So from things other than hedges, we have to get 6% growth. I think 6% in the context of what we have done recently, the growth we've got in Wealth Management over a long period of time in Wealth Management, in FM as well over quite a long period of time. The fact we've got China onshore quite low at the moment and Mox and Trust building up, I think the 8% to 10% for me, feels to be in a sensible range.

2024 on the cost front, as ever, this is a balance between driving efficiency into the business, opening up the jaws, but making sure we are investing into the areas that will be higher income generating in the future so that post the period of rate rises, we have got as good an engine running on volume growth and 3 percentage points of jaws opening up again next year on top of what we've done this year, on top of what we've done last year, is opening up certainly the profitability of the business very significantly.

Slide 31 and the TB CASA, which I think you're referring to, they're up slightly 59% to 61%. We have consciously reduced some of our CTDs, and that is a significant component of that. Although, I would observe that, over the quarters we've got in here, we've been in a 59% to 61% range over the whole of that period. So it has moved around, particularly markedly over that period.

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

Andy, maybe I could just come in just to amplify a little bit and particularly on the growth front. And the question we ask ourselves and our Board asks us is, what do we need to believe to think that we can deliver an 8% to 10% growth in income next year. And so Andy took you through some of the mechanics and some of that is very clear in terms of hedges. But from our perspective, you need to believe that the momentum that's gathering on the wealth side will continue. And obviously, we can construct the scenarios where the market sentiment sours badly for any number of reasons. But everything that we're seeing underlying is that underlying growth rate and growth potential is very much there. And of course, we're feeling it right now and we report it on that basis.

Second, you need to believe that we can get back to a little bit of growth in FM. Let's just remind ourselves where we've been in FM over the past few years. We had solid growth for several years, by

our measure, outperforming our peer group. We had a very strong performance in '22. We've maintained that level of performance broadly in '23, but obviously, no growth. And again, as Andy said, given that 70% of our income is flow income, the remainder being these episodic things, which have been quite low this year, we think we can continue to grow that core flow income. And while we can't predict the episodic flows, our history has suggested that they fluctuate between 0% and 40% or 50% of income, and we're at closer to 0% right now. So that feels like a good source of growth.

We've got underlying momentum in terms of building out our CCPL business. Obviously, slightly higher yielding, addressing some of the mix issues that we've had as well as the asset growth issues. The digital partnerships that we set up and are operating in addition to the digital banks notwithstanding the ECL discussion that Andy just responded to. I feel like it's a good source of growth. And we haven't talked about sustainable finance, but we're on track to broadly hit our targets this year and then into next year, which is another incremental source of growth.

So what do you have to believe? We have to believe that there's a bunch of things that we've delivered on consistently for several years that we can continue that or pick up where there's been a bit of a lull in '23. Now you can ask all the questions and put all the challenges on the table around all the things that could go wrong, we're very well aware of those, which is why we're sitting with a 13.9% CET1 ratio and a 150%-plus LCR. But that's -- on balance, we feel very good about the growth target, and we think that bodes well for us hitting our return targets through 2024 and beyond.

Sorry, Andy, back to you.

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

Nothing more from me.

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

Andy, I just want to say, if this is your last -- I don't know if this is your last conference call, but on the off chance that it is, thanks for your help and wish you the best of luck going forward.

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

Thank you. That is kind.

<<Operator>>

Your next question comes from the line of Gurpreet Sahi from Goldman Sachs.

<<Gurpreet Singh Sahi - Financials Analyst, Goldman Sachs>>

It's regarding mortgages in Hong Kong and Singapore. As I understand, we are not particularly interested in growing in this area for now, given the RoTEs that they promised on the new book. At what point will that be different? In Hong Kong, we have the spread on new book now for the system at around 140, 150 bps. Is that interesting enough?

And then related to that, how important is it for new client acquisition? We see some good numbers on the wealth that you shared today regarding new client acquisition in these financial centres, but then these do need some mortgage advice and balance sheet. So share with us how that plays into.

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

So the margins on mortgages in Hong Kong at the moment have been very low, and therefore, we have throttled back. We have seen, however, as you can see from some of the slides, good growth in affluent and in wealth. And the point you're making about the linkage between those 2, we are obviously cognizant of. So we're keeping monitoring the mortgage situation. We will make sure that the more affluent of the clients we have got are able to get what they need on a fuller product front,

but we will not pursue stand-alone mortgages that are uneconomic on their own, but we will keep that under review.

<<Operator>>

Your next question comes from the line of Guy Stebbings from BNP Paribas.

<<Guy Stebbings - Banks Equity Analyst, Exane BNP Paribas>>

I had a couple. Firstly, just on the Bohai change to carrying value. I don't suppose you could elaborate any further on the assumption changes there, which impact the value in use and by association how confident you are that these are sufficiently conservative now that you won't have any repeat.

And then on the loan book, it sounds like you're making a concerted effort to prioritize growth in high-yield lending, such as unsecured. Does that have any impact on your expectations for cost of risk in the medium term? Or we're not really talking about sufficient moving the dial and generally, you're very comfortable with credit risk that doesn't change expectations?

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

So the change in our view on the value of Bohai is very largely driven by its most recent published net interest margin numbers, which have been lower than we had previously estimated. And when we run that through the models, one comes out with a lower carrying value, and hence, we have written it down to that. Hopefully, we have now got it to a point where those NIMs will be delivered. Time will tell on that front, but we believe we have been appropriately conservative on that.

On your second question, over a period of time, we will probably do a little bit more on unsecured, particularly Mox, Trust, not huge in terms of overall proportions of our business, therefore, it's not going to hugely move the dial on the cost of credit. But obviously, we will factor that in when we do any further guidance on credit costs. But I'd just say it's on the perimeter in terms of the overall business, not a major issue.

<<Operator>>

Your next question comes from the line of Nick Lord from Morgan Stanley.

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

Just really a question on Hong Kong commercial real estate. And then thank you very much for the disclosure. I know you provided for a couple of months now on the LTVs and everything. You note that on the office space, that office rental softness hasn't yet had any material impact on LTVs. I'm just wondering if we did get to the stage where that began to happen, would we have to start assigning some provisioning to take into account lower collateral values? And I just wonder if you could give us an indication as to whether or not you've got that in management overlay or whether it's something we should be overly concerned about.

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

So overall Nick, I'd say I don't think there is too much to be concerned about here. Slide 24 has got some more detail. But essentially, if you look at our CRE and mortgages in Hong Kong, notwithstanding property prices having come down a bit over a period of time, we're still at around 52%, 53% loan-to-value. So a lot of headroom sitting in there. The office rental part of the portfolio, by memory, is not particularly big. When we do go through it, we do look at realizable collateral, and we do make sure we are being thoughtful about those. But I don't think, in the overall scheme of things, that you should be concerned by that.

<<Operator>>

And your final question today comes from the line of Raul Sinha from JPMorgan.

<<Raul Sinha – Analyst, Research Division, JPMorgan Chase & Co>>

A couple of follow-ups, please, if I may. The first one is just coming back to the risk appetite for lending growth going forward. I guess one of the things investors have struggled with in the past is chasing loan growth for the sake of it, when better rates happen in the sector. And so could you perhaps outline for us whether or not any structural changes in risk appetite are kind of being planned? If we were to be in a situation where loan growth continued to be lower than your expectations, I guess that probably means lower RWAs as well, probably more capital, should we then think about a scenario where investors can get perhaps higher capital returns if there isn't any loan growth? Or do you think that your markets offer you enough underlying loan growth potential anyway that you don't see yourself getting into a situation where the CET1 is perhaps above 14%? That's the first one.

And the second one is just on credit quality. I guess you've called out very clearly some of the challenging areas within the book. Outside of the book, things are pretty resilient. And you're obviously reiterating the guidance on loan loss provisioning. Moving into next year, are there any other areas that you would flag that you would be monitoring very closely from a credit quality perspective? I guess that's one of the things that's perhaps weighing on the mind of investors as well.

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

Okay. Thanks, Raul. So on the risk appetite, no significant changes in the risk appetite. I think the quality of the balance sheet we've got now is a consequence of actually being very, very consistent with our risk appetite over a number of years. It doesn't just happen overnight. Clearly, within that risk appetite, there are areas that we have got more focused upon, and we've shown a reduction in the exposures to some of the sovereign challenged countries that are quite significant. We've shown the exposure overall to China over a period of time has come down over 2 years about 30%. So we do move quickly within that to address issues where we have got them.

If the growth on the asset side is lower, the RWA is lower, then obviously, it bodes well for returns. On the other hand, I think we'd probably like to get a bit more growth in the business as we go through next year. And as Bill has outlined and I outlined, there are various reasons why we think that is realistic. So we'll get a balance there. We'll make sure the returns are holding up. We've announced just under \$4 billion of the \$5 billion, we've, in fact, executed nearly \$4 billion of the \$5 billion, just slightly under that. So we're very mindful of returns. If the growth is not there, then we will return to the extent that we can possibly do.

On credit quality, I don't think there's anything, as I sit here today, that particularly concerns me. We did try, on the slides, just to draw out the fact that if you put the China commercial real estate on one side, which clearly is a lot, \$1.2 billion and some of the sovereigns, we actually haven't been taking particularly large charges on the whole of the rest of the portfolio, which is the vast majority. And in fact, the loan loss rates, if you ex those 2 out, are in the single digits, high single digits. So I think at this point in time, we are pretty comfortable with the quality of the overall book. It would be nice to be able to draw a line under the China commercial real estate, but we have to just monitor that as we go through. But overall, I'd say, quality of balance sheet, we are comfortable with.

Okay. Operator, I think we will hand back to you, please.

<<Operator>>

And that does bring us to the end of our Q&A session for today. And I would like to hand back over to Andy for closing remarks.

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

Okay. Well, thank you all for joining today. Hopefully, that has provided a little bit more colour. I think the key takeaways to my mind, would be the top line growth, we are absolutely still targeting the 8% to 10% next year and the 12% to 14% this year. The RoTE, 10% this year, 11% next year. And the overall momentum within the business, I think, is very, very strong.

Let me just hand over to Bill and see whether you've got any other comments.

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

Yes. I apologize, my line from Saudi Arabia dropped briefly there. So I'm not sure exactly what Andy said. But I would note a few things in terms of risk appetite. First is, we're operating well within our risk appetite today. You may say, yes, go ahead and take some more risks, please or you may say, that's quite prudent, you'll form your own view on that. We think we're about where we want to be. The clearly good news about that going forward is that we have plenty of appetite to step up our risk if, as and when we choose to do so. And that's going to come in, in a number of different forms. The one that probably isn't what you had in mind, Raul, when you asked the question, is reintroducing some risks on the structural hedge side, which obviously, we're happier doing at 5% than at the earlier levels.

But second is to continue to grow some of the risk asset pools in our portfolio. including the CCPL markets, as I mentioned, including in and around the leveraged finance market. And of course, we've learned a lot about how we can interact with borrowers. And in particular, when I look at the way that we have been quite dynamic in terms of managing our exposure to sovereign, just from my time in the bank, we've increased and decreased and increased and decreased many times. We've commented on some of the very substantial reductions we made in a number of countries that subsequently restructured or could face some pressures going forward.

At the appropriate time, we're very happy to move those numbers back up. And those are higher-yielding assets that, amongst other things, would contribute to income growth and NIM. But we're perfectly aware of the fact that acquiring higher-yielding assets bring some risk with it. I think we managed that quite well so far. And I would hope that we all have the confidence for us to continue to deploy capital into those situations as we see fit, and we've got plenty of capacity to do so. We're only going to do it if we think it's returns-accretive and better than the alternative use of capital, one of which is returning capital to shareholders.

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

Okay. I think we are there. Thank you all very much for joining.

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

Thank you, everybody.

<<Operator>>

Thank you all for joining us. This does conclude today's conference call. Enjoy the rest of your day. You may now disconnect.