31 October 2018

Standard Chartered PLC - Interim Management Statement

Standard Chartered PLC (the Group) today releases its Interim Management Statement for the period ended 30 September 2018. All figures are presented on an underlying basis and unless otherwise stated comparisons are made to the equivalent nine-month period in 2017.

Commenting on the performance, Bill Winters, Group Chief Executive, said:

"The results for the first nine months of the year reflect our focus on significantly improving profitability, balance sheet quality, conduct and financial returns. Income growth year-on-year was slightly lower in the third quarter impacted by Africa and the Middle East and we remain alert to broader geopolitical uncertainties that have affected sentiment in some of our markets. But growth fundamentals remain solid across our markets and we are cautiously optimistic on global economic growth."

Strategic execution and outlook

- Further progress on strategic and financial priorities
  - Profit up 25% driven by broad-based income growth and ongoing risk discipline
  - Organic capital generation and enhanced risk management has further increased the Group's resilience
  - RoE improved a further 150bps to 6.6% and RoTE a further 180bps to 7.5%
- Structural trends shaping economies in the Group's footprint remain intact, but uncertainty has increased
  - The macroeconomic environment continues to be supported by solid growth fundamentals
  - Escalating trade tension and other macroeconomic factors are affecting sentiment in emerging markets
  - Income from Wealth Management was 8% higher on a YTD basis but in Q3 was down 5% YoY
  - The Group remains cautiously optimistic on global economic growth
- Having made substantial progress executing the transformation plan laid out in 2015, the Group will announce at its FY 2018 results the areas of focus that will deliver higher returns over the next three years

Financial performance highlights

- Underlying profit before tax of $3.4bn was up $0.7bn or 25% reflecting focus on improving returns
  - Statutory profit before tax also $3.4bn included restructuring and other items of $17m
- Operating income of $11.4bn grew 5% on both a reported and constant currency basis (ccy)
  - All client segments grew between 5-8% with particular strength in the GCNA region up 11%
  - Net interest income grew 10% and NIM increased 5bps
  - Q3 income was up 4% YoY and down 1% QoQ primarily impacted by the AME region
- Operating expenses of $7.6bn were 5% higher YoY (4% ccy)
  - Q3 operating expenses were up 1% YoY (flat ccy) and down 5% QoQ
  - Operating expenses in H2 18 ex-UK bank levy still expected to be similar to H1 18
- Asset quality improved YoY and was stable during Q3
  - Credit impairment of $408m reduced 56%
  - The Group remains vigilant given geopolitical and macroeconomic uncertainties

Balance sheet and capital movements since 30 June 2018

- Loans and advances to customers were down 2% (1% ccy) to $251bn
  - Impacted by a reduction in corporate overdraft balances in Hong Kong as well as lower IPO activity
- Customer accounts were down 3% (2% ccy) to $371bn
  - Driven by lower corporate non-operating account balances including in Financial Markets
- The CET1 ratio of 14.5% was up 28bps due mainly to profits in the period and lower RWAs

Performance summary

	9 months ended 30.09.18 $million	9 months ended 30.09.17 $million	3 months ended 30.09.18 $million	3 months ended 30.06.18 $million	3 months ended 30.09.17 $million	YTD 2018 vs YTD 2017 Better / (Worse) %	Q3 2018 vs Q3 2017 Better / (Worse) %
Net interest income	**6,577**	6,001	**2,190**	2,200	2,025	10	8
Other income	**4,796**	4,810	**1,534**	1,576	1,564	-	(2)
Operating income	**11,373**	10,811	**3,724**	3,776	3,589	5	4
Other operating expenses	**(6,681)**	(6,316)	**(2,202)**	(2,313)	(2,146)	(6)	(3)
Regulatory costs	**(947)**	(935)	**(309)**	(335)	(336)	(1)	8
Operating expenses	**(7,628)**	(7,251)	**(2,511)**	(2,648)	(2,482)	(5)	(1)
Operating profit before impairment and taxation	**3,745**	3,560	**1,213**	1,128	1,107	5	10
Credit impairment[1]	**(408)**	(931)	**(115)**	(102)	(348)	56	67
Other impairment	**(127)**	(103)	**(76)**	(27)	(19)	(23)	(300)
Profit from associates and joint ventures	**215**	207	**47**	100	74	4	(36)
Underlying profit before taxation	**3,425**	2,733	**1,069**	1,099	814	25	31
Restructuring	**(86)**	(233)	**(7)**	(9)	(68)	63	90
Other items	**69**	28	**-**	69	28	146	(100)
Statutory profit before taxation	**3,408**	2,528	**1,062**	1,159	774	35	37
Taxation	**(1,063)**	(765)	**(310)**	(369)	(217)	(39)	(43)
Profit for the period	**2,345**	1,763	**752**	790	557	33	35
Net interest margin (%)[2]	**1.58**	1.53	**1.58**	1.59	1.53		
Underlying return on equity (%)	**6.6**	5.1	**6.5**	5.8	4.8		
Underlying return on tangible equity (%)	**7.5**	5.7	**7.3**	6.5	5.5		
Statutory return on equity (%)	**6.1**	4.5	**6.3**	5.3	4.5		
Statutory return on tangible equity (%)	**6.9**	5.0	**7.0**	5.9	5.1		
Common Equity Tier 1 (%)	**14.5**	13.6	**14.5**	14.2	13.6		

1 Credit impairment in 2017 is disclosed on an IAS 39 basis

2 Annualised statutory net interest income for the year-to-date divided by average interest earning assets for the year-to-date

The Group has significantly increased its profitability and continued to build its resilience in the first nine months of 2018, despite operating conditions that in some respects have become more challenging.

Underlying profit before tax was 25 per cent higher and statutory profit before tax which includes restructuring and other items was up 35 per cent.

Operating income of $11.4 billion was 5 per cent higher on a reported and constant currency basis with net interest income growing 10 per cent and other income broadly flat. Good growth in Transaction Banking, driven by a strong performance in Cash Management, Wealth Management and Retail Products offset a subdued performance in Financial Markets and lower income from Corporate Finance. Every client segment delivered between 5-8 per cent growth, with Central & other items reducing the overall rate. Income was $52 million or 1 per cent lower quarter-on-quarter driven primarily by margin pressure on asset-oriented activities and lower fee income in Financial Markets.

Operating expenses were up 5 per cent on a reported basis and up 4 per cent on a constant currency basis. Within total operating expenses, regulatory costs were 1 per cent higher and other operating expenses were 6 per cent higher as the Group continues to invest at levels significantly higher than in prior years and with a greater proportion into strategic initiatives including digital capabilities. The ongoing discipline of securing cost efficiencies to create the capacity for investment reinforces the Group’s expectation that operating expenses in the second half excluding the UK bank levy are likely to be similar to the first half. The UK bank levy is charged on the 31 December balance sheet and is still expected to be approximately $310 million.

Credit impairment of $408 million was just under half the level it was in 2017 because of the significant actions taken since 2015 to improve the credit quality of the Group’s balance sheet.

Other impairment of $127 million related primarily to transport leasing assets.

Profit from associates and joint ventures rose slightly compared to the same period in 2017 but halved quarter-on-quarter mainly due to a lower contribution from the Group's associate investment in China.

Restructuring charges since November 2015 total $3.1 billion with the exit of Principal Finance the only significant item left to complete.

Client segment income

	9 months ended 30.09.18 $million	9 months ended 30.09.17 $million	**3 months ended 30.09.18 $million**	3 months ended 30.06.18 $million	3 months ended 30.09.17 $million	YTD 2018 vs YTD 2017 Better / (Worse) %	Q3 2018 vs Q3 2017 Better / (Worse) %
Corporate & Institutional Banking	**5,097**	4,847	**1,646**	1,709	1,629	5	1
Retail Banking	**3,888**	3,648	**1,268**	1,281	1,252	7	1
Commercial Banking	**1,052**	998	**346**	355	338	5	2
Private Banking	**398**	370	**127**	127	128	8	(1)
Central & other items	**938**	948	**337**	304	242	(1)	39
Total operating income	**11,373**	10,811	**3,724**	3,776	3,589	5	4

Corporate & Institutional Banking income growth of just over 5 per cent reflected continued momentum in Transaction Banking and lower income from Corporate Finance due to margin compression offsetting improving deal activity. The performance in Financial Markets was flat because of lower client activity in the period.

Retail Banking income was 7 per cent higher driven by strong growth in Hong Kong and Singapore, particularly in income from Deposits that offset lower income from Mortgages and Auto. Escalating trade tension and other macroeconomic factors impacting equity markets affected retail investor sentiment during the period in some of the Group's markets, which slowed the rate of growth in Wealth Management. Wealth Management income in the third quarter benefited by around $40 million from the early achievement of a full year bancassurance performance bonus for the second consecutive year.

Commercial Banking income grew 5 per cent to just over $1 billion, with strong growth in Cash Management offsetting the impact of margin compression on income from Lending.

Private Banking income was 8 per cent higher reflecting good momentum in Wealth Management and specifically Managed Investments, with net new money increasing $0.8 billion year-to-date.

Partly offsetting these client segment performances, income from Central & other items was flat. Excluding Treasury gains made in the first quarter of 2017, income was 9 per cent higher primarily as a result of deploying the Group's surplus liquidity in a higher interest rate environment.

Geographic region income

	9 months ended 30.09.18 $million	9 months ended 30.09.17 $million	**3 months ended 30.09.18 $million**	3 months ended 30.06.18 $million	3 months ended 30.09.17 $million	YTD 2018 vs YTD 2017 Better / (Worse) %	Q3 2018 vs Q3 2017 Better / (Worse) %
Greater China & North Asia	**4,647**	4,205	**1,550**	1,533	1,414	11	10
ASEAN & South Asia	**3,031**	2,901	**958**	998	937	4	2
Africa & Middle East	**1,980**	2,087	**604**	692	700	(5)	(14)
Europe & Americas	**1,261**	1,187	**391**	429	378	6	3
Central & other items	**454**	431	**221**	124	160	5	38
Total operating income	**11,373**	10,811	**3,724**	3,776	3,589	5	4

The 11 per cent increase in income from Greater China & North Asia was driven by growth in all markets and from all four client segments. Hong Kong grew at 11 per cent, benefiting from momentum across all segments and in Cash Management, Wealth Management and Deposits. This was partly offset by the impact of margin compression on income in Mortgages particularly in the third quarter.

Income from ASEAN & South Asia improved 4 per cent or 6 per cent excluding Treasury gains of around $50 million made in 2017. Good growth in Singapore notably in Transaction Banking and Retail Products offset lower income in India.

Income from Africa & Middle East was down 5 per cent and down 3 per cent on a constant currency basis with better performances in Transaction Banking and Wealth Management more than offset by a reduction in income from Corporate Finance and Financial Markets. Macroeconomic and geopolitical headwinds continued to impact performance in the third quarter particularly in the UAE.

Europe & Americas income was up 6 per cent, benefiting from higher Cash Management income that offset lower income from Financial Markets.

Income from Central & other items was 5 per cent higher driven by better yields in Treasury Capital.

Net interest margin

	9 months ended 30.09.18 $million	6 months ended 30.06.18 $million	3 months ended 31.03.18 $million	12 months ended 31.12.17 $million	9 months ended 30.09.17 $million
Statutory net interest income	**6,549**	4,361	2,173	8,181	5,985
Average interest earning assets	**554,744**	554,214	555,461	527,691	521,599
Average interest bearing liabilities	**484,157**	486,569	487,405	475,432	474,621
Gross yield (%)	**3.03**	2.99	2.90	2.74	2.72
Rate paid (%)	**1.66**	1.60	1.50	1.32	1.30
Net yield (%)	**1.37**	1.39	1.40	1.42	1.42
Net interest margin (%)[1]	**1.58**	1.59	1.59	1.55	1.53

1 Annualised statutory net interest income for the year-to-date divided by average interest earning assets for the year-to-date

Statutory net interest income grew 9 per cent to $6.6 billion and the Group's net interest margin increased 5 basis points to 1.58 per cent. Rises in global interest rates have benefited asset yields and average interest earning assets were 6 per cent higher. Together this offset an increase in the rate paid on liabilities particularly in markets where the Group has a higher proportion of more rate-sensitive customer deposits.

Net interest income in the third quarter was stable compared to the second quarter with further margin expansion in Hong Kong offset by margin compression in India and China. There has been a greater propensity among some clients to switch to higher rate time deposits as interest rates rise and coupled with competitive pressure has resulted in asset yields growing more slowly than funding costs.

The Group maintains a large proportion of less rate-sensitive current and savings accounts that since 30 June 2018 increased 70 basis points to 50.7 per cent of total customer accounts. The Group expects to continue to benefit from rises in global interest rates as monetary policy normalises.

Credit quality

	30.09.18			30.06.18		
	Ongoing business $million	Liquidation portfolio $million	Total $million	Ongoing business $million	Liquidation portfolio $million	Total $million
Gross loans and advances to customers	**254,801**	**1,451**	**256,252**	258,825	1,579	260,404
Of which stage 1 and 2	**248,922**	**109**	**249,031**	252,654	22	252,676
Of which stage 3	**5,879**	**1,342**	**7,221**	6,171	1,557	7,728
Net loans and advances to customers	**250,758**	**443**	**251,201**	254,639	461	255,100
Of which stage 1 and 2	**248,069**	**109**	**248,178**	251,749	22	251,771
Of which stage 3	**2,689**	**334**	**3,023**	2,890	439	3,329
Stage 3 cover ratio before collateral (%)	**54**	**75**	**58**	53	72	57
Stage 3 cover ratio after collateral (%)	**77**	**89**	**79**	76	90	79
Credit grade 12 accounts ($million)	**883**	**109**	**992**	1,027	22	1,049
Early alerts ($million)	**6,871**	**-**	**6,871**	6,857	-	6,857
Investment grade corporate exposures (%)	**62**	**-**	**62**	61	-	61

The Group's continued focus on high quality origination within a more granular risk appetite resulted in overall credit quality improving compared to the same period a year ago, and remaining stable in the third quarter. The Group remains vigilant in view of increased geopolitical uncertainties.

Ongoing business

Gross credit-impaired (stage 3) loans in the ongoing business of $5.9 billion were $292 million lower than 30 June 2018 due to debt sales, write-offs and repayments as well as a lower level of new inflows. The cover ratio of these loans improved 1 percentage point both before and after collateral and credit grade 12 accounts were $144 million lower.

Liquidation portfolio

Gross loans in the liquidation portfolio were lower by $128 million compared to 30 June 2018 as the Group continued to make progress exiting these exposures. The stage 3 cover ratio before collateral improved to 75 per cent and with collateral the stage 3 loans in the liquidation portfolio were almost 90 per cent covered.

Balance sheet, capital and leverage

	IFRS 9 30.09.18 $million	IFRS 9 30.06.18 $million	IFRS 9 31.03.18 $million	IAS 39 31.12.17 $million	IAS 39 30.09.17 $million
Balance sheet					
Assets					
Loans and advances to banks	**55,581**	55,603	61,548	57,494	57,661
Loans and advances to customers	**251,201**	255,100	253,572	248,707	244,815
Reverse repurchase agreements and other similar secured lending[1, 2]	**8,805**	12,781	13,723	54,275	50,698
Other assets	**369,018**	371,390	357,602	303,025	324,202
Total assets	**684,605**	694,874	686,445	663,501	677,376
Liabilities					
Deposits by banks	**31,337**	30,816	36,491	30,945	34,784
Customer accounts	**371,493**	382,107	373,094	370,509	367,079
Repurchase agreements and other similar secured borrowing[3, 4]	**4,514**	5,863	3,445	39,783	51,082
Other liabilities	**225,618**	224,600	221,557	170,457	172,329
Total liabilities	**632,962**	643,386	634,587	611,694	625,274
Equity	**51,643**	51,488	51,858	51,807	52,102
Total equity and liabilities	**684,605**	694,874	686,445	663,501	677,376
Advance-to-deposits ratio (%)	**69.2**	68.2	70.5	69.4	66.4
Capital					
Common equity tier 1 ratio (%)	**14.5**	14.2	13.9	13.6	13.6
Risk-weighted assets	**265,245**	271,867	280,205	279,748	279,989
Leverage					
UK leverage ratio (%)	**5.8**	5.8	5.9	6.0	5.9

1 Includes loans and advances to banks of $5,208 million at 30.09.18 and $8,550 million at 30.06.18

2 Includes loans and advances to customers of $3,597 million at 30.09.18 and $4,231 million at 30.06.18

3 Includes customer accounts of $3,935 million at 30.09.18 and $2,987 million at 30.06.18

4 Includes deposits by banks of $579 million at 30.09.18 and $2,876 million at 30.06.18

The Group's balance sheet remains strong, liquid and well diversified.

Loans and advances to customers since 30 June 2018 were down 2 per cent or 1 per cent on a constant currency basis impacted by a reduction in corporate overdraft balances in Hong Kong, where overdraft and deposit balances settle on a net basis, as well as lower IPO activity.

Customer accounts since 30 June 2018 were down 3 per cent or 2 per cent on a constant currency basis driven by lower corporate non-operating account balances. As a result, the Group's advances-to-deposits ratio increased to 69.2 per cent at the end of the third quarter from 68.2 per cent as at 30 June 2018.

The Group's CET1 ratio of 14.5 per cent was 28 basis points higher than at 30 June 2018 due to profits generated in the quarter and risk-weighted assets that were lower by almost $7 billion, primarily due to a reduction in credit risk-weighted assets and, following a decrease in stressed value at risk, a reduction in market risk-weighted assets.

As disclosed in the half-year report the Group was engaged with the Prudential Regulation Authority (PRA) in the review of loss given default floors in certain product specific internal ratings-based models. This review was completed in the third quarter and did not impact the CET1 ratio.

The Group was advised during the period that its Pillar 2A requirement as reviewed regularly by the PRA for all banks has decreased. This reduces the Group's estimate of its known minimum CET1 requirement in 2019 by 10 basis points to 10.0 per cent and its expected 2022 minimum requirement for own funds and eligible liabilities (MREL) including the combined buffer by 30 basis points to 25.7 per cent. The Group continues to operate above its minimum capital requirements and remains well positioned relative to expected MREL requirements.

Summary and outlook

The macroeconomic environment continues to be supported by solid fundamentals across our markets and we remain cautiously optimistic on global economic growth. The disciplined execution of our strategic objectives including ongoing cost efficiency actions means we are on track to deliver the financial commitments we made earlier in the year, despite the more challenging operating conditions that emerged in some respects in the third quarter, particularly in the Africa & Middle East region.

We have made good progress executing the strategic priorities laid out in 2015. Profits have increased consistently and we are now much closer to the return targets we set out for 2018 despite slower global economic growth than we were initially expecting and the devaluation of the Chinese yuan in 2016. We are now investing between three and four times as much into strategic initiatives. The quality of the balance sheet has substantially improved as evidenced by credit impairments running at around a quarter of 2016 levels. And the focus on conduct and culture across the business has increased significantly. As a result of these actions, we now make as much profit in a quarter as we did in all of 2016 and our return on tangible equity has risen to 7.5 per cent on a year-to-date basis, with the UK bank levy payable in the fourth quarter.

But we know this franchise is capable of much more. The 2015 strategic priorities were the right ones to stabilise the Group and through their execution we have learnt a lot about where we are – and where we are not – differentiated, what our clients want from us, and what we need to do become a simpler, faster and a more sustainably profitable bank. At our full year results in February 2019 we will set out those areas on which we will focus to develop the Group over the next three years with a view to further improving financial returns. We remain confident we can generate returns in excess of 10 per cent as we continue to execute our plans.

In the meantime, we remain focused on improving our service to our clients and delivering a differentiated proposition for all our stakeholders

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ADDITIONAL INFORMATION – Quarterly underlying operating income

By client segment	Q3 2018 $million	Q2 2018 $million	Q1 2018 $million	Q4 2017 $million	Q3 2017 $million	Q2 2017 $million	Q1 2017 $million
Corporate & Institutional Banking	**1,646**	1,709	1,742	1,649	1,629	1,595	1,623
Retail Banking	**1,268**	1,281	1,339	1,186	1,252	1,222	1,174
Commercial Banking	**346**	355	351	335	338	333	327
Private Banking	**127**	127	144	130	128	125	117
Central & other items	**337**	304	297	178	242	339	367
Total operating income	**3,724**	3,776	3,873	3,478	3,589	3,614	3,608

By geographic region	Q3 2018 $million	Q2 2018 $million	Q1 2018 $million	Q4 2017 $million	Q3 2017 $million	Q2 2017 $million	Q1 2017 $million
Greater China & North Asia	**1,550**	1,533	1,564	1,411	1,414	1,410	1,381
ASEAN & South Asia	**958**	998	1,075	932	937	958	1,006
Africa & Middle East	**604**	692	684	677	700	701	686
Europe & Americas	**391**	429	441	414	378	374	435
Central & other items	**221**	124	109	44	160	171	100
Total operating income	**3,724**	3,776	3,873	3,478	3,589	3,614	3,608

By product	Q3 2018 $million	Q2 2018 $million	Q1 2018 $million	Q4 2017 $million	Q3 2017 $million	Q2 2017 $million	Q1 2017 $million
Transaction Banking	**936**	924	916	876	856	812	785
Trade	**277**	285	304	298	306	296	297
Cash Management and Custody	**659**	639	612	578	550	516	488
Financial Markets	**631**	677	724	536	663	637	708
Foreign Exchange	**239**	280	250	208	238	272	225
Rates[1]	**194**	121	177	74	172	127	162
Commodities	**38**	53	51	35	42	32	48
Credit and Capital Markets[1]	**48**	87	106	85	90	82	119
Capital Structuring Distribution Group	**71**	92	55	51	72	74	82
Other Financial Markets	**41**	44	85	83	49	50	72
Corporate Finance	**324**	334	331	466	325	360	325
Lending and Portfolio Management	**123**	141	137	111	128	122	135
Wealth Management	**465**	452	539	397	488	435	421
Retail Products	**929**	953	943	916	891	905	871
CCPL and other unsecured lending	**320**	345	351	334	349	340	344
Deposits	**476**	431	394	366	344	363	346
Mortgage and Auto	**114**	156	176	196	179	185	164
Other Retail Products	**19**	21	22	20	19	17	17
Treasury	**342**	338	290	200	255	339	349
Others[2]	**(26)**	(43)	(7)	(24)	(17)	4	14
Total operating income	**3,724**	3,776	3,873	3,478	3,589	3,614	3,608

1 Following a reorganisation of certain product teams, $46 million of income that was in H1 2018 reported within Credit and Capital Markets has been transferred to Rates during Q3 2018. Prior periods have not been restated.

2 Others includes group special asset management from 2018 onwards. Prior periods have not been restated

Basis of presentation

This interim management statement covers the results of Standard Chartered PLC together with its subsidiaries and equity accounted interest in associates and jointly controlled entities (the Group) for the period ended 30 September 2018. The financial information on which this statement is based, and the data set out in the appendix to this statement, are unaudited and have been prepared in accordance with Standard Chartered's significant accounting policies as described in the Annual Report 2017 and the new policies for financial instruments as described in the Half Year Report. Comparative periods have not been restated. IFRS 9 does not require restatement and the impact of other new policies are not material.

IFRS 9

IFRS 9 became effective from 1 January 2018 and the Group has not restated comparative information. Accordingly, amounts prior to 1 January 2018 have been prepared and disclosed on an IAS 39 basis. This primarily impacts credit risk provisions, which are determined using an expected credit loss approach under IFRS 9 compared to an incurred loss approach under IAS 39.

Regulatory investigations

As described on page 131 of the 2018 half year report, the Group continues to cooperate with authorities in the US regarding an investigation into historical violations of US sanctions laws and regulations, and with the Financial Conduct Authority concerning its investigation of Standard Chartered Bank's financial crime controls. In the US, the vast majority of the issues pre-date 2012 and none occurred after 2014 and in the UK the issues relate to the 2009 to 2014 period. The Group is engaged with relevant authorities to resolve these investigations as soon as practicable. Concluding these historical matters, which could have a substantial financial impact, remains a focus of the Group.

Restructuring and other items

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing performance period-by-period. These adjustments are set out below.

	3 months ended 30.09.18		3 months ended 30.06.18		3 months ended 30.09.17	
	Restructuring $million	**Other items $million**	Restructuring $million	Other items $million	Restructuring $million	Other items $million
Operating income	**27**	**-**	(18)	69	7	28
Operating expenses	**(55)**	**-**	(41)	-	(40)	-
Credit impairment	**21**	**-**	50	-	(29)	-
Other impairment	**-**	**-**	-	-	(6)	-
(Loss)/profit before taxation	**(7)**	**-**	(9)	69	(68)	28

The Group uses a number of alternative performance measures in addition to underlying earnings including credit grade 12 and cover ratio in the discussion of its business performance and financial position. These are defined as follows:

Credit grade 12 accounts

These are customer accounts that while performing at present exhibit potential credit weaknesses and could become impaired in the future. There is however, currently, no expectation of specific loss of principal or interest, and therefore interest on credit grade 12 accounts is taken to income. Further credit rating details are provided on pages 126 to 127 of the 2017 Annual Report and a credit quality mapping table is provided on page 125.

Cover ratio

The cover ratio under IFRS 9 represents the extent to which stage 3 loans are covered by stage 3 impairment allowances.

Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

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