

## **Standard Chartered's second quarter 2024 results presentation**

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*(Amended in places to improve accuracy and readability)*

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

Good morning and good afternoon, everyone, and welcome to our second quarter of 2024 results call. We are very pleased to have delivered a strong financial performance and are very encouraged by the progress on our established strategy. We are delivering exceptional cross-border services to the world's most sophisticated entities and individuals across our Corporate and Investment Banking and Wealth businesses. Income of \$4.8 billion was up 7% at constant currency, and reflecting confidence in our performance, we are upgrading our income guidance and we now expect growth for 2024 to be above 7%. We are maintaining strong discipline on costs, with expenses up 4%, while asset quality has remained resilient. This has resulted in underlying profit before tax of \$1.8 billion, which was up 15%.

Our financial momentum, together with progress on key strategic drivers, leaves us confident that we can consistently and sustainably drive towards higher returns. With our strong capital position, we are delighted to announce our largest ever share buyback of \$1.5 billion, which will start imminently.

Diego will now take you through the numbers in more detail and I will then cover the progress our businesses are making before we come back for the usual Q&A. So Diego, over to you.

### **<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Thanks, Bill. Good morning and good afternoon to everyone on the call. In my remarks, I will be comparing year on year on an underlying basis and speaking to constant currency, unless stated otherwise.

The Group delivered top-line growth of 7% with operating income of \$4.8 billion in the second quarter, as the dynamics we saw at work in the last quarter continued into Q2. NII was \$2.6 billion, up 6%. Wealth Solutions continues to drive the strong growth in non-NII, which was up 9%. Operating expenses were up 4% due to inflation and continued investment into business growth initiatives. Pre-provision operating profit was up 13% in the second quarter and was up 26% in the first half, demonstrating our strong progress towards sustainably higher profitability. Credit impairment provisions were just \$73 million in the quarter, with the Wealth & Retail Banking charge broadly in line with recent run rate, offset by net releases elsewhere, mainly from sovereign upgrades. The \$83 million charge in Other impairment is primarily related to the write-off of software assets, which has no impact on capital. With modest credit impairments, pre-tax profit of \$1.8 billion was up 15%.

Restructuring and other charges of \$250 million included \$174 million primarily related to the disposal of our Zimbabwe business. The Zimbabwe charge relates to recycling of FX translation losses from reserves into the P&L, and so it has no impact on our capital or TNAV. It is possible there could be similar losses, albeit smaller, as we complete our market exits in the coming quarters. Taxes for the first six months of the year reflect an underlying effective tax rate of 30%, and we now expect the full year 2024 underlying effective tax rate to be around this level.

Our CET1 ratio is well above the target range and as a result, we are today announcing our largest ever share buyback of \$1.5 billion, which takes our pro forma CET1 ratio to 14%.

Turning now to look at our performance in more detail. Looking at the various components of income, NII was up 6% quarter-on-quarter to \$2.6 billion driven by a number of factors. There was an \$84 million additional benefit from the expiry of the short-term hedge in February 2024. There was also a \$112 million increase from improvement in treasury asset and liability mix, offset by higher passthroughs in CIB and lower volumes. Average interest-earning assets were down 4% in the quarter, primarily due to a reduction in treasury. Looking forward to the remainder of the year, we continue to expect NII of \$10 billion to \$10.25 billion in 2024. Whilst the higher for longer environment has reduced headwinds from rates since the start of the year, lower volumes and higher deposit passthrough rates in CIB have held back NII. We show our latest currency-weighted forward curves in the appendices on slide 27. It is worth noting that we expect an NII headwind from U.S. dollar appreciation of around \$100 million in 2024 versus 2023, but we are not adjusting our guidance for this. Now, turning to our engines of non NII growth.

Wealth Solutions had a very strong second quarter, up 27%. You will see that we are now disclosing our Wealth Solutions income broken down into Investment Products and Bancassurance, with Investment Products income growing strongly in the second quarter, up 32%. Global Markets was down 7%, given the comparison with a particularly strong second quarter last year in Macro Trading, whilst Credit Trading was up 46%. Global Banking was up 11%, driven by higher origination and distribution volumes, continuing from the strong performance in the first quarter.

We have continued to maintain discipline in managing expenses, which were up 4% year-on-year. This was driven by inflation of around 3% and investment into growth initiatives, primarily to support our higher returning businesses in CIB and our Affluent Wealth proposition. This included hiring relationship managers for Affluent clients in WRB and sector-focused expertise in our coverage teams in CIB. We expect the quarterly cost run rate to tick-up slightly in the remainder of the year, following our investment spend profile, which as usual is weighted towards the second half of the year. We remain committed to delivering on the absolute cost cap of \$12 billion in 2026, which implies a 3% CAGR from the 2023 level.

The targeted savings from the Fit for Growth programme are expected to be realised through 2025 and 2026. As a result, cost growth will be higher in 2024, but lower in the next two years. We expect a small part of the cost to achieve of around \$200 million to be incurred in 2024, with the majority of the \$1.5 billion to fall into next year and a meaningful tail into 2026.

I'll now give you some more colour on the progress we are making in our Fit for Growth programme. Our colleagues at all levels are embracing the opportunity to transform the bank. We have identified over 200 individual projects so far, and these projects deliver benefits ranging from a few hundred thousand dollars all the way to tens of millions of dollars. 80% of the projects individually delivered less than \$10 million in estimated annual benefits, which reduces execution risk. The programme will simplify, standardise and digitise the bank in four different ways: process simplification, organisational design, service delivery enhancement, and technology simplification.

Let me give you a few examples of what is happening on the ground. We will remove over 100 applications across the Group in a massive technology simplification drive. We are building and enhancing our digital client service experience in WRB, which we expect will meaningfully reduce average call handling time. And back in April, we announced the removal of the regional dimension of the organisation, leading to more streamlined decision-making. Through these projects, we will fundamentally improve our productivity, make the organisation a better place to work for our employees and enhance our clients' experience.

Turning now to credit impairment, which was down \$73 million year-on-year. CIB had a net release of \$35 million, benefitting from sovereign upgrades and low levels of new impairments. In the China commercial real estate portfolio, there was a reduction in management overlay and total exposure in the second quarter, primarily due to repayments. In WRB, the impairment charge of \$146 million remains broadly in line with recent run rates. The action we have taken in Mox has led to a further reduction in the provisions for Ventures, which halved to \$15 million. Our high-risk assets were broadly flat in the quarter. And whilst we have been in a period of higher for longer rates for some time, we are not seeing any new significant signs of stress emerging across the Group.

Touching briefly now on the balance sheet. We have seen marginal underlying growth in loans and advances to customers in the quarter, up \$1 billion. The positive momentum that we saw in Global Banking in the first quarter continued. Our price discipline in mortgages led to a reduction in WRB assets of \$1 billion. We continue to expect low single-digit percentage growth in underlying customer loans this year. Customer deposits were up \$10 billion on an underlying basis in the quarter. CIB and others increased \$4 billion, mainly in CASA balances, in part reversing the temporary outflows that we saw at the end of the first quarter. And WRB deposits increased \$6 billion, with CASA balances broadly unchanged.

Turning to capital. Risk-weighted assets of \$242 billion declined \$10 billion or 4% quarter-on-quarter. Underlying asset growth in CIB was offset by a reduction in WRB and the impact of Treasury related activities. Improvement in asset quality, mainly from sovereign upgrades, led to a \$3 billion reduction. As previously guided, market risk RWA were down \$2 billion in the quarter. Looking forward, we continue to guide to low single-digit percentage growth in overall RWA for full year 2024, as we expect client activity to continue to improve. Our CET1 ratio for the quarter of 14.6% is well above the target range, driven by profit accretion and the positive impact of lower RWA. The \$1.5 billion share buyback we announced today will take our pro forma CET1 ratio to 14%. We remain committed to sharing the Group's success with our shareholders. And as you can see on slide 12, since the full year 2023 results, we have announced \$2.7 billion of shareholder distributions. This includes \$2.5 billion in share buybacks and a 2024 interim dividend of \$230 million with an interim dividend per share of \$0.09, up 50% year-on-year. As a result of the series of share buybacks we have executed, our share count is down 17% since 2021. The tangible net asset value per share is up \$0.54 in the quarter, and we have provided a more detailed breakdown of the TNAV walk in the appendices on slide 30.

Lastly, turning to our guidance. As Bill mentioned at the beginning of the call, we are upgrading our income guidance for 2024 to above 7% growth. All other key points of guidance remain unchanged. We still expect Return on Tangible Equity to increase steadily, targeting 12% in 2026 and to progress thereafter.

With that, I'll hand back to Bill to give you an update on the performance of our business segments.

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

Let's first look at performance in each business in turn, starting with Corporate and Investment Banking. CIB income was down 1% overall. Within this, Transaction Services was flat year-on-year, but Global Banking delivered a strong performance, up 11%. This was driven by higher origination and distribution volumes. Global Markets was down 7% in the face of a particularly strong comparator in the second quarter of last year, especially in episodic income. What is important, however, is that flow income continues to grow and was up 8% in the quarter from higher rates and Credit Trading. One of the great strengths of our Global Markets business is that it is largely comprised of recurring income. Over recent years, we have expanded the product offering across fixed income, currencies and commodities becoming more important to key clients and counterparties.

As you can see on slide 16, such recurring flow income has been growing strongly since 2019, with a 9% CAGR. This has been driven by a combination of platform enhancements, improved product capability and strategic focus across clients and geographies, examples of which you can see plotted on the chart.

The next slide looks at our CIB cross-border business in more detail. Cross-border income now accounts for the largest part of CIB at 62% compared to 50% in 2019. It's also been growing at a faster pace than the rest of CIB, with an 11% CAGR since 2019. It delivers premium returns with an income RoRWA of 9.7% in the first half of the year, 160 basis points higher than the overall CIB. And it is broad-based in terms of product mix. Transaction Services is the largest part, but the network also drives cross-border Global Markets as well as Global Banking income. Moreover, our cross-border business is uniquely positioned to capture the opportunities arising from increasing fragmentation of supply, trade and investment flows. For example, almost a third of our cross-border income is intra-Asian, and we've seen particularly strong growth in income from China to ASEAN up 11% in the first half.

Turning now to Wealth and Retail Banking income, which was up 11%, driven by a very strong performance in Wealth Solutions. Investment Products income was up 32% with broad-based growth across products

and markets. Affluent AUM of \$294 billion was up 5% versus Q1, driven by Wealth net new sales of \$6 billion and \$7 billion of new deposits. Our Wealth Solutions product line is almost all non net interest income, with just a small amount of NII from Wealth Lending products. I would remind you that the substantial NII generated from Affluent deposits is reported in the Deposits product line. When considered in aggregate, the Affluent client franchise is extraordinarily valuable. We continue to onboard high levels of Affluent new-to-bank clients, with a further 65,000 added in the second quarter, equivalent to around 10% annualised growth.

Now let's take a longer-term perspective on our Wealth Solutions business. Since 2016, Wealth AUM has grown at a 9% CAGR. We saw strong growth up to 2021, followed by a slowdown during the COVID years. We have now accelerated growth once more, driven by several factors. We are investing in new relationship managers, which were up 9% year-on-year, and at the same time, improving RM productivity. We are continuing to innovate new product offerings across our footprint, with best-in-class capital market solutions for our clients. And we are also providing a fully integrated digital wealth platform with personalised advice. We know that our Wealth and Affluent offerings are of interest to investors, and we plan to host a seminar later this year to provide you with more colour on this business.

Turning now to the progress we have made in the Ventures segment. We continue to see strong growth in customer numbers in Mox and Trust. We currently have around 600,000 customers in Mox and around 800,000 in Trust, which is on track to be the fourth largest domestic retail bank in Singapore, by customer numbers, by the end of this year. Both Mox and Trust are rated as the top digital banking apps in the Apple Store in their respective markets. In SC Ventures, we have raised \$55 million of external funds across two ventures and one fund at attractive multiples to our original cost, in what continues to be a challenging environment.

Lastly, we continue to see strong momentum in our Sustainable Finance franchise. Income in the first six months of the year was up 18%, and we remain on track to deliver over \$1 billion of income by 2025. We have mobilised more than \$105 billion of Sustainable Finance since the beginning of 2021, making good progress as we advance towards our \$300 billion target by 2030.

On the broader sustainability agenda, we continue to make progress on our net zero emissions and in May, we announced the commitment that by 2025, we'll set a methane emission baseline and interim 2030 target. In the first six months of the year, we also launched an innovative adaptation Trade Finance facility to protect businesses against extreme weather events.

So to conclude, the Group delivered a strong performance in the first half of the year, with income up 13%, generating a RoTE of 14%. We have been executing well on our strategy of being a cross-border corporate and investment bank and a leading wealth manager for Affluent clients. The Fit for Growth programme is progressing well, with the benefits expected through 2025 and 2026. Our capital position remains strong and today, we have announced our largest ever share buyback of \$1.5 billion. With this strong start to the year and confidence in our diverse franchise, we are upgrading our income guidance and now expect to grow above 7% in 2024. We have the right strategy, business model and ambition to deliver our 2026 target of 12% RoTE and to progress thereafter.

So with that, I'll hand back to the Operator, and Diego and I will be happy to take questions.

+++ q-and-a

**<<Operator>>**

Thank you. We will now begin the question-and-answer session. (Operator Instructions)

Your first question comes from the line of Robin Down from HSBC. Please go ahead.

**<<Robin Down – Managing Director, Research Division, HSBC>>**

Good morning and thanks for taking the questions. Can I ask you about a couple of the targets that you've got? Firstly, the income target of greater than 7%, if my maths is correct, and you are hitting the interest

income target for the full year, to do 7% revenue growth would require the non interest income to be down H2 on H2. Is that something you can give us a bit of colour on? I'm guessing you've got a bit of momentum within the Wealth Management business and a very easy comparator in 2023 Q4. So I'm just trying to get a gauge for how far above 7% we might be thinking about here?

And the second question was slightly linked to that, but just the RWA guidance, I think you touched on it in the presentation, but given the big shift down we've had in Q2 and the kind of lack of loan growth out there, I'm slightly surprised for you still targeting single-digit RWA growth. Again, I wondered if you'd give us a bit more colour there, whether there was any kind of regulatory changes or model changes you are expecting within that. Thanks.

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

Great. Thanks, Robin. Good morning, Good afternoon, everybody. Thanks for joining us. I'll go straight to Diego for both those questions.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Excellent. So, on the income, think about it this way, Robin. We have a 10% growth of the income ex notable items in the first half. If you put yourself anywhere on the metabolic rate that we always talk about, our 5% to 7%, during the second half you'll land north of 7%. How much north of 7% will depend on a number of things, which, by the way, are linked in part to your second question, to which I will get to in a second. But that's the way to think about it. There is a little bit of seasonality in the second half, of course, I would expect as always. I would clearly say that with the kind of leading indicators that we have for Wealth Management, the performance we have turned out, the strength of our flow business in Markets, definitely non net interest income is not going to be down year-on-year in the second half.

That is linked to the RWA question in the sense, not a matter of changes in regulatory or otherwise, although we continue to belabour while waiting for Basel 3.1 clarity, which we hope will come shortly after the summer, hopefully. But the issue here is we are rate related in some way. We need to see that credit demand, of which we have seen some encouraging signs with the \$5 billion of underlying customer loans and advances we have added during the first half, continue to show its effects. We believe it is entirely possible, and those green shoots seem to indicate that we are moving in that direction. We are leaning into 150 clients in Trade as we have indicated before and we are seeing the results of that. We remain confident that it can be done, but it undoubtedly requires a little bit of tailwinds from the market. The other thing that I would say, also remember, we don't need to grow RWA to grow income. I think Market's performance is a good example, but there are many examples of that in our originate-to-distribute activities also.

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

Excellent. Thanks, operator, can we take the next question please?

**<<Operator>>**

Thank you. Your next question comes from the line of Andrew Coombs from Citi. Please go ahead.

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

Good morning. Two questions, please. Firstly, just on the large buyback, it looks like that's been partly funded by the 4% RWA reduction quarter-on-quarter. And some of those items are arguably unlikely to repeat, sovereign upgrade and so forth. So two parts of the question. One is, why are you keeping the greater than \$5 billion cumulative distribution guidance when you've already done a \$2.5 billion buyback this year? And secondly, would you think the buyback is larger today than you'd expect to do going forward because of the RWA reduction that you've seen?

And then the second question is just on Treasury optimisation, that has continued and if anything has accelerated this quarter. So perhaps you could just give us a feel for where we are in that process, how far through that Treasury optimisation we are and what the incremental benefit potentially is going forward from here as well? Thank you.

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

Andrew, thanks for the question. Obviously, we are happy with the capital out-turn for the quarter at 14.6% pre buyback, and that does reflect ongoing optimisation. It reflects some tailwinds as well, some of the sovereign upgrades, as you mentioned. I won't say they can't be repeated, a number of our sovereign clients are still very lowly rated. But that said, these aren't things that we are predicting in the ordinary course. What we've said consistently is that we'll operate dynamically within our 13% to 14% range and that we will return surplus capital above that range. We've done that consistently. We are doing that again in the first half of this year, and we'll continue to do that. So, if we outperform for whatever reason, profit outperformance or RWA optimisation outperformance, that will create surplus capital that we'll return. It's that straightforward and we will assess each quarter and each period as the facts come in. Diego, anything you'd like to add to that, and pick up the treasury question.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

No, nothing to add, I would say, on the first. On the second, look, optimisation is a never-ending game. We will continue to optimise RWAs because that's what banks in 2024 have to do. So that will continue. Before, on previous calls, we've discussed the concept of RWA density. Do we plan to affect radically our RWA density going forward? Absolutely not. But optimisation has to continue and we have the opportunity to do it. We optimised \$22.5 billion of RWAs in two-and-a-half years of the previous plan. It is going to be less, but it is going to be an ongoing activity. We do not need it, strictly speaking, in order to fuel our buybacks, but obviously it contributes and it's an important part of what we do.

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

Good. Next question, please.

**<<Operator>>**

Thank you. Your next question comes from the line of Aman Rakkar from Barclays. Please go ahead.

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

Hi, Bill. Hello, Diego. Thanks for taking the questions. I had a two-part question on Markets and then one on NII, if I may. On [Global] Markets, I just wanted to check in what happened in the quarter. I think you, Diego, issued intra-quarter guidance that it might be flat year-on-year. So, actually to have printed down 7% year-on-year constant currency you must have had a very, very weak June. So any colour you can give us there would be helpful.

The second part of that question then would be, just your response to that kind of operating environment, because my understanding is that part of the average interest earning assets being down quarter-on-quarter is you effectively allocating to trading assets to bolster that line item. Can you give us a bit more colour on how you've responded to what looks like a difficult end for Q2 and whether that's persisted into Q3 would be really helpful.

And then the second question is around net interest income. So, kind of note that you've reduced your downside sensitivity, which is great to see, on an expanded structural hedge programme. Yes, just keen to know whether there's more capacity for you to increase this hedge from here and if there's a chance for you to kind of meaningfully reduce your downside sensitivity further from here. Thank you so much.

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

Thanks very much. So, nothing particularly concerning in Markets in Q2. What we had was a lack of episodic income. And as we've called out as transparently as we possibly can, we've got two major subdivisions of our business. The flow business, which continues to perform extremely well. We gave a longer-term time series in the investor presentation to give an indication just how consistent that has been over time. So, volatile from quarter-to-quarter, but a very good 9% compound growth over the past five years. And I think if you went back further, we don't have all that data further back, but if you went back further, you'd see similar trends. And then we've had episodic, which is much more volatile. Obviously, it is a function of market events, but also one-off client transactions. And we had a particularly strong episodic quarter in the second quarter of last year and a particularly weak episodic quarter in the second quarter of this year. Nothing at all concerning in terms of the structure of the business or the environment for that matter. It's performing the way that we would expect, which is when the opportunities are there, we are in a good

position to seize them, and when they are not, we don't. I'll note that July has started fine. So, there were no particularly adverse operating trends in June and there are no adverse operating trends in July either. So all in all, I think that there's really not too much more to say about Markets in the second quarter.

To the point that trading assets have grown at a time when average interest-earning assets in other locations have been a bit weaker, we definitely don't allocate capital to the trading book to massage the numbers. We book assets in the trading book if they are attractive to be booked there, and if we have attractive opportunities and if it suits our business strategy. And so, we are perfectly happy to book assets into our trading book. We are perfectly happy to book assets into our banking book if that's where they belong. But it's driven by what makes sense for the business, not by trying to generate a particular set of numbers in a quarter. I just wanted to frankly completely disabuse anyone of that notion, as that actually hasn't crossed our mind. But maybe for the third quarter, Diego, we can look at some of these games, it's certainly not what was going on in Q2.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

I would say that, I think this quarter proves another important point, which is we have grown the Markets balance sheet because there was demand from our customers. We have not necessarily grown, actually, we have shrunk market risk-weighted assets, which proves to you that we can make good business and produce good income without necessarily leaning into the risk-weighted asset part of that equation. And that's important, by the way that's a trend that, as Bill has mentioned, continues well into July. And also, in July, I would call out the fact that Wealth Management is continuing on exactly the same trends as it has done during Q1, and so for the [Global] Banking Business where the pipeline is building. So, all good on that front.

On your second question, shall I take it? So yes, we have reduced net interest income sensitivity. It's something we flagged before. The pace at which we are doing it is even faster than what we were thinking, frankly, at the beginning of this year. We have found ways of finding capacity in terms of the hedges, which are, if anything, maybe that's another aspect of that RWA optimisation and optimisation activity that we do furiously. And today, I would say that we will probably put in 2024 as many new hedges as we put in 2023, and in 2023 we put on \$16 billion of hedges. So, we are now at \$51 billion. It will grow during the course of the year. It will continue to reduce the sensitivity of net interest income, and it's something that we will continue to work on also in the years to come. So all good from that point of view.

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

Maybe worth just expanding a bit, Diego, on the fact that we are focusing on currency by currency, and that has been somewhat the determiner of how fast we can go.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Very much so, and as we have pointed out in the past, we face limitations, sometimes competing possibilities in terms of accessing certain currencies from a derivative point of view. But we have been managing very dynamically both our swaps portfolio and to an extent our fair value through OCI and that allows us to really optimise at the margin, some of the less liquid currencies, and we have managed to put on hedges there too.

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

Good. Next question, please.

**<<Operator>>**

Thank you. Your next question comes from the line of Joseph Dickerson from Jefferies. Please go ahead.

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

Hi, guys. Congrats on a great set of results and the buyback number. Just a quick question. I know it's a relatively small revenue line for you, but it's nevertheless actually quite fungible with the rest of your business, which is the Securities & Prime Services line seems to have a bit of a step-up in the quarterly run rate in the second quarter. And I'm wondering if that's something that in your view can continue or was it just certain business activity in the quarter that drove that? That's my first question.

And then my second question is in Ventures where if I look, the client liabilities are up, looks about half this year on half last year, about 2x and you referred to some of that in the slides on Ventures. But I see that the revenue is down. At what point do we inflect on the revenue performance in Ventures given some of the client franchise momentum you are seeing in the likes of Trust and Mox? Thanks.

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

Good. Thanks, Joseph. Let me take the second question first. Diego can take the Securities & Prime Question. Ventures obviously is dominated, certainly in the lines that you are mentioning, by Mox and Trust. We've had good steady growth in client numbers, which is obviously the best leading indicator we could have. That leads directly to growth in liability numbers. We've had good steady growth numbers in assets in Trust. Obviously, started later and is behind in terms of asset growth. But the trends are all very positive. Mox, as you may recall, we had strong asset growth. We ventured into higher risk portions of the Hong Kong market. We made mistakes and we had a substantial spike in loan impairments. We pulled back substantially. We have no issues out of the ordinary with the existing origination portfolio. But we definitely slowed down the rate of overall growth in the portfolio as we corrected for the underwriting errors that we made that led to that spike in loan impairments.

The underlying trend, we are still perfectly comfortable with. Obviously, we've learned lessons about what we expose ourselves to in terms of fraud and credit loss when you are the easiest-to-use digital bank in a market that's new to digital banking. And I'm sorry to say that we learned that lesson the hard way. I'm happy to say that it was small in the overall scheme of things and it benefits our broader business, starting with Mox, but the broader business in terms of lessons learned very, very substantially. So in terms of inflection point, I think we are well past the inflection point in terms of that particular episode of higher credit losses and the underlying loan and liability growth continues unabated from here, with ongoing projections of getting to good profitability in the medium term for both those banks.

Diego, you want to pick up the Securities & Prime?

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

On Security Services, as you say, not the largest of lines, but one on which we are really focused, and one on which we've been making serious investments in the past few years. No one-offs. It's the kind of business, by the way, that doesn't lend itself that much to one-offs. It's a steady recurrent source of revenues. It's a matter of leaning more into it. Bear in mind that in many cases, we are one of the very few, and in some cases almost the sole provider of those kinds of services, in some of the markets where we operate. It's one of the two embodiments of the power of our local presence and the unique opportunities that it offers us. It's a business that has always been running in close conjunction with our Markets business. It is even more so in the last few quarters. And we think that it's a business that has still a long way to go in terms of growth, and we have some ambitious targets there.

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

Good. Can we take the next question, please?

**<<Operator>>**

Thank you. Your next question comes from the line of Edward Firth from KBW. Please go ahead.

**<<Edward Firth - Research Division, Keefe, Bruyette & Woods Limited>>**

Yes, morning, everybody. I just have two questions. One was really about Hong Kong and the environment there. If I take us back a couple of years ago, we were all getting very excited about the opening up of China, et cetera, and it doesn't appear to have come through really at all. And I'm just wondering when you look forward, what should we look for as the key catalysts which might regenerate that environment, might start getting some of the excitement in Hong Kong that perhaps we had pre pandemic. I don't know whether it's something about interest rates, whether it's something about regulations. What is the environment that you would be thinking yes, this is exactly what we need or what are the catalysts? So that's my first question.

And then the second question. I'm just thinking about your return target. It's at 10% growing to 12%. You're already making 14%. It doesn't feel like those are particularly ambitious, and I get the headwinds around the impairments possibly and lower rates. Any thoughts you've got about the 12% longer-term target and the extent to which there might be potential to increase that over time. Thanks so much.

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

Good. I'll take a first pass and I know Diego will have colour to add.

I recognise your comments about Hong Kong, but I must say, I don't share the sentiment. To us, Hong Kong is super exciting and something about strong profit growth, increasingly powerful wealth management centre, increasingly important China offshore banking centre generating record income and record profits all feels pretty good to me. And there's nothing about the trends that we've seen post pandemic or otherwise that suggest that that's going to stop anytime soon. It's obviously been a very important driver, together with Singapore, of the growth in our Wealth business, which is, I think is increasingly driving the earnings growth of the bank, together with everything that we do that's cross-border. So, I think overall, Hong Kong is in good shape.

Now that said, it's taken on a different complexion over the past couple of years post pandemic and post the changes in relationship vis-a-vis China. It's ever more the offshore financial centre for China and I think all the policy actions and rhetoric coming out of China support that view. China itself, you mentioned "when are we going to get the excitement around opening up?", China is opening up. It's opening up very fast, and that's what's driving our very, very substantial income and profit growth in China, is everything that's cross-border in and out of China. So, it's payments, financial markets and risk management activity. It's capital raising, both money going into China and money coming out of China, whether it's Belt and Road related or sustainability related, all of those areas are generating very good, strong growth for Standard Chartered Bank and it's on the back of China opening up.

A lot of that opening up activity is going through Hong Kong. And so, we feel that palpably. So while I think if we focus a lot on some of the press narrative, you might think that Hong Kong is in the doldrums and in terms of domestic economic activity, to some extent it is, in terms of the domestic real estate market, it's sluggish for sure, that has relatively little impact on our business day to day. What drives our earnings and profits are China opening up and a lot of that opening up happening through Hong Kong, both of which we are perfectly positioned for.

On the RoTE guidance, we said 12% by 2026, progressing from there. And we don't think 12% is the end state for what this bank can deliver, I think this bank can deliver returns substantially in excess of cost of capital as that settles in itself over time. And all I can tell you is we are doing everything that we can, and our performance in the first half of this year I think makes it clear that we are making good progress, on delivering returns that are substantially in excess of our cost of capital over that period of time. So, the 10% and the 12% are milestones along the way. It's by no means the totality of our ambition.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Can I add a boring CFO comment? This is first half RoTE. Second half is always slower and we have the bank levy in there. So, by all means, perish the thought that we wouldn't be optimistic, but we also need to realise some key characteristics of the business in the two halves.

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

Good. Next question.

**<<Operator>>**

Thank you. (Operator Instructions) We will now go to your next question. Your next question comes from the line of Amit Goel from Mediobanca. Please go ahead.

**<<Amit Goel – Research Analyst, Mediobanca>>**

Hi. Thank you for letting me ask my questions. Two for me. Firstly, just on Payments & Liquidity within CIB, I see that's ticked down again a little bit. Just curious what you think the dynamics are for that business going forward. I think you have invested into it. So just wanted to understand that a bit better.

And secondly, just come back on Ventures, I'm just curious in terms of how confident you are in terms of that business becoming RoTE accretive by 2026, and essentially how significant is that within your plans to get to the 12% RoTE. If that business isn't quite as profitable, where are the main areas of offset that you would see within the plan? Thank you.

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

Good. Thanks, Amit. I'll take the second question and then hand over to Diego for the first. Our guidance remains unchanged in terms of achieving a return that's accretive to the Group in 2026. And that will come through a combination of increasing profitability or, I should say, establishment of profitability in Ventures, Mox and Trust in particular, but then increasing once we've reached that breakeven point, combined with an ongoing series of asset sales of one description or other. So, we sold over the past couple of years four ventures, and raised capital in another five, all at a significant premium to our carrying value. And it's not that we're building businesses with a view to selling them off at a gain three, four, five years later. We're very happy to do that. We are building businesses where we think we've got a competitive insight, we've got either a competitive advantage in terms of the bank's position, or we've got some insight about a customer behaviour or problem that that gives us an edge in terms of building a venture or attracting partners or both. Once we built it, and along the way, we are looking constantly at whether that venture belongs inside the bank, alongside the bank, or is best owned by somebody else. We are not a venture capitalist. So, when we sell something, we are probably going to sell it at an earlier stage in its evolution than a typical venture capitalist would. But we will have benefitted from the fact that we've got some strategic advantage from the outset that allows us to invest wisely in these ventures.

So we've been at this business now for five years. We've had our first monetisation two years ago, we had several last year, and we'll have several more this year, partial or whole, generating capital gains. And those capital gains, obviously, are capital gains. They contribute to our overall 12% RoTE, and then in excess of that.

So I hope that's clarified a little bit. We'll provide more detail on the Ventures portfolio as we continue to mature the portfolio. But your question is, are we confident? The answer is yes. We are perfectly confident. Maybe Diego, do you want to pick up the question on cash?

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Payments & Liquidity? So first of all, it's obviously somewhat rate dependent, in terms of an answer. But what we are laser focused on is obviously the passthrough rates and we've been managing them as aggressively as we can. We have been helped by the addition of new products, by increasing digitisation of a lot of the activities that we are doing with clients that obviously help us on the margins. But it's clear that we are watching. We are at an inflection point where it's difficult to make great predictions about passthrough rates, other than when they reverse, there will be two factors at play. One, a time lag, which will happen in the first few quarters after the reversal and we are probably more or less there in terms of this starting to happen. And the second, of course, it will be dependent a little bit on the level of competition. As I said, a lot of focus on this as we recognise that this is a very important part of our overall proposition to our clients.

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

Next question, please.

**<<Operator>>**

Thank you. Your next question comes from the line of Guy Stebbings from BNP Paribas. Please go ahead.

**<<Guy Stebbings - Executive Director, Equity Research, Exane BNP Paribas>>**

Hi there. Thanks for taking the question. Just had a quick follow-up on RWAs and then a second question. So, on RWAs, I think it was Robin that asked the question earlier. Just trying to really understand how much

visibility you have in that pickup in the second half, implicit in the guidance. Is this more because of the uncertain regulatory headwinds, a possible uptick in organic loan growth and thus maybe quite conservative guidance? Or are there more mechanical headwinds that we should be mindful of?

And then the second question was on China CRE, which reassuring isn't much of a focus today, and far less residual concern now than perhaps at times in the past, but it's still an area we get lots of questions from investors on. So maybe you could just give us a bit more of an update on what you are seeing there, conviction on coverage levels in the context of the latest developments? Thank you.

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

Good. Thanks very much, Guy. I'll take the CRE question and Diego will pick up the RWA question. You are right, we don't have a lot of residual exposure to China real estate. We were about 90% provided on the core part of that portfolio. And we don't see any material increase in risk in the non-distressed part of the portfolio. The dynamic in the market remains challenging. Prices are still dropping in a number of markets, although there are some signs of stabilisation in the Tier 1 and 2 markets, in particular in residential. But the challenges are there. The impact that we see from China real estate at this point, in terms of impact on our business day to day, has much more to do with the consequence of this long malaise in the property market, which is a lower confidence than would otherwise be the case. So, we know that the consumers are holding back on spending. Businesses are holding back on investing because it feels that we have not bottomed out in terms of property prices.

The government has introduced a steady series of both fiscal policy and monetary actions to try to reinstate confidence. As we've all noted and commented, they have not panicked, and they've not gone over the top in any way. Some have argued that they've not gone far enough. That's what makes a market - there's a good debate on either side of that. Even today, Chinese authorities have rolled out another set of moderate stimulus activities in terms of policies and other economic actions. And I think we can continue to see some level of support, in terms of policy focus, to make sure that whatever correction is left to come in that market is done in a way that that doesn't destabilise the market. But until the market turns around and we hit that inflection point, I don't think you are going to see the jump in confidence, which then in turn drives business investment and gets GDP growth reignited, obviously then flowing through to the consumer.

So the malaise, we feel it in our domestic business. We see it in our business with SMEs and consumers. There's no material increase in delinquencies, but we see slower activity, slower pace of loan origination and early signs of some credit stress, which is completely consistent with the broader economic picture. It doesn't all come from the property market, but the property market is certainly a major contributor to that, and the sooner we can hit the bottom and bounce back up, the better off the Chinese economy will be. As I commented earlier, not only do we not have a lot of direct residual exposure to the distressed sector, we are much more exposed to the pace of opening up in China, which itself is moving at quite a good pace. So, this is not something that we are super preoccupied with, although as major players in China, we watch it very, very carefully. Diego, anything on that or RWAs?

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

So on RWAs, first of all, there is lots of optimism here and there are no reasons to be concerned. There are no model headwinds. There are no regulatory headwinds, other than the fact that we are waiting for Basel 3.1. But if anything, I would contend we have taken a pretty conservative approach, like in other fields, to guiding on this particular topic. So hopefully we will see some upside to that.

So nothing mechanical. It's a story of growth, obviously growth to a certain extent rate dependent, but I think that one of the things that we have proven with this quarter is that we are very, very proactive. So we have engines of capital generation, that notwithstanding, we do continue to optimise. And when we get the results that we get like this quarter, in which we've done a lot of work and we've benefited from a number of positive tailwinds, we then return capital to our shareholders. So, I think that as a package, that's the way to look at our risk-weighted assets going forward.

**<<Guy Stebbings - Executive Director, Equity Research, Exane BNP Paribas>>**

Very helpful. Thank you.

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

Good. Thanks, Guy. Next question, please.

**<<Operator>>**

Thank you. Your next question comes from the line of Gurpreet Sahi from Goldman Sachs. Please go ahead.

**<<Gurpreet Singh Sahi - Financial analyst, Goldman Sachs>>**

Thank you for taking my question. Good morning, Bill. Good morning, Diego.

So two quick ones. First is on loan growth. Mortgage is a big chunk of our book. And so I'm wondering what we are seeing and what would make us grow in that area, especially in Hong Kong, Korea and Singapore. In Hong Kong, particularly, cost of funds for the industry has come down slightly and loan yields have held constant, so does that improve the spread enough for us to enter into the market, or are we concerned around credit risk, et cetera?

And then second, on the CIB software impairment, I acknowledge it does not impact the cash earnings or the capital, but how much are we expecting to do for the foreseeable future? Because as much as we have done in the first half is what consensus had in other impairments for three years. So, any guidance there would be helpful. Thank you.

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

Let me put both those two questions to Diego right away.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

So on loan growth and mortgages, different story for the different geographies. Singapore doing fine, a smaller part, though, of our mortgage book. Korea, we are self-selecting away from writing much business there, a combination of competitive pressures, some government directives affecting the industry and also the slightly lower value in terms of mortgages in Korea, in terms of driving other business. You are absolutely right, Gurpreet, yes, it is getting better in Hong Kong, we are coming closer but we are not quite yet there to restart writing in meaningful sizes in that market. Although the conditions are improving, we use mortgages these days as a lead-in to wealth management relationships. But we have other ways and other levers, and you have seen, for example, in the growth of some of the retail time deposits that we have other ways of attracting customers with attractive propositions.

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

If I could just add, Gurpreet, you asked whether there were credit concerns. The short answer is no. That's not a consideration in terms of our mortgage market share. We see no credit issues in the existing portfolio and we have no concerns about originating new mortgages from a credit perspective. It's all about margin.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Definitely. And on software CIB, yes, we would expect more to come. It's a bit difficult to put a number on it. We'll be updating you in the quarters to come.

**<<Gurpreet Singh Sahi - Financial analyst, Goldman Sachs>>**

Thank you.

**<<Operator>>**

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

**<<Nick Lord – Research Analyst, Morgan Stanley>>**

Hi, thanks for taking my question. I have two questions. The first is just on credit charge. Obviously, I think pretty clear guidance on what's happening on the retail bank side. You obviously benefitted from very low charges, even excluding write-backs in the Wholesale bank. So, are we expecting a similar trend in the

second half and therefore, can we expect a loan loss charge significantly below about 30 to 35 basis points for the full year?

And then secondly, on costs. Again, on guidance we have positive cost-to-income jaws. Obviously, they were quite wide in the first half and that's quite wide guidance. So, I just wonder if you could give us a little bit of flavour of what could happen if I'm thinking on costs on a quarter-on-quarter basis. You spoke about investment spend going up in the second half, where we obviously have the bank levy. But are there any other major moving parts in the cost line in the second half year?

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

Good. Thanks very much, Nick. We have obviously had about as benign an environment as we could hope for on the Corporate side. Retail, as you say, is pretty much in line with expectations and with recent history. Nothing much to comment on there.

On the CIB side, we've obviously benefitted from some releases and we've had no material losses. Along the way, having had a spate of sovereign default a couple of years ago, the countries in which we operate that were on the watchlist have generally improved. That obviously is not an impairment question, but it's an avoided impairment question, if we could put it that way. But we also know the credit and credit losses in particular come episodically and while we see nothing that's at all concerning in the portfolio right now, certainly nothing that we haven't shared perfectly transparently, we are not going to change our guidance on a through the cycle expected cost of credit based on a good first half of the year. You are asking about the second half of the year. If we saw anything that was particularly concerning, we'd be calling it out now or you'd see it in our Stage 2 and Stage 3 impairment numbers. And obviously, you've noticed that there's nothing there of particular concern. So I'll let you draw your own conclusions, but the overall credit environment is quite benign.

Diego, you'll have some more thoughts on that and I'm sure on cost.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Sure. Now, the only thing on the credit charges is, our 30 bps to 35 bps guidance, remember is always through the cycle, right? It gets higher, but it also gets lower, we are clearly in a period of lower and long may it stay so.

On the jaws, just two considerations. Do not over-read too much into our calling for some phasing in the second half of the year, because we didn't want you to read too much into that phasing not happening in the first part of the year. We are talking literally about a few tens of millions of dollars. So, it's not a big number. And as a consequence, I would say really no major moving parts and positive jaws are an important mantra for us, which I would reiterate are important only on a yearly basis, not on a quarterly basis, and only on a full Group basis and not on a single segment basis.

**<<Nick Lord – Research Analyst, Morgan Stanley>>**

Great. Thanks very much.

**<<Operator>>**

Thank you. That was the end of the audio questions. I will now hand over to Manus for web questions.

**<<Manus Costello – Global Head, Investor Relations, Standard Chartered>>**

Thank you. We have a couple of questions online. The first question comes from Katherine Lei at JP Morgan. Katherine asks, please, can you give us an update on your Bohai Bank investment, given the recent news highlighting the risk from smaller banks in China and Bohai's loan disposal in July?

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

Yes. Thanks, Katherine. So Bohai, as you know, it's a bank that we helped to set up over 20 years ago. We account for it on an associates basis, so we accumulated profits over that entire period. We've taken substantial impairments over the past couple of years. We are very comfortable with the carrying value of the bank at this point, relative to our outlook for earnings. Diego can comment on the specific impairment

considerations, but obviously, we look at that regularly. While the profitability of the bank has been under pressure, the market price is quite low, it is very thinly traded, so it's hard to read too much into that, but it is what it is, and the market has been concerned about asset quality. So, to be able to execute this asset swap where there is a prospective transfer of underperforming assets, for assets which are more straightforward to value, doesn't in and of itself create value, but certainly in and of itself creates some clarity around the carrying value of our position. So overall, it doesn't change the strategy of the bank, doesn't change our interaction with the bank, but it does provide the kind of reassurance that the market was looking for and I think probably Chinese regulators were also looking for, that this bank has a stable financial footing, which we will continue to participate in and contribute to in every way that we can.

Anything you want to add on that one?

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

Obviously, we've run the latest news through our value in use model. We have been conservative for quite a few quarters, so we have a number of overlays there. There was no need for any adjustment.

**<<Manus Costello – Global Head, Investor Relations, Standard Chartered>>**

Thanks. And our last question comes from Grace Dargan at Barclays. Grace asks what is a normalised level of growth to expect from Wealth Solutions from here? To what extent is this business experiencing a supernormal growth rate or catch-up post lockdowns in Hong Kong and elsewhere?

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

We are not going to provide new guidance but give a bit of context. This business has grown broadly in the market, and Standard Chartered has been broadly in line with the market for the better part of a decade, in high single digits, 8%, 9%, 10%. It is somewhat volatile quarter to quarter, depending on market sentiment, market environment. Obviously, we had a very substantial downturn during COVID for a bunch of obvious reasons, both investor sentiment and inability to visit branches, which in particular in China and Hong Kong is a relevant distribution channel. But the growth rate has picked back up again since the opening up of Hong Kong and China and the rest of the world.

Are we in a supernormal growth period? I don't think so. I think this is a structural growth opportunity, and I think our growth should accelerate at a rate that's faster than the market. Why? Because one, we have established ourselves as a leading cross-border and Affluent bank in everything that we do. We have a differentiated proposition, as the only one of the top wealth managers in Asia that is completely open architecture. We are a distributor of choice for the best asset managers in the world, because they, one, see how effective we are, but two, recognise that we are not offering a competing product off our own books. I think we've got a brand that is that lovely combination of strong, solid heritage type brand but also a brand that's increasingly seen as a very innovative bank. And we are very innovative in Wealth and Wealth Solutions in terms of our digital connectivity and the products and services that we provide. And obviously, there is a broader halo effect that comes from the success of our Ventures segment and many of the innovations that are happening inside our businesses.

So, I don't think the current growth we are experiencing is supernormal. I think it is benefitting from a relatively benign environment for market sentiment, but I think we can also expect to outperform ourselves relative to what should be a good market, because of the investments that we've been making and the position that we enjoy today.

**<<Diego De Giorgi – Group Chief Financial Officer, Standard Chartered>>**

I would just add that the confidence that we have is underscored by the fact that we have increased the level of disclosure we are giving you about this business. We have shown you more on our assets under management, on our net new sales, on our net new money, on the split between Investment Products and Bancassurance. The objective is to really drive home the fact that we have really diversified source of revenues even within the segment, and that is one of the things that gives us strong confidence to achieve the results that Bill outlined.

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

Good. So, if there are no further questions, either online or on the phone, then I will thank you all for taking this time with us, for the ongoing support and coverage, and look forward to following up in the many discussions that we'll have in the days, weeks, and months to come. Have a good rest of week.