

Standard Chartered's fourth 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, everybody, and thank you for joining us at today's results presentation. We delivered a strong set of results for 2022 and what has been another difficult year for the world on many fronts. And we posted full year income of over \$16 billion, our highest since 2014, up 15% on a constant currency basis, excluding DVA and we've exited 2022 strongly with the fourth quarter income up 26%. Operating profit before tax of \$4.8 billion for the year was up 15%, and our return on tangible equity of 8% was our best since 2014 and the solid growth was despite the challenges related to sovereign downgrades and China real estate.

We're increasing the total full year dividend by 50% to \$0.18 per share and announcing a new share buyback of \$1 billion to start imminently. This takes a total of our shareholder distributions announced in the last 12 months to over \$2.8 billion, with the aim of returning in excess of \$5 billion to shareholders by 2024. Even after the distributions we're announcing today, we retain a very healthy capital ratio, allowing us to invest in offering protection against any ongoing challenges. Looking forward into 2023, while uncertainties remain, we see reasons for continued optimism for the markets in our footprint. We are encouraged by the recent change in China's approach to managing COVID and the results and pickup in economic activity we expect to see over the coming months.

For 2023 and 2024, we expect the rate of GDP growth in Asia to be more than double that, which is expected in the U.S. and Europe. So, against this improving backdrop, we remain confident in achieving the financial and strategic targets we laid out back in February of last year, and we're upgrading our guidance as we continue to improve our returns. We now think RoTE will be approaching 10% in 2023 and greater than 11% in 2024. These RoTE goals are, of course, just the first step. We intend to deliver further improvement beyond these levels and to do so sustainably. I'll come back and provide more detailed update on the encouraging progress we're making against the five strategic actions as well as our strategic priorities. After Andy has talked through the fourth quarter and full year results, we'll then both be back for the Q&A as usual. Andy, over to you.

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

Thank you, Bill, and good morning and good afternoon, everybody. I'll start with the fourth quarter highlights before providing more colour on what has been a strong financial performance for the full year. Fourth quarter income, excluding DVA and on a constant currency basis, was up 26% year-on-year, providing good momentum as we enter 2023. This growth was broad-based with net interest income up 28%. The fourth quarter NIM expanded from the third quarter by 15 basis points to 158 basis points. Other income was also up 23%, notwithstanding Wealth Management still being somewhat subdued.

Fourth quarter expenses of \$2.7 billion were up 14% year-on-year, excluding the bank levy. Just under half of this growth was from increased performance-related pay. The fourth quarter loan impairment charge includes \$162 million relating to China commercial real estate exposures together with \$110 million for the sovereign downgrades of Pakistan, Ghana, and Sri Lanka. Below the line, in restructuring and other items, we have taken a \$308 million impairment charge against our investment in China Bohai Bank. And for consistency, we have repositioned the prior year \$300 million impairment charge and restated the 2021 group RoTE. RWA was down \$8 billion or 3% in the fourth quarter. This reduction included a \$5 billion decrease in derivative counterparty credit risk, driven by a seasonal roll-off in balances and mark-to-market movements influencing our asset mix. We expect some of this \$5 billion reduction to reverse in the first quarter of 2023.

Turning to the full year picture. Full year income of \$16.2 billion, excluding DVA, and on a constant currency basis, was up 15% year-on-year and was our highest income print since 2014. Importantly, this increase was not all about rates. Much of this was driven by the investments we have made into the businesses in recent years. For example, Financial Markets delivered another record performance this year with income of \$5.7 billion. Expenses of \$10.6 billion were up 9% and in line with our guidance. Jaws for the full year were a positive 6%, benefiting from both the strong income growth and our continuing cost discipline.

Credit impairment of \$0.8 billion was up from the low level of 2021, but almost exclusively due to China commercial real estate and sovereign risk. The results in full year underlying operating profit of \$4.8 billion was up 15% compared with 2021, delivering a ROTE of 8%, up 120 basis points. This is our highest RoTE print since 2014 and gives us confidence that our strategy is working and with the opportunities of our market footprint, we can further improve returns. The combination of capital discipline and strong profitability meant that the CET1 ratio closed the year at 14%, at the top of our target range. This enables us to announce a new \$1 billion share buyback, starting imminently and to increase the annual dividend by 50% and still be left with a healthy pro forma capital ratio in the middle of our target CET1 range.

Now looking at income in more detail. Income increased by \$2.2 billion or 15%. Retail Deposits income increased \$1.2 billion, more than doubling year-on-year as rising interest rates improved liability margins. Likewise, Transaction Banking, Cash Management income was up \$1.1 billion or 85%. Turning to products that generate non-funded income, Macro Trading, FX, and Rates drove a record year in Financial Markets with income up 21% excluding DVA, to \$5.7 billion, which is about a third of the total group income. The flow component of total FM income was broadly stable at around 65% in 2022 compared to 70% in the previous year.

As one would expect, the asset products had a more challenging year as funding costs increased. Lending and Portfolio Management was down 22%, impacted by the execution of the RWA optimisation initiatives in CCIB. The two CPBB asset products, Retail Mortgages, and Credit Cards and Personal Lending were down 15%, reflecting increased funding costs. Treasury and Other Income were down 67%, primarily as a result of the cost of the structural hedges we put in place earlier in 2022. And finally, Wealth Management was down 17% or \$364 million. Client investor sentiment remained weak throughout 2022, and easing of COVID containment restrictions in China came too late in the year to have any impact.

Looking at current trading momentum, in the first few weeks of 2023 have seen a continuation of the themes we saw in late 2022. CCIB has started the year well, with solid progress in Macro and Credit Trading and Transaction Banking. Capital Markets has benefited from bond issuance volumes increasing as the pace of the interest rate rises flows. CPBB has also started the year well. Deposits continue to tick up and unsecured lending continues to be strong with credit card spend now at pre-COVID levels. We also see stronger new Wealth sales momentum led by FX, structured notes, and fixed income with encouraging the early sign of a pickup in Hong Kong. So, in summary, so far, so good, but it is still very early days. And the comparator period in 2022 was quite strong.

Now turning to the components of income, starting with net interest income. In 2022, statutory net interest income was \$8 billion, still a little shy of pre-pandemic levels. The most significant driver of this year-on-year increase was the adjusted NIM, which was up 20 basis points to 141 basis points, a 17% increase. We continue to refine our methodology for calculating the adjusted NIM and related trading book funding cost. In the light of this, we have revised up both our NIM and funding cost estimates, and we will provide details of this in a slide in the presentation. There is no impact from this change on net interest income nor total income, simply an increase in the adjusted NIM and the offsetting trading book funding cost.

Looking at NIM progression from our current levels. Deposit betas have picked up towards the end of the year in both CPBB CASA and in Transaction Banking. We have also seen further migration from current accounts to time deposits, changes which will continue into 2023. Our hedge program remains at \$44 billion, \$28 billion of this are short term, 60% of which roll off by the end of this month, helping reduce the

drag from hedge losses and providing support to the NIM. The lag effect of rate increases will also continue to support the NIM as we go into 2023. So, whilst we have seen a change in deposit betas and liability mixes, offsetting this will be the benefit of hedge roll-offs and further sensitivity to interest rate rises. Our NIM should therefore continue to increase through 2023 with the full year average of around 175 basis points on its way to greater than 180 basis points in 2024.

Now turning briefly to the balance sheet. Loans and advances to customers on a headline basis were up 4% for the full year. After stripping out the impact of currency translation, our balance sheet optimisation activities and treasury reverse repo movements, the underlying growth was 3%, in line with our expectations. However, loans and advances were broadly flat in the fourth quarter, impacted by cyclical factors. We did see positive momentum in Lending and Transaction Banking that is offset by the seasonal decline in the FM balance sheet. Looking forward, we believe that we should be able to achieve around a low single-digit percentage growth rate for customer assets.

Finally, on income, just a brief look at how the network performed. Cross-border income has grown 24% to \$5.7 billion and now represents around 57% of the total CCIB income. Asia is our biggest network contributor with \$2.5 billion of cross-border income, up 24% in 2022, followed closely by Europe and Americas with \$2.3 billion, up 20%. The Africa and the Middle East region continue to be our fastest-growing network with cross-border income up 50% to \$0.7 billion.

Despite the various headwinds, China cross-border income has grown 25% in 2022 and is now around \$1 billion. There has been very strong growth from China to the West and China into Singapore, both up around 70%. We've also seen significant growth of cross-border income from the network into Africa, which now totals over \$0.5 billion. Lastly, Singapore continues to grow as a global financial centre and a key international hub with cross-border income into Singapore, up 44% to over \$0.6 billion.

Moving on to how our client segments performed, I'll keep this reasonably high level. CCIB income at a shade over \$10 billion was up 24%. Net interest income grew 16%, reflecting widening margins in the Cash business and Other Income was up 30%, driven by the record performance in Financial Markets; RoTE improved 410 basis points. CPBB income was up 10% to just over \$6 billion, driven by net interest income up 30% as strong deposit income offset a weak Wealth Management performance; RoTE improved 420 basis points and just under 16% is now 2 percentage points higher than our CCIB business. Bill will cover the Ventures segment later.

Now looking briefly at our top six markets. Our largest market, Hong Kong faced a challenging economic environment with GDP contracting around 3% in 2022. But despite that, we grew income 9% to just over \$3.7 billion back to around 2019 levels. In Singapore, the business performed strongly with income up 23% with Financial Markets, Cash and Deposits doing very well. We had a net recovery in loan impairment driving profits up almost 50% and RoTE was up over 7 percentage points to a shade under 20%. Our India business grew income 5%, with Wealth Management growing strongly and posted a RoTE of 10.8%, its strongest since we started repositioning the business.

Korea also continues to progress well, with income up 17% and expenses down 4%, reflecting the restructuring action we took in late 2021. And it's worth noting that if you exclude one large property sale gain in 2012, our Korea business delivered its best operating profit since we acquired Korea First Bank in 2005. Our China business posted record full year income, up 10% year-on-year. Financial Markets was up 18%, more than offsetting a sharp fall in Wealth Management income. And finally, the UAE had a very good year with strong FM performance and impairment recoveries, helping drive profit to the highest level in seven years, with RoTE up almost 600 basis points to 15.9%.

Now turning to expenses. As I said earlier, total operating expenses were in line with our guidance of \$10.6 billion, up 9%, resulting in strong positive jaws of 6 percentage points. Our cost efficiency program, which is one of our five strategic actions, reduced costs by \$0.4 billion, on track to deliver our \$1.3 billion target by 2024. Offsetting this, there were five drivers of cost growth. Around \$0.3 billion was due to higher performance-related pay. Inflation added \$0.3 billion or about 3% with most of this being staff salary costs. We also incurred about \$0.1 billion of increased expenses relating to costs which had been

subdued during the pandemic, for example, travel. Our investment spend, including that into the Venture segment increased by about \$0.2 billion.

The remainder of the increase of \$0.5 billion is equally split between the two main business segments. In CCIB, we made further investment into emerging areas such as Sustainable Finance and strategic initiatives, such as the opening of our new securities business in China, which was announced earlier this month. In CPBB, the increases were driven by investment into the front line, including relationship managers and also digital investment in the Wealth Management and Affluent area. Looking forward, we now expect around 3% positive income to cost jaws in 2023 and in 2024.

Looking now at credit impairment. Charges for the year of \$0.8 billion compared to \$0.3 billion for 2021, an increase of \$0.5 billion. Whilst the increase is proportionately large, it is off a very low 2021 base. And the 2022 loan loss rate of 21 basis points is still below the historic through-the-cycle guidance range of 30 to 35 basis points. The simple way to think about the year-on-year increase is that most of it can be attributed to China commercial real estate, and sovereign downgrades. The other items, which relate to recoveries, underlying ECL charges and overlay movement more or less net out.

The \$0.6 billion commercial real estate charge in China on top of the \$0.2 billion we booked in 2021, mostly relates to five individual names. We have increased our management overlay to just under \$0.2 billion to reflect uncertainty on developers in early alert. We're not calling the bottom on China CRE, but from what we know of the situation today, we feel adequately provided. For sovereigns, we have taken a charge of \$0.3 billion in 2022, \$0.2 billion of this relates to the default of Ghana. The remainder relates to Sri Lanka and Pakistan, which we are watching closely given the low level of foreign reserves, high inflation and recent rupee devaluation. Even if Pakistan were to be further downgraded, the financial consequences for us would be manageable. High risk assets are up \$0.8 billion in the fourth quarter, reflecting sovereign downgrades. Year-on-year high-risk assets are down \$0.8 billion.

Turning now to capital. RWAs were down a net \$27 billion or 10% to \$245 billion in 2022. The most material components of this improvement were our optimisation and efficiency actions, which drove \$25 billion of RWA reductions. Optimisation efforts such as loan sales reduced RWA by \$14 billion in CCIB, Efficiency actions such as credit insurance and treasury, model changes, and data accuracy enhancements, saved a further \$11 billion, \$7 billion of which was also in CCIB. RWA was driven higher by \$7 billion for regulatory changes. However, this was more than offset by a \$10 billion reduction from FX. We have been focused on RWA efficiency for quite some time. At the end of 2022, our RWA density was 30%, which compares with 47% back in 2014, reflecting the relentless focus we have placed on improving the quality of our portfolios and improving returns.

Looking at the capital position. The key point here is that the group is generating equity, returning it to shareholders and using the CET1 target range to do so. We closed 2022 with a CET1 ratio of 14% and with the new share buyback, we will now take our pro forma CET1 down to around 13.6%.

So finally, turning to the outlook. We are making a number of changes to the group that should complete in 2023. For example, the review of our Aviation Finance business and the exit of some of our AME markets. We also plan to change the way we present DVA going forward, taking it out of the reported numbers. We have shown in an appendix the 2022 results adjusted for these items as it is from this pro forma view that one should model our updated guidance.

Whilst recessionary and inflationary pressures will continue to impact many parts of the world, particularly in the first half of 2023, we expect most of the markets in which we operate to continue their recent momentum with GDP growth in the Asian economies at above 5% over the next two years being pivotal to progressive global recovery. The recent opening up of China and the generally receding impacts of COVID should help in that regard, albeit we will continue to monitor closely the sovereign risk in markets that are most exposed to tightening liquidity.

Overall, the markets in which we operate, the further benefits of rising interest rates and the evidential improvement in many of our operating metrics cause us to be optimistic about the period ahead. We are

therefore upgrading our earnings outlook, and we now anticipate that income in both 2023 and 2024, excluding DVA and on a constant currency basis will increase in the 8% to 10% range. As I highlighted earlier, the NIM will continue to progress to a full year average of around 175 basis points in 2023 and above 180 basis points in 2024.

We will continue to tightly manage costs and expect to deliver around 3% positive income to cost jaws in both 2023 and in 2024. We're expecting both assets and RWAs to grow in the low single-digit percentage range. Credit impairment is expected to normalise over time towards the historic through-the-cycle loan loss rate range of 30 to 35 basis points. And we will continue to operate dynamically within the 13% to 14% CET1 range. Finally, we expect to approach 10% RoTE in 2023 to achieve greater than 11% in 2024 and to continue to increase it thereafter. So with that, I will hand back to Bill to update on our strategic progress.

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

Thanks, Andy. 2022 turned out to be more challenging than many would have expected. But despite that, and as Andy has covered, the group delivered a strong financial and strategic performance. As we enter 2023, we feel sufficiently optimistic and confident to raise our targets. Why can we do this?

First, the strategy that we set out in 2021 with our four pillars of Network, Mass Retail, Sustainability, and Affluent is clearly working. I'll cover these in turn. Second, we're ever more confident in the opportunity presented by the group's footprint. The growth outlook is good, and the interconnections within our footprint are growing stronger. This growth will not only come from the large markets such as China and India, but also new and fast-growing economies, such as Vietnam. And finally, we're confident in our ability to execute on our strategy. In February last year, we highlighted five key strategic actions to help us accelerate the delivery of our 2024 targets. Our progress on these actions have contributed hugely to the improvement in performance we have seen in 2022. I'd like to take a few minutes to go through the progress on each of these in turn.

Firstly, in CCIB, we committed to drive improved returns, targeting an improvement in income return on risk-weighted assets of 160 basis points to around 6.5% by 2024. Simon and team managed to hit this target in 2022. Reducing RWA by \$20 billion or 12% was a huge contributory factor to the success. Similarly, the record performance in Financial Markets and the interest rate tailwinds and cash management also helped to drive up returns. CCIB RWA is likely to increase from current levels. However, we remain confident of sustaining this improved level of return.

Our second action was to improve profitability in CPBB. The team has made steady progress with a cost-to-income ratio down 5 percentage points since the end of last year to 69%. Strong double-digit income growth was supported by low single-digit expense growth, delivering 7% positive jaws. Of CPBB's \$500 million 3-year gross expense savings target, Judy and team had delivered \$233 million in 2022 alone. This included 85 net branch reductions, significant process re-engineering work, a 4% reduction in headcount, and optimising through digitisation. The straight-through-processing rate has increased 8 percentage points year-on-year to 76%, and the business is on track to achieve 90% by 2024.

CPBB has also added almost 600,000 new clients through our partnerships in 2022. This is our key means of driving growth in the number of Mass Retail clients and move us closer to returns above the cost of capital for that segment. As we go into 2023, CPBB will see tailwinds from both interest rates, and we expect an improving Wealth Management outlook, which will help reduce the cost income ratio further.

Our third action was to seize the China opportunity. China presents the group with one of the biggest strategic opportunities over the coming years. And whilst there will be challenges along the way, China will continue to become more important to the global economy. While we did not call out the exciting opportunity in India last year, it's worth noting the outstanding progress we've made across our business lines, with profits up one third in the last 2 years to \$400 million, nicely complementing our China growth.

Now back to China, we set ourselves the target of doubling China onshore and offshore profit before tax by 2024, and that is still our intent. 2022 reflects what we expect to see in China, growth but with

occasional challenges. Our onshore franchise has made strong progress with record income in 2022, but we've also recognised close to \$900 million of impairments on China-related risk provisions for Bohai and commercial real estate. We're clearly unhappy with the losses that we've taken on CRE and have taken the lessons on board. However, stepping back, China CRE has not been a driver of our growth and will not be one in the future. The areas in which we are investing, including Financial Markets, Wealth Management, partnerships, such as that with Ant, have been and will continue to be drivers of value and value growth from our China business.

We see this clearly in the performance of our China network income. This is growing at an even faster rate than the onshore income, up 25% in 2022 and is now contributing almost \$1 billion to the group. These strategic investments, together with the long-term prospects from the structural shifts relating to China opening its financial and capital markets are as attractive now as ever, and we remain comfortable that we will achieve our 2024 goal of doubling our profits in China.

Now our fourth action was to drive operational leverage. And Andy has already talked about the \$400 million of growth savings made so far on our way to \$1.3 billion of gross savings. And of course, we think that objective is very much in hand. And finally, we committed to delivering substantial shareholder distributions of more than \$5 billion by 2024. We're on track. Up to and including the latest \$1 billion share buyback and the full year 2022 dividend, we have already delivered \$2.8 billion of distributions and are well set to meet our target. Buybacks have significantly reduced the number of shares in issue, down 9% since 2019, and we're increasing our dividend per share and pay-out ratios. So just summarising on the five strategic actions, we've done exceptionally well in some areas, a little less so in China, but are confident that we will meet the targets we set for ourselves.

I'd now like to look at another key area of focus, which is Sustainability. The Sustainability agenda continues to gather pace. This is an area where we seek to play a leading role for positive change while also delivering shareholder value. We've made strong progress in Sustainable Finance with income around \$500 million in 2022. We have a growing suite of market-leading Sustainable Finance products and services. And together with the scale of the opportunity in our markets, we will approach \$1 billion of Sustainable Finance income by 2024. Whilst we still have a long way to go, we're proud of the impact that we're making with 90% of our Sustainable Finance assets located in our footprint markets in Asia, Africa, and the Middle East, where the impact of dollar invested is greatest. We've advanced our net zero road map and delivered on our 2022 commitments as outlined at our last AGM.

We've always said that the measurement and management of our net zero transition and target setting will evolve over time as methodologies are enhanced and data becomes more refined and available. Today, we announced the expansion of our financed emissions coverage to include 2030 targets for three transportation sectors. We'll also move to production intensity-based targets for steel and power for which we set revenue intensity targets back in 2021. In line with our earlier commitment, we will also provide an absolute emission target for oil and gas at our 2023 AGM. As a testament to the progress we're making, our sustainability ratings were elevated and included achieving leader status by the Carbon Disclosure Project. Finally, we've enhanced our sustainability disclosures and for the first time, also integrated the recommendations of the TCFD into our annual report.

So, I'll now turn to Ventures. SC Ventures crosses its fifth-year anniversary in 2023, and this is the first full year where we have reported our Ventures results separately. Some of the key achievements, including building a diverse portfolio of over 30 ventures and over 20 equity investments across the group's footprint. In 2022, we saw further progress from Ventures across our network. I'd like to briefly highlight the progress of three investments in three different markets. In Indonesia, we have soft launched Nexus, our Banking as a Service offering with our partner, Bukalapak. It's been well received so far. Our app has been downloaded over 250,000 times and we have 70,000 customers. We hope to onboard a second partner in Indonesia later this year and have plans for a second market entry beyond that.

Turning to Hong Kong and our first virtual bank, Mox, which is also progressing well. In 2022, Mox focused on expanding its card and digital lending services, its customer base, and product offerings. It now has more than 400,000 customers, more than double that of a year ago, and each holding on

average more than three products with the bank. We expect that the opening of Hong Kong and China will help further drive customer acquisition and card usage generally. We think that at current course and speed, Mox will become profitable in 2024, maybe even in 2023. Given the challenges in Hong Kong since Mox was started, this would be a solid achievement.

In September last year, in Singapore, leveraging the knowledge and experience gained from building Mox, we successfully launched our second digital bank, Trust with our partner retailer NTUC FairPrice. Within four months of launch, Trust scaled rapidly to over 450,000 customers, equating to around 8% of the addressable market in Singapore and making it one of the world's fastest-growing digital banks. Customer engagement was strong with over 7 million transactions made and more than 400,000 digital coupons redeemed through the app. We've invested materially over the past five years, and we believe we have created substantial value from these investments. Income is still immaterial to the group. But as the more mature ventures reach profitability over the coming two years, we expect to notice the positive impact to our profitability. This will be supplemented by partial or full sale of Ventures, which we believe can maximise value with a different ownership structure.

So, to sum up with Andy and I have just covered, firstly, we've delivered a strong financial performance in 2022 and have delivered an improved RoTE. We today announced over \$1.4 billion of distributions to our shareholders via buybacks and dividends, and we go into 2023 with optimism bolstered by a promising start to the year so far. Secondly, the majority of our growth is coming from areas of strategic focus, bolstering our confidence that we will meet our financial targets on or ahead of time. We've made very encouraging progress on the five strategic actions we set out last year, the impact of which can be clearly seen in the results we've just delivered.

We set ourselves stretching targets for 2024 and clearly are on track to meet them. We're making good progress in the critical area of Sustainability, and our Ventures portfolio is offering us exciting new opportunities and avenues for growth. And finally, looking forward, we're optimistic for 2023 and the markets within our footprint where we see superior prospects for growth. This opportunity, together with the progress we're making on our strategy and the strong start we made to 2023 gives us confidence to raise our earnings guidance. We now expect to deliver an improving RoTE outcome approaching 10% in 2023 and at least 11% in 2024 with further growth thereafter. So, with that, I'll hand over to our operator so Andy and I can take your questions. Thank you.

Question and Answer session

<<Operator>>

We will now begin the question-and-answer session. We will now go to your first question -- and your first question comes from the line of Joseph Dickerson from Jefferies.

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

Just a couple of quick things, please. Your RoTE guidance has been up to greater than 11% for 2024. How should we think about capital distributions relative to your capital targets, given that on our math to get to greater than 11%, you probably need to keep up the pace of buybacks? So, I guess what I'm getting at is how should we think about buybacks as you've cancelled you've been able to eliminate about 9% of your share count already. I guess how do we think about that going forward?

And then secondly, just on the NIM guidance, what have you assumed in terms of CASA to total deposits. So currently at 58% back to the pre-pandemic level, do you assume that the CASA continues to decline in the mix over time? Or how should we think about that in terms of just trying to assess the NIM outlook?

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

I'm going to let Andy take both of those questions, but I'll just say up front, clearly, the overarching pathway to a 11% plus RoTE in 2024 is to grow our top line. And we're really very encouraged by the progress that we've been making. Of course, we've had the interest rate uplift, which is about half of what we've experienced. And some of that is reasonably likely going forward, which obviously we can get into

in some detail. But the other half is coming from those things that we've been focusing on for years now. And the four strategic areas, obviously, we set out five specific actions a year ago, all of which was updated in the discussion we just had. Momentum is good. The progress has been good. The market positioning is good. The market environment is good, and that all gives us confidence that we can drive the top line, obviously, maintaining expense discipline and capital discipline, et cetera. But we'll get into all the details, but I want to start with the big picture themes, which is the bank is in a pretty good shape. Andy.

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

Yes. So just on the RoTE guidance and the impact on the distributions. This time last year, we said over a 3-year period in excess of \$5 billion. And as you have seen over the last 14 months, our preparedness to both increase dividend, so 50% increase proposed for last year, plus do buybacks. We will be about \$2.8 billion of the way through the \$5 billion.

I agree with you that with the uplift in the RoTE, one should, therefore, be thinking conceptually that \$5 billion number should be a bit higher and we did put in excess of \$5 billion into our phraseology previously. Now how much in excess, time will tell. But you're right, there should be some upside to a pure 5 number if we hit that 11% number. But again, we'll monitor that. You've seen that we are quite prepared to return. And we have so far, so with the buybacks last year, I think we're just below 6 pounds on average. And compared with the current price, that looks good. And hopefully, buying back at today's price in a few years' time will look to have been a good decision as well.

On the NIM, there are, obviously, as ever, a lot of moving parts here, some is about the rates themselves and those vary by currency. Some is about how quickly that reflects into our customer base. Some of it happens immediately. Some is time lag. But to your question, we have assumed the CASA mix in the 55%-65% range. That is probably similar to what we have most recently experienced. It's back to roughly where we were pre-COVID. I think we did peak at about 80% in the middle of COVID, so it settled down a little bit since then. So yes, we're broadly assuming that over the 2-year period in that NIM assumption that we'll be operating at around the levels we've been at recently.

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

Great. Operator, can we take the next question, please?

<<Operator>>

Thank you. We will now go to our next question, and your next question comes from the line of Andrew Coombs from Citi.

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

If I could ask one short-term question and two longer-term questions. Short-term question with just your comments at the start of 2023. I think you talked up the prospect for CCIB and CPBB as it started well. But in Wealth, you said in the first few weeks of 2023, you've actually seen a continuation of the trends in late 2022. So, wondering when you think you might see an uptick in Wealth given China reopening, subsequent market rally and when that might change? That's the first question on short term.

On longer term, given the commentary around 11% RoTE in 2024, but then continuing to grow thereafter, would be interested in what you think the drivers of the growing thereafter are, particularly as we start to reach peak NIM in 2024. So, what do you see as the key drivers above and beyond that, especially given the forward curve implies maybe the NIM comes down after 2024?

And then final question linked to that. Thank you for the slide around Ventures, particularly slide 59 to 60. I think in your commentary, you talked about some of those more mature ventures reaching profitability in the next two years. Is there anything more you can elaborate on that, which ventures, in particular, how much profitability it could be, and whether that's part of the driver of growing the RoTE above and beyond 11% from 2025 onwards.

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

Great. Thanks, Andrew, for all those questions. I will give a bit more colour on the start to the year. We've had a solid start across the board. There are signs of life in Wealth Management, in particular, in Hong Kong and China. No surprise, obviously, China having gone through a pretty wrenching period at the end of last year and then even more so in the very early days of this year. But the signs of life are clearly there. Obviously, how much of that is post COVID? And how much of that is the fact that Hong Kong and Chinese equity markets have begun to recover and bond prices have stabilised to improve, it's a combination of the two.

But the rest of our markets have continued to perform pretty well. And so, I'm encouraged by the start to the year in Wealth Management, but it's very early days in terms of recovery back to what we would consider to be normal. And keeping in mind that, that was a business that's been growing for us for years now at the 9%, 10%, 11% range. We absolutely see a return to those kinds of levels on average, but it's going to take a while to get there as market confidence is bedded down. Andy is going to comment on all three of these questions, I'm sure.

Where the growth come after 2024, it's going to come from where it's coming from now. As I just mentioned, I think the medium-term outlook for Wealth is very good. We have had a couple of record years in Financial Markets, but we've fundamentally strengthened the value of that franchise. We think we're very attractively positioned in particular in China, which is continuing to and will continue to open up. So, I think the opportunities for continued FM growth are good, although we would expect that to be a little bit bumpy. But as I said, again, a decent start to the year.

We are picking up market share in pretty much all of our other areas, Wealth has been good. The Mass market where we languish for quite a while, has definitely come back to life with good customer growth, a range of partnerships that are really very encouraging, which should lead to some good asset growth in that segment as well. And in Transaction Banking, we've got a very strong cash and trade proposition, and very strong custody proposition. And I look across the board, all of these are capable of delivering real growth in the years to come. We've demonstrated that we can do that with keeping expenses growing well below our income growth, and we think we can sustain that for quite a bit of time.

We'd love to say that we're perfectly efficient today. We're not. We're still making some pretty substantial investments in our core infrastructure. And those investments clearly will flow through into productivity gains over time. So, we see plenty of opportunity to continue to grow from 11%.

And on the Venture side, we made specific comments about Mox that we thought Mox would achieve profitability in 2024. Keeping in mind that when you grow a de novo credit business, you take the ECLs upfront, the credit provisions upfront, and the income obviously comes over time. We are growing that business. We've added close to \$1 billion of assets in Mox matching the liability base broadly. And that's very, very encouraging for the early days of a neo bank. Strongest growing, fastest-growing credit card in Hong Kong and amongst the fastest in the world. Trust is obviously a couple of years behind but growing even faster. And similarly, we're getting a good mix of assets and liabilities, which should get it likewise to profitability in the not-too-distant future.

Over the next 2-5 years, an important part of our RoTE accretion story. Absolutely. We said that these Ventures, together with the others, Nexus, which is now live in Indonesia, although we're making the big marketing push in another couple of months when all the final approvals are in place. We've already got something like 80,000 customers that have signed up, we haven't marketed it yet. 250,000 downloads. This will also be a driver of income after we obviously build the appropriate ECLs as you know, the feature of building that kind of a business. So, I'm very encouraged that the Ventures portfolio broadly defined can be an important contributor to our growth in the years to come. You're not going to notice it in 2023 or 2024 as a practical matter. But beyond that, I think you'll start to notice it. Andy?

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

Just maybe to supplement, particularly on the middle question on the 11% RoTE. I think it's interesting looking back at 2022 that the 15% growth we had there overall was not all about rates. About half of that was underlying business growth. The other half was right. So, there is a natural growth in the business.

And that happened despite Wealth Management being challenged during the year as a sector and despite quite a number of markets still pulling through COVID. So, I do think that the underlying momentum there is, in the business in a post rate increase environment is still going to be potentially powerful.

Also, I'd observe that last year, we had all-time record income in a number of countries, China, Vietnam, U.S., et cetera. And that was despite the fact for the Group, the NIM at 1.4 is still lower than pre-COVID level. It was 1.6 pre-COVID. So, we've got another year before we're even up to the NIM levels. And despite that, we've been setting records on income. So, I think if you factor those in a 3, 4, 5-year time period, so the natural momentum, the GDP, obviously, of many of the markets in which we operate is also forecast to be growing stronger than our average for the rest of the world, plus the Ventures moving from loss to profit. The Ventures are a drag on RoTE at this point in time and then efficiencies, as Bill mentioned. I think if you put those together, this can be a growth story, irrespective of rates, and that is certainly what we're setting the stall out to achieve.

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

With that, I think probably the next question.

<<Operator>>

We will now take the next question. And your next question comes from the line of Alastair Ryan from Bank of America.

<<Alastair William Ryan – Research Analyst, Bank of America>>

Yes. First the consensus revenues for this year, the exact number, \$17.7 billion then we go look at the quarterly numbers. Do you expect that number to go up or down following today? It feels like the exit businesses weren't quite captured in there. Second, on the exit businesses, where do they go? I mean, do you end up with exiting them with a profit. Do you sell them at a loss? Do they just get runoff and you get the capital back? And then finally, on Bohai, the seems to be about \$900 million more invested than the market value. Do we have to get another couple of these year-end write-downs before that's done?

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

Good. Thanks, Alastair.

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

Should I pick that up? We've guided to 8% to 10% for this year and for next year. Clearly, a lot of support for that this year from rates alone. So, time will tell, Wealth Management, as Bill has referred to, we see Wealth Management picking up maybe higher than last year levels, but possibly not as high as the year before that. So, I guess people will form a view just as to where they want to go with the consensus, but 8% to 10% as a range in there. On the exit business...

<<Alastair William Ryan – Research Analyst, Bank of America>>

Sorry, Andy, but the starting point for the 8% to 10%, if that excludes the businesses you're exiting so the starting point isn't last year's revenues?

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

Correct. We've put a slide in to show how much we "x" out because of the Africa markets and the aviation business. So, you're quite right. That is the base point of which that comparison should be done. So, on the exit businesses in terms of premium to book, et cetera, on the Aviation business, it's just very early days. We've just marketed the business. We've had quite a lot of interest there. So hopefully, we'll see a premium, but we're midway through the process. I think on the African business, probably we are more advanced on those. We should see a small premium on that. If we can, then the endeavour is that we would reinvest the RWAs that we free up into areas where we can add to returns to the business overall, and that will certainly be the focus in both the region and in the CCIB business for the aviation business. If we can't do that, then obviously, that is surplus capital that we can return at a point in time.

On Bohai, so we have a carrying value. We obviously have to have half an eye to what market values are, albeit the accounting is very clear that it is to carry essentially at our accumulated share of profits. We have this year, 2022, and the year before had to be a bit cautious though the overall economy, the commercial real estate sector that Bohai is in part exposed to, just as to what the growth prospects looks like, the sector-wide prospects. And we just said, in both years, we need to trim that back. I don't know that it is necessarily a given that we will need to take further impairments. It is not a given that, that is the case. It's possible. But these are provisions, which if the prospects for the sector and particularly for the Bohai business, do improve, they are reversible. So, if over a period of time, as China moves through the current phase, the situation, the outlook for Bohai Bank actually improves, then there is capability to reverse the provisions we've taken. What we should not lose sight of is the \$175 million or so share of profit that we are booking from our stake in the Bohai business. Overall, it has been a good profit stream for us over that period of time. It's just a slightly more difficult phase for that sector at this particular juncture. And that's why we've taken the provision.

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

With that, I think the next question, please.

<<Operator>>

We'll now go to the next question, and your next question comes from the line of Omar Keenan from Credit Suisse.

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

Good morning, everybody. Thank you very much for making the time to take the questions. Thank you very much for your disclosure on the CASA and time deposit mix assumptions and where we are today versus 2019. I was just wondering what your views would be on rates having moved so quickly and above post-GFC highs, whether that migration might continue and go beyond 2019 levels or whether the way that you see your customers' liquidity needs means that it's very likely whatever the rate environment, the mix of time deposits will be capped at these current levels?

And just on a related question, I was just wondering within the CASA, whether you could help us a little bit with the share of interest-bearing and non-interest-bearing deposits. And how we should think about mix assumptions between current accounts and savings deposits within there? And then my final question was just on Financial Markets revenues. So, 2022 was obviously a very strong performance. Just wondering what your assumptions are for Financial Markets performance in 2023?

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

Yes. Let me pick those up. Clearly, we have been through a period of uniquely fast-moving rates. And when you get fast movement, not just the absolute rate itself over a period being higher, but the fast movement, it does create different dynamics in terms of how long people are comfortable with money in a savings account or in their current account versus at what point there is a price differential at which they are persuaded that they should move into time deposits.

We saw in the period prior to COVID, we were in the Consumer side, probably about 80% current account and saving account. And then as we went through the COVID period and then the rates started to change over the last year, we found that mix change, obviously, more to the time deposits. So, we were down nearer the 56%-60% range. Now we do see, and it's a difficult one to judge because it does depend upon not just our own pricing, but competitive pricing, et cetera, that 55%-65% range. We think on average over the next two years is where we think that things should settle down. Now we'll monitor that. But at the moment, that is where we see things.

On the FM side, we have had two very, very strong years from the Financial Markets business, both of them sequentially records on each other. Volatile markets, I think we have been well positioned. I think the product set has been good and at the moment, the momentum, as Bill has said, coming into this year is strong on that front. So, we will see just where the year pans out, but overall, a very encouraging last two or three years in that part of our franchise. And clearly, having that strong period when Wealth Management was maybe a bit weaker, has been a good offset and evidence of the diversification of the

portfolio we've got. So, we continue to focus upon Financial Markets and we'll monitor over the coming months, just whether we can get another record year there, but certainly, a very strong performance. It has had some benefits, some structured notes benefit that we got last year, which one should take into account when thinking about forward forecast of about \$200 million, which would not recur. But that aside, the underlying business is performing very strongly.

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

To add a bit of colour on the FM business. And I think you asked a question on non-interest-bearing deposits, which we have a fair amount of detail in the back of our pack after the financials. So, you can dig that up. If you got more questions, of course, we can go through that. But the FM business, if we just go back a few years, we had a very strong FX business that was reasonably but not very well connected through to our Transaction Banking business and Retail business.

In the meantime, we've established good connections between the operating units, so that we're picking up a higher and higher proportion of the flows that come out of our own in-house businesses and the businesses with our clients, in Transaction Banking and in Retail, that's obviously helpful. We've built a very good rates business to complement the FX business. We've also reinvigorated substantially our credit business. And that's partly on the back of not just good strong investment, but also on the back of our own more active management of our credit portfolio, which, of course, is part of the story behind the RWA optimisation that we've set out in the earlier parts of this discussion. So, add to that, a really solid commodity business which has performed particularly well over the past couple of years, given the volatility there.

And we now have a good broad-based business that's growing nicely with increasing customer penetration in what clearly has been a benevolent market given the volatility. But when the benevolence goes away or is reduced, and I must say there's no immediate sign of that given ongoing volatility in both interest rates, currencies, commodity prices and credit spreads. But when it does calm down a bit, we'll be left with a much, much better business that we think can continue to grow as we continue to press the offensive on all fronts. It's always difficult to forecast Financial Markets from quarter-to-quarter. But at the same time, we can look at the underlying strength of that business and just say it's orders of magnitude different than it was three or four years ago.

So, operator, can we take the next question, please?

<<Operator>>

Thank you. We will now go to the next question. And your next question comes from the line of Fahed Kunwar from Redburn.

<<Fahed Kunwar - Head of European Banks and Fintech Equity Research, Redburn>>

I just wanted to quickly follow up on the point around the pro forma FY'22 base. When we think about the operating leverage, just to confirm, I'm assuming that's also off the expense base of \$10.3 billion pro forma rather than the \$10.6 million, I assume that's the case, but I just wanted to make sure that was right.

And then my other two questions were, when I look at kind of loan growth, you did underlying 3% year-on-year, but the AIEA growth year-on-year was flat. So, when you give the guidance of low single-digit asset growth, should we assume kind of 2% to 3% AIEA growth from I think it was \$5 billion, \$6 billion that you booked this year? Or is there a reason that actually loan growth and AIEA growth will be a little bit different as they seem to have been in 4Q'22 year-on-year?

And then my next question, when I think about the operating leverage, if you do manage to hit the 10%, for example, of your range, should we assume, the costs will be 7%? And if you hit 8%, the costs will be kind of 5%. Is that the flex? Or is there kind of like as you hit the higher end of the range, actually, we should expect more of that to drop through? Or will costs go up in symmetry if that is the case?

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

Yes, let me take those. I think the answer to those are yes, yes and yes to the latter. So the pro forma is the base off which we will be measured. So, the jaws, et cetera, expenses are off that \$10.3 billion number. Loan growth versus AIEA, they move around broadly in symmetry with each other, but just not always exactly. But I think you should take out those single digit as applying to the AIEA as well as a basis for forward forecasting.

Operating leverage, we've put 8-10% income, 3% jaws. I think it is fair to say that the higher we go on the income, we would hope that the jaws would open out commensurately. I think if you look at last year, we clearly had well above the 10% income. We got well above the 3% on the jaws. We are a relatively fixed cost business, some variable pay, but other than that, fairly fixed cost. So, the higher we can go on the income scale. I think the more of that you should see reflected in the jaws.

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

Can we take the next question, please?

<<Operator>>

Thank you. We will now go to the next question and your next question from the line of Rob Noble, Deutsche Bank.

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

I just wanted to expand a little bit on the back end of the rate curve really. So, I see in your slides that you've got a positive contribution in 2024 from the rates going up, obviously, and at that point, rates coming down in your own forecast as well. Presumably, your exit NIM in 2024 is below your current guidance in the average year excluding the hedge benefit. And then on one of the other impacts of rates, the trading book funding costs. So, you've guided for it to be high up to \$1 billion, does that come down in 2024 as rates fall as well? And then similarly, the fair value through OCI, does that fall and will that be a benefit to capital as rates come backdown?

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

We've got both of your questions. So, the 2024 rate guidance, obviously, we're assuming that there would be a reduction in rates overall, and that is factored into the forward forecast we've given on overall NIM and overall income. There are, again, as I said earlier, quite a number of moving parts, our book doesn't price immediately. So, we get some of the roll-forward benefit from the previous year, still coming through to offset some of the reductions. We get the short-term hedges coming off, some of those come off this February, some of those come off in the February afterwards. So, we have taken all of those into account.

The funding cost adjustment, yes, it is safe to say that in 2024, with a rate reduction, one would expect the size of that adjustment to be lower in 2024 than in 2023. Sorry, I'm not quite sure I got the last part of your question on FVOCI...

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

You took a lot of negative impacts to capital through FVOCI. Do you get them back as rates fall, or is it already priced through?

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

Yes those pull to par eventually. So, the simple answer to that is, yes, one would expect to see some reversal over time from those.

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

Probably also important to note, we do manage the position dynamically. So, it's not necessarily symmetrical in each direction because the nature of the book changes.

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

Okay. And just last one on the rates, is the 40% of your rate sensitivity in your Other category, given that the rate sensitivity has kind of changed quite a bit. Can you just remind us what's actually in the Other category, what's the big numbers in Other?

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

I personally would be more guided by the NIM we have given and the income guidance we have given. The sensitivity is really quite theoretical. It assumes simultaneous changes in rates across countries at the same point in time, et cetera, whereas the NIM guidance is trying to actually look market-by-market, individual rates, differentials, the lag in the book, et cetera. So overall, I would steer much more to the NIM guidance than the sensitivity guidance. I think it is what's going to be more the driver of the business.

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

Next question, please.

<<Operator>>

Thank you. We will now go to the next question. And your next question comes from the line of Tom Rayner from Numis.

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

Thanks for the update on your strategic actions. I'm just wondering could you pinpoint exactly what sort of change that's given you the confidence now to increase the guidance for the 2024 RoTE. If I look at your NIM guidance, it doesn't really seem to have changed a lot from what you were looking at previously. If I adjust for the trading book changes, you might even say that it is slightly softer in 2024 than that chart that you showed us last time. No change in your ECL guidance and no real update on the cost still the \$1.3 billion sort of cost efficiency target in place.

So, my question is really, is it non-interest income? Is that where you are now feeling much more positive or maybe is the more that you're seeing on balance sheet management that you can do? I'm just trying to get a sense of why now to push the RoTE target for 2024.

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

Let me take a high-level pass at that, and then I know Andy will have a view as well. Overall, I think as we finish the year with this very strong momentum, we're, I'd say, a bit more confident in everything that we've got. So yes, the non-financing income trends look good. We're encouraged by the early opening up of China. We're encouraged by the business trends that we see on the back of that. That's probably the first and foremost. We're encouraged by the ongoing strong growth in India and the strength of our franchise there. We're encouraged by the resilience of the African markets and South Asian markets despite the obvious credit stresses for which we provided and which no doubt, we can talk about some more, if you'd like.

Interest rates have continued to increase, and obviously, we can look at the forward curve and form a view. Although we haven't, we just included the market as it exists. But I think we're very aware of the fact that the U.S. economy has been relatively resilient, as has the European economy relative to expectations, which probably suggests a little bit higher for longer on the interest rate outlook. So, putting that together and then looking at the number of levers that we have to pull over the 2023 and 2024 period, if it turns out that any of those slightly more optimistic assessments turns out not to be correct, we do have lots of levers that we can pull. And we have pulled them in the past and we'll continue to. I'd say just on the margin, this increases our confidence that we can deliver a higher level of returns than we had indicated just a few months ago. Andy?

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

Yes. Just to build on that, it's the sum of many small parts. Rates outlook is a little bit higher. That does help. What the CCIB business has done in terms of getting its income return on risk-weighted assets up in one year to achieve a 3-year target already, is significant, both in terms of the income generation but also what it's done to our RWAs. And let's not forget, we've had a 15% increase in income last year and a 10% reduction in RWAs. That is a pretty positive dimension in our capability to return capital, which clearly has been a contributor to the RoTE.

At the moment, albeit it's always a difficult one to indicate going forward, the credit environment with the exception of the China commercial real estate and the sovereigns has actually been extremely well behaved. So, at the moment, things seem to be going well on that front. I think a year ago, I talked about above 2% jaws, we today said 3% jaws for each of the next 2 years. So, you put all of those together and what was an above 10% number, we think now should be an above 11% number. And we'll see, time will tell, but that is certainly now where we're setting our sights.

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

Okay. And I'm assuming that the reclassification of the disposal businesses doesn't have a big impact on RoTE?

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

No. It has a small impact, I think, by memory, 20 basis points or something of that order. So, it is a slight impact, but not a huge impact.

<<Operator>>

Thank you. We will now go to our next question. And your next question comes from the line of Perlie Mong from KBW.

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

I just want to ask a couple of questions. First one is on HIBOR. So, it's dropped quite sharply in the last couple of months, and it's now over 2% below U.S. rates despite it being a pegged currency. So just wondering what your thoughts as to what is driving that? And what are your assumptions regarding HIBOR whether they reconverge later on in the year. So that's a first question.

And the second question is, can you give us a sense of what your Hong Kong dollar exposure is? I'm just trying to gauge what the impact would be if the peg breaks. And obviously, I note that the Hong Kong Monetary Authority is still confident in the peg and the ability to defend it. But nevertheless, it would just be helpful if you could get at the sense of your dollar exposure?

And then thirdly, on the Hong Kong property market. House prices dropped quite sharply last year, maybe 15%. So, what does that mean for your RWAs? Have you seen RWA inflation coming through yet? Or is it something that will be more of this year? And do you have a sense of whether this has bottomed out yet?

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

Good. Thanks very much for the questions, Perlie. You're quite right. HIBOR is trading at a historically wide spread to U.S. dollar LIBOR. I think it's largely technical, it's just probably a good news story, which is that money has flooded into Hong Kong to reengage with the Hong Kong and Chinese equity markets. And we've seen the capital market flows really do skew the need for the HKMA to operate within their band. It's also clear that the Hong Kong dollar is trading and has traded at the lower end of its range, so that the HKMA has intervened in a reasonably substantial way as they automatically do.

So, will it return to parity over some period of time? Yes, we would expect it will, in a way, it has to. To your peg question, we've provided a ton of details on the size of our Hong Kong balance sheet, so I won't get into that. But the peg is extremely well supported, and we see no risk to the peg. We see no inclination to adjust the peg or to allow any variation around the peg. So that's not something that we're particularly focused on. If circumstances were to change in some fundamental way, we'd take a look. But the fact that money is flooding into Hong Kong at the moment certainly doesn't suggest that the peg is at any risk.

And the Hong Kong property market has, of course, had an adjustment. That market is coming back to life. Again, Mainland visitors are returning in some numbers but in terms of our mortgage book, either on the residential or on the commercial side, it's very well protected with very low loan to values, even with the modest price correction. So, there's no material RWA impact. And we'd expect that market to stabilise over the course of this year as Hong Kong renormalises. Any comments on any of the above?

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

No, just agreeing, particularly on the last point, our loan to values are very good in Hong Kong, so we can absorb quite significant price corrections should they occur without that having major consequences. But overall, we are, I think, well positioned in Hong Kong. With that, the next question.

<<Operator>>

We will now go to the next question. And your next question comes from the line of Aman Rakkar from Barclays.

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

Thanks for taking the questions. There's one thing I'm kind of struggling a little bit. I think as alluded to earlier on in the questioning. I'm just trying to reconcile your guidance around income and costs with some of your 2024 targets. I'm not sure that I can exactly reconcile them. I think ultimately, you need to outperform your own cost guidance of 3% in each of '23 and '24 to get a cost income ratio of 60% and to deliver the greater than 11% RoTE, so I guess the first part of the question I'd be keen to get some kind of response as to whether I'm wide of the mark there.

The second then related question is around the income growth dynamic. You're guiding for kind of 8% to 10% income growth in '23, but your net interest income guidance pieced together from NIM and the consensus average interest-earning assets suggests net interest income is going to grow some 20% year-on-year, I think, in '23. So, for that to only manifest in a 10% total income growth in '23. There's a couple of things that are potentially going on there. One is that's very, very conservative or there's something about fee income that I don't quite understand. So, do you expect non-interest income to be a big some kind of headwind? I don't know that would be interesting.

And then, if I'm correct in this line of questioning, I think the third would just be, if income growth was to substantially outperform the 8% to 10% this year, what happens to cost then? Is it capped out at 6% and we're just banking the benefit and you deliver the outperformance on jaws how can you help us think about that, please?

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

Yes, I'll give a high-level reaction. All good questions. We've got a number of things. I'll state the obvious, that drive our RoTE, its income, cost, and capital together with impairments. And we're pretty comfortable in the short-term income outlook. We're comfortable that the investments that we've made, the momentum that we've got takes us through those sorts of growth levels in 2024 with ongoing growth beyond that. I think we demonstrated very good cost management, and we continue to expect the same. Impairments obviously tipped up a bit in 2022 for the reasons that we discussed. And there are still problems out there, but we're very comfortable with the quality of our asset portfolio. And of course, we have guidance that we'll continue to creep up over some period of time towards what is a more normal medium-term range, 30 to 35 basis points, we're not there now, and we're very comfortable with the quality of the book. So, there's opportunities for outperformance there. And I think we've been quite disciplined on capital, both in terms of optimising the existing uses of capital, seeing the CCIB reductions in just the first year of our 3-year program, but also in our willingness to return that to shareholders.

Adding those things together, if you take the cautious end of all of our guidance across all three of those, you get to one answer. If you take the less cautious end of the guidance across all of those areas, and you get to a different number. I can only tell you that we're very, very focused on every one of those lines, and we'll pull the levers that we need to pull, to the extent that we possibly can, to hit that 11% plus target. And if we weren't confident that we could get there, of course, we wouldn't be standing up here talking to you about it. Andy?

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

Yes. I mean, all good questions. And what we've tried to do is give directional guidance here. And as Bill says, it depends a little bit on where you go in the ranges. So, to your middle point, if you just take the year-on-year NIM, you get to almost the 8% to 10% on its own but do remember that we've got the trading book funding adjustment in there, which needs to normalise because it doesn't affect the actual

income for the business overall, and that does slightly moderate that number. Not to play our numbers down at all, also remember that we've got the \$200 million of the valuation gains, which will not recur in the 2023 period.

But that having been said, if we can get to the top end of the 8% to 10% range in 2023, you can get above it, we are not going to stop at the point where we are getting there. If that is how it pans out. And as you say and as I said earlier, the jaws should be higher, the higher we get on the income. So, there is also leverage that comes through with that, which, again, could come back to your cost income ratio. I know if you take midpoints in ranges, you probably just get slightly shy of 11% in 2024, but there are other moving parts, where will credit impairment go, where will the effective tax rate go, how many buybacks will we do in the period of time. So, I think if you put it together and certainly in the current year, we will absolutely be leaning into this and momentum is very good going into the year. We will see where the year ends up. But we do think that, circa 11% number and the 60% cost income ratio, if you bundle this all together, they should be the art of the possible.

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

Thank you so much. Can I just ask on a separate point, given the higher RoTE, why aren't we able to talk a bit more confidently around the distribution profile because you're quite clearly going to substantially outperform your greater than \$5 billion distribution guidance to 2024, given that you've already done more than half of it in one year. So, what exactly is holding us back from just being a bit more bullish and, kind of, direct around the distribution profile.

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

There is nothing that is holding us back. We have said in excess of \$5 billion. We remain of the view that we should be in excess. This has firmed up our confidence that, that should be the case. The only thing we haven't done is quantified how much in excess of. But I do think the track record that you can see over quite a period now, particularly last fifteen months is if there is excess, we do give it back. And also, I really do think one of the highlights for last year is RWA management. We have been very, very focused upon that. There's a chart showing how we've got the income return on risk-weighted assets, over a period of time, up really substantially and how the density of our RWAs has improved over a period of time. We are going to push on both of those. So do not think we stop on returns at \$5 billion. We, if we can, will be doing more than \$5 billion.

<<Unnamed representative, Standard Chartered>>

Thank you. We've got a few questions from the web. The first is Manus Costello at Autonomous. Your RWA density continues to fall precipitously. How much lower can you drive this?

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

Well, I would say it's fallen commendably, whether it's fallen precipitously as well as commendably is an interesting one. But we have a slide in there that shows that we've come from 47% density to 30%. Now where the 30% goes, I don't know exactly because what we really are trying to do here is to get the returns on the risk-weighted assets up. It is not, as you well know, purely about the density. If there is the return there, then we'll take on a higher density of exposure, but it is driven by returns. And at the end of the day, the absolute focus here is upon the RoTE, getting the RoTE up, if that results in that density coming down a little bit further then fine, but it will be the RoTE going up. And if the RoTE goes up and this curve actually slows down, that does not worry me. We just need to make sure we get the RoTE going up.

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

Thank you, Manus, for the question, it's probably worth taking a step back and kind of reappraising what has happened to our business model over the same period that RWA density has decreased. Well, we've improved the overall credit quality of our portfolio. We've reduced concentrations. We're much more actively managing that portfolio so we've got a very active credit portfolio management function that is continually optimising for return versus risk. We've engaged in a set of activities that are structurally lower RWA density, including a number of the areas in our Financial Markets area. We've managed the market

risk components of our Financial Markets area extremely dynamically. So, we've had very substantial increases in income in our FM business that far outstrip the RWA growth in that business.

So, these are not incidental things, and it's not finding some quirky ways to refine models, although we are continually refining models as well, always with the approval of our regulators, but it's rather a systematic business model shift that is allowing us to generate a higher return on the capital that we deploy. Is there more of that to go? Yes. But as always, you pick the low-hanging fruit first and getting to that higher hanging fruit, it takes a bit more time. But we'll continue to focus on reducing the density. But as Andy said, our overarching focus is just on increasing our risk-adjusted returns.

<<Unnamed representative, Standard Chartered>>

Thank you, Bill. Next question from Robin Down at HSBC. Two-part question. I'll read it. Could you perhaps talk a little more about the outlook for the cost of risk? I can see the normalised 30 to 35 basis points guidance. But in 2022, the cost of risk was just 21 basis points, and that was mainly around China CRE, where I assume you expect charges to reduce in 2023 as policy initiatives kick in. Does that leave the 30 to 35 basis point guidance looking reasonably conservative? Or could you highlight where you see potential uplift coming from?

Second part of the question, the outlook for RWA, you're guiding for both assets and RWA to grow at low single-digit percentage rates, is the suggestion that the current phase of RWA optimisation is now largely complete?

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

On the credit cost question, it's one that we struggle with because we obviously have had, you call it one-offs, although one-offs are a feature in our business. China real estate, kind of by definition, took us a little bit by surprise. We're not very happy with our performance in that sector. And we could argue that it's not so bad relatively, but that doesn't matter to us. We can do better on that. But if we're operating in the markets where we operate, we're going to be hit by these things from time to time as we were in China real estate this year and as we were with a number of sovereign defaults and we all understand the backdrop to those sovereign downgrades and then defaults in a very few number of cases. So, the one-offs will come from time to time.

That said, we look at the rest of our book, we look at the quality of the portfolio. We look at the fundamentally improved underwriting standards, the fundamentally improved concentration proportion that's investment grade, et cetera, and say, yes, we feel very comfortable with our credit portfolio and with the nature of that book. And I can tell you, if I'm standing up here at some point, talking about 30 or 35 basis points of cost of risk, I'll be quite disappointed at that time. That said, it's a feature of our business. And we have to expect that through an economic cycle, and we're going to have periods of peak and periods of trough. And we most truly have been through a period of trough. And is it cautious to say we're going to go back to what feels like a normal long-term range? I don't know. We think it's appropriate to indicate in that direction. But that's certainly not something that we're targeting. Andy? Actually, the second question on RWA growth.

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

Yes. The intent is not to be suggesting that we will ever give up on the pursuit of RWA optimisation. It's just difficult to forward forecast, exactly the composition of it. We do have some things occasionally, the implementation of Basel III. We have said previously will be a slight uptick on RWAs. If we can get the RWA growth to be below the asset growth, we will continue to focus upon that. But it comes back to the previous point, it is about the return on the asset we're making or upon non-asset-based business and that is what we'll continue to focus upon.

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

Maybe make one other comment back to the business model shifts. Historically, if you went back quite a way, we looked at assets and asset growth largely through the lens of income growth. We didn't have quite the risk-adjusted return discipline that we might have wanted to have. It's part of what got the bank into trouble a decade ago. And I think we've shifted that decidedly; I mean we're very focused on risk-

adjusted returns. But as we more actively manage that asset portfolio, and this is going back a couple of years now, but I think we're getting into full swing. We've given our bankers the mandate to go out and find attractive risk-adjusted assets, which is different than taking on risk-adjusted assets because our clients have asked us to finance something or other, and we've looked at whether we can get a decent return in aggregate across that relationship.

So yes, there is an optimisation program that's ongoing. Not every one of our clients is crossing our threshold for returns right now. So, there will be ongoing optimisation. But again, we picked the lower hanging fruit. But there's a ton of opportunity for us to grow RWAs by selectively going after those opportunities that exist where we can get a good risk-adjusted return where we think we've got a differentiated approach to assessing the underlying asset. And that's a bit of a change of mindset in the bank that is taking hold and will make a difference. So, optimisation, yes, but also opportunities for growth.

<<Unnamed representative, Standard Chartered>>

Next question from Gurpreet Sahi in Goldman Sachs. Question on India. How is risk appetite for growth there? We see that U.K. loan book has fallen 25% year-on-year, how much of offshore India is booked there? Any risk that we are concerned about around India?

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

Yes. If we take a step back... obviously, going back to the 2014, 2015, 2016 period, we had some big concentrations in India and other markets. And we thoroughly revised the way that we're approaching credit risk across our group. We have far less concentration than in those days, far lower single borrower limits than we had in those days. A dramatic downsizing of any promoter type financing or financing at holding company levels, the vast majority of our exposure is at operating companies with a good underlying cash flow production. So, the quality of our book overall is dramatically better than it was and better risk managed.

Of course, we also are looking at single names through a much more skeptical and quizzical eye. And I think that has set us in good stead. Our aggregate credit provisions over the past five years in India have been something like \$70 million in aggregate on the corporate side of the business. That is just a very good outturn. And that against the backdrop of substantial increases in income and return on risk-weighted assets. Overall, we feel good about our portfolio broadly. We feel good about our portfolio in India. The economic backdrop is strong, and our competitive positioning is very good. So overall, good. And Andy maybe you want to comment on how we book Indian assets in London versus elsewhere, but we've been optimising our corporate portfolio pretty aggressively, and London is our biggest corporate booking centre for loans, obviously, not limited to India from across the group. So, I wouldn't read anything, from an Indian perspective, into our London loan bookings.

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

Each individual booking decision is taken separately. It will depend upon client request and our balance sheet capability at the time. But I absolutely reiterate what Bill has just said, the credit and payment history in India recently has been completely different to what we'd experienced before. The Indian market, we love the growth, the GDP growth is very strong at the moment, our corporate business, which is probably a little bit more focused upon multinationals than locals than was a while ago, but in servicing both sectors, is very diverse. It's very spread and we've been very, very happy with the performance there, and you can see its profitability increasing quite significantly over recent periods of time.

<<Unnamed representative, Standard Chartered>>

Last question for the day from Jason Napier at UBS. Two-part question. First, confirmation of expectation of Mox breakeven in 2024 is helpful. How should we think about the net loss to Ventures overall, which we should see in 2023 and 2024? The 4Q annualised loss is material at around about \$0.5 billion per annum.

Second part of the question, capital discipline and return has been very strong to date. Buybacks, especially given valuation are popular. Is it right to keep balance sheet growth at a low single-digit level,

given the double-digit RoTE expectation? Shouldn't the firm be thinking about using more balance sheet growth to drive positive operating leverage?

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

Let me pick those up. Obviously, we have invested heavily in both Mox and Trust and also the SC Ventures business. So, for the last 2 or 3 years, Mox, more established, Trust, more young and the ventures coming on. And there has been some P&L drag that has come through as a consequence, as you would expect with any early-stage business. We do hope that Mox can get to breakeven point, whether it's 2024 or 2023, we will see. But that certainly will in overall group P&L terms, that will be helpful. Trust, obviously, was launched somewhat later, so that will follow it over a period of time. But I think what we're trying to do is to get a balance here between the future growth engines for the business, exploring more what a very digital bank can do and making sure we're getting the returns for the business overall up to the levels that we want. So, we will see a progressive reduction in the bottom line drag on those businesses over a period of time.

On the balance sheet growth, look, again, it really does come back to this, what is going to optimise the returns overall for the bank. If there is the ability to grow the RoTE through that, we will not hesitate to invest more in the assets, but we do need to get both the P&L side of the RoTE and the capital side of the RoTE to work in harmony to be able to get to the 11% [RoTE] number, and we are constantly fine-tuning that. We're not going to turn away good business, if there is a good business with good returns, we will absolutely go after it. If there is not, then you'll see the returns that are coming through. So, we are walking that tightrope, I think, pretty well at the moment, and we'll continue to be as focused on that as we can be going forward.

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

I will give a little bit of colour as well. Thanks for the question, Jason. Let's remember, Mox, Trust, and Nexus those are the three biggest invested in items in our Venture's portfolio. And we had some really good ideas in all three of those, and then COVID did intervene. So, building a neo bank is always going to involve a couple of years of losses upfront. If you compound that with zero interest rates and lockdowns, which obviously, suppressed travel completely, given that FX is one source of income for these neo banks, especially in city states where young people travel a lot, that was a pretty bad economic backdrop to start with. Thankfully, that's behind us.

So, we spent a couple of years getting those ventures fully up and running and embedded. They're extremely well regarded in the local markets and these are now top tier brands in their own right, totally independent of Standard Chartered Bank with super recognition from customers, growing customer base. Mox doubled last year, Trust obviously infinite growth, but reaching the size of the Mox in just a half year. And we've layered in credit products, so credit cards and personal loans and loans against card, which are growing very nicely and obviously, that's a profitable business. Taking deposits at zero interest rates, I'm afraid it's not a profitable business. The credit business is profitable. We're beginning to get the travel-related income that's kicking in through the FX line. We're layering in Wealth Management products in each of those cases.

In the case of Nexus, much more credit-driven proposition, just getting started now as a practical matter, but we've been spending on it for the past two years. So, it's not surprising to us that at this juncture we are hitting peak operating profit impact, but very strong value uplift, at least as we mark-to-market in our own minds, obviously, not mark-to-market through our books. So, very encouraged about the prospects from here. And then we've got a whole slew of smaller ventures in the digital asset business and Wealth Management, some sustainability-related ventures, some consumer and lifestyle-related ventures, SME platforms, where we've had strategic partners who have come in and bought stakes between 10% and 20% in those vendors, all of which we've announced at a substantial multiple to our invested capital, between 2 and 5 plus times of our invested capital. It doesn't mean everything in the portfolio is a 5x winner, it's not. And we've killed plenty of things along the way as well, but they've been very small.

So overall, the profit picture is absolutely correct, and it has been a meaningful drag. But we think we've created real value there, and we're going to push now as we get into the attractive part of the

development cycle and the macroeconomic cycle to generate real profits. And to just underscore Andy's point on the RWA growth shouldn't we be growing RWAs faster in this environment? The answer is we're taking every bit of RWA that's accretive to our return targets that we possibly can. And part of the reason that we upgrade our guidance to 11% is that, that's what we're using internally. So doing 10% business or investing in something in one of our retail partnerships, for example, with the target of achieving a 10.5% RoTE is value-disruptive from our perspective today. And it does indicate a real shift in the way that we're operating to generate higher and higher returns and demanding those returns from our colleagues and ourselves on every incremental investment that we make. That gives us confidence that we cannot just hit 11% and then kick back and relax, but just keep on going because we do think that there's a ton more potential in this franchise.

But with that, I think we've wrapped up the questions. Thank you very much. Excellent questions, as always. Thanks for your time and attention and look forward to following up in whatever forum we can. Have a good rest of the week.