



# Half Year 2015 Results Presentation

05 August 2015

## Forward looking statement

This document contains or incorporates by reference 'forward-looking statements' regarding the belief or current expectations of the Company, the Directors and other members of its senior management about the Group's strategy, businesses, performance and the other matters described in this document. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue" or similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. They are not guarantees of future performance and actual results could differ materially from those contained in the forward-looking statements. Forward-looking statements are based on current views, estimates and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Group and are difficult to predict. Such risks, factors and uncertainties may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Such risks, factors and uncertainties include but are not limited to: changes in the credit quality and the recoverability of loans and amounts due from counterparties; changes in the Group's financial models incorporating assumptions, judgments and estimates which may change over time; risks relating to capital, capital management and liquidity; risks associated with implementation of Basel III and uncertainty over the timing and scope of regulatory changes in various jurisdictions in which the Group operates; risks arising out of legal and regulatory matters, investigations and proceedings; operational risks inherent in the Group's business; risks arising out of the Group's holding company structure; risks associated with the recruitment, retention and development of senior management and other skilled personnel; risks associated with business expansion and engaging in acquisitions; reputational risk; pension risk; global macroeconomic risks; risks arising out of the dispersion of the Group's operations, the locations of its businesses and the legal, political and economic environment in such jurisdictions; competition; risks associated with the UK Banking Act 2009 and other similar legislation or regulations; changes in the credit ratings or outlook for the Group; market, interest rate, commodity prices, equity price and other market risk; foreign exchange risk; financial market volatility; systemic risk in the banking industry and among other financial institutions or corporate borrowers; cross-border country risk; risks arising from operating in markets with less developed judicial and dispute resolution systems; risks arising out of regional hostilities, terrorist attacks, social unrest or natural disasters and failure to generate sufficient level of profits and cash flows to pay future dividends.

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# Sir John Peace

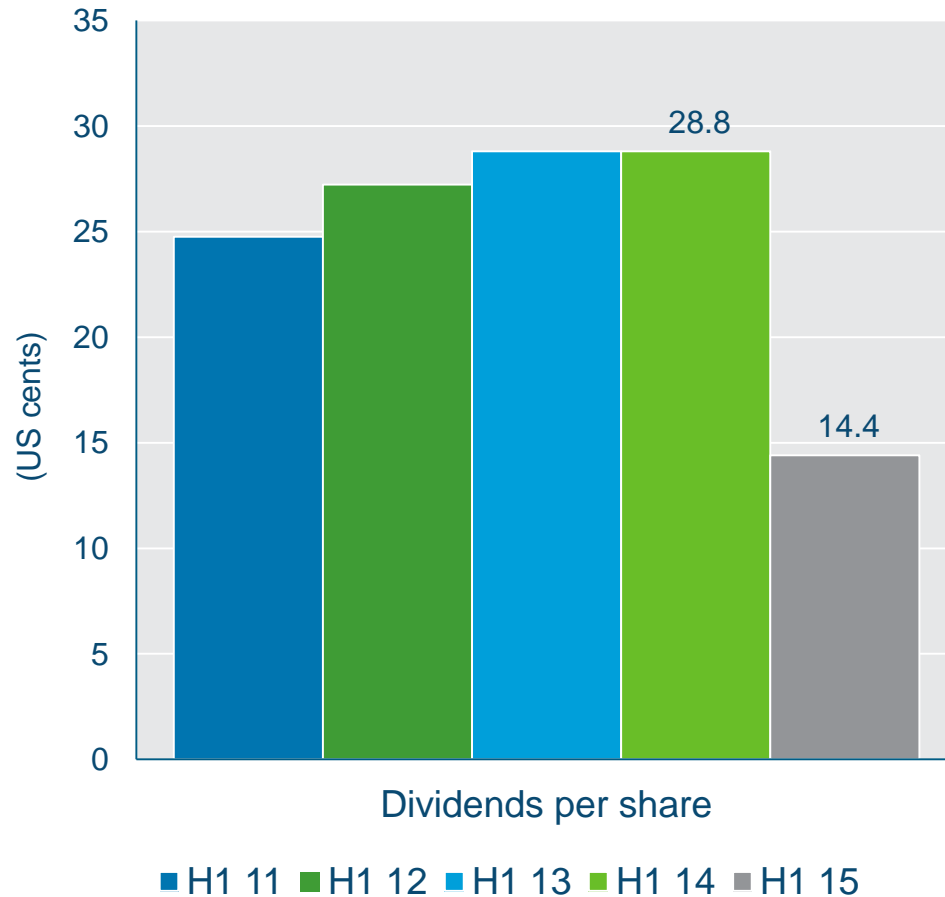
## Chairman

# Good progress on priorities – disappointing earnings performance

- Reflects continued adverse impairment trends, difficult market conditions and de-risking actions
- Good progress on the priorities outlined at full year 2014 results
- CET1 ratio improved 80 basis points to 11.5% since year end
  - Exited several non core businesses
  - Well on track to deliver targeted cost saves
  - Reduced Risk Weighted Assets

# Aligning dividend to earnings

## Rebasing dividends



- Performance reflects actions taken to strengthen capital position and grow returns over time
- Aligning dividend to earnings capacity
- Dividend payout ratio more in line with historical levels

1) Dividend payout ratio based on normalised earnings per share

# Raising the bar on regulatory issues

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- The board remains vigilant in confronting and addressing past issues
- Priority to reduce financial crime risk and safeguard good conduct
- Investing in our capabilities and systems
- Working with regulators and relevant authorities
- Taken action to reduce the levels of inherent risk in the Group

# Future priorities

## Committed to

- Capital and balance sheet strength
- Improving shareholder returns
- Making a meaningful contribution to the global fight against financial crime





**Andy Halford**  
Group Chief Financial Officer



# Good progress on priorities – disappointing earnings performance

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- Actions improved the CET1 ratio 80 bps to 11.5%
- Reduced Risk Weighted Assets by US\$15bn since the year end
- On track to deliver over US\$400m of cost saves in 2015
- Exited or sold several non core businesses
- Profits adversely impacted by impairments and mark to market valuations
- Significant improvement in performance in Korea

# Group performance summary

US\$m	HY 14	HY 15	Better/ (Worse)%	Better/ (Worse) CCY %		
<b>Income</b>	<b>9,274</b>	<b>8,495</b>	<b>(8)</b>	<b>(6)</b>		
Operating expenses	(4,756)	(4,554)	4	0		
Regulatory expenses	(283)	(453)	(60)	(60)		
Restructuring costs	(44)	(35)	20	20		
<b>Pre-provision operating profit</b>	<b>4,191</b>	<b>3,453</b>	<b>(18)</b>	<b>(16)</b>		
Total impairment	(1,031)	(1,738)	(69)	(75)		
Profit from associates	113	109	(4)	(1)		
<b>Profit before tax (adjusted)<sup>1</sup></b>	<b>3,273</b>	<b>1,824</b>	<b>(44)</b>	<b>(43)</b>		
<b>Return on equity (%)</b>	<b>10.4</b>	<b>5.4</b>	<b>(500bps)</b>			
	<b>FY 14</b>	<b>H1 15</b>				
<b>CET1 ratio (%)</b>	<b>10.7</b>	<b>11.5</b>	<b>80bps</b>			
<b>RWA (US\$bn)</b>	<b>341.6</b>	<b>326.2</b>	<b>(\$15.4bn)</b>			
<b>Leverage Ratio</b>	<b>4.5</b>	<b>5.0</b>	<b>50bps</b>			

<i>Currency translation</i>	<b>(277)</b>
<i>Divestments and exits</i>	<b>(173)</b>
<i>MTM<sup>2</sup> valuations</i>	<b>(263)</b>
<i>India impairment</i>	<b>(445)</b>
<i>Commodities (ex-India)</i>	<b>(247)</b>
<i>Private Banking impairment</i>	<b>(93)</b>

Note: CCY = Constant currency

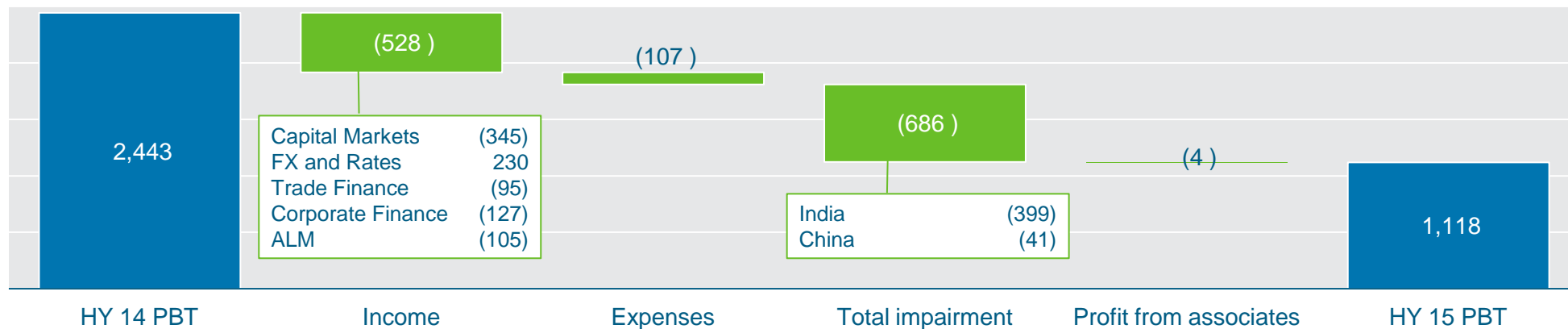
1) Adjusted excludes Own Credit Adjustments (OCA) and gains/losses on businesses sold / held for sale; 2) Mark to market

# Corporate and Institutional Clients – Reshaping to address challenges

US\$m	HY 14	HY 15	Better/ (Worse) %
<b>Income</b>	<b>5,334</b>	<b>4,806</b>	<b>(10)</b>
<i>Of which client income</i>	4,615	4,391	(5)
Expenses	(2,546)	(2,653)	(4)
<b>Working profit</b>	<b>2,788</b>	<b>2,153</b>	<b>(23)</b>
Total impairment	(435)	(1,121)	(158)
Profit from associates	90	86	(4)
<b>Profit before tax</b>	<b>2,443</b>	<b>1,118</b>	<b>(54)</b>
<b>RWA (US\$bn)</b>	<b>251</b>	<b>235</b>	<b>(6)</b>
<b>OP RoRWA</b>	<b>2.1%</b>	<b>0.9%</b>	

## Performance summary

- Mark to market valuations impacting Capital Markets
- Continued weak commodity markets
- Selective asset origination and lower corporate activity
- Progress on RWA management
- Flat expenses excluding regulatory spend
- Significantly increased impairment

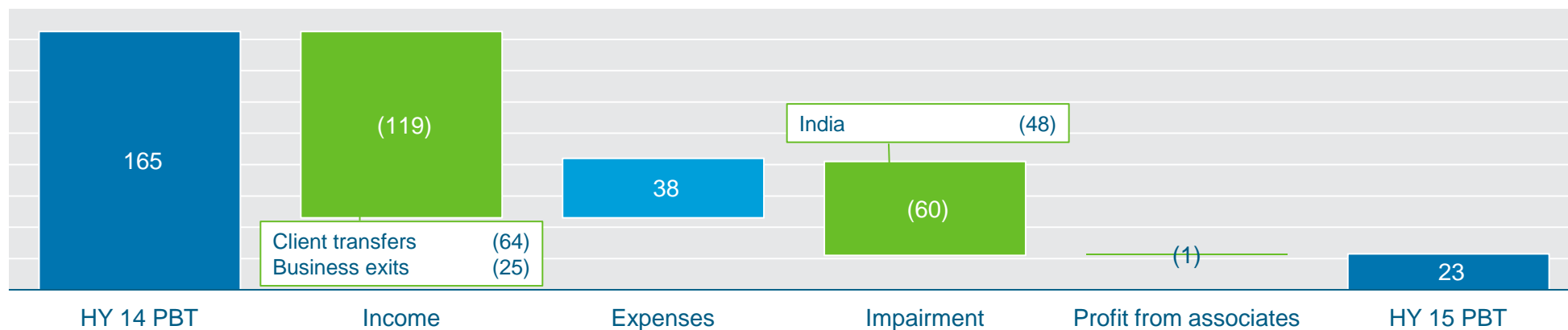


# Commercial Clients – Creating the foundation for future growth

US\$m	HY 14	HY 15	Better/ (Worse) %
<b>Income</b>	<b>616</b>	<b>497</b>	<b>(19)</b>
Expenses	(362)	(324)	10
<b>Working profit</b>	<b>254</b>	<b>173</b>	<b>(32)</b>
Total impairment	(100)	(160)	(60)
Profit from associates	11	10	(9)
<b>Profit before tax</b>	<b>165</b>	<b>23</b>	<b>(86)</b>
<b>RWA (US\$bn)</b>	<b>25</b>	<b>20</b>	<b>(18)</b>
<b>OP RoRWA</b>	<b>1.3%</b>	<b>0.2%</b>	

## Performance summary

- Impacted by internal client transfers
- Selected business and client exits
- Lower corporate activity
- Expenses tightly controlled
- Impairment remains elevated
- Progress on business transformation
- Starting to selectively add new clients

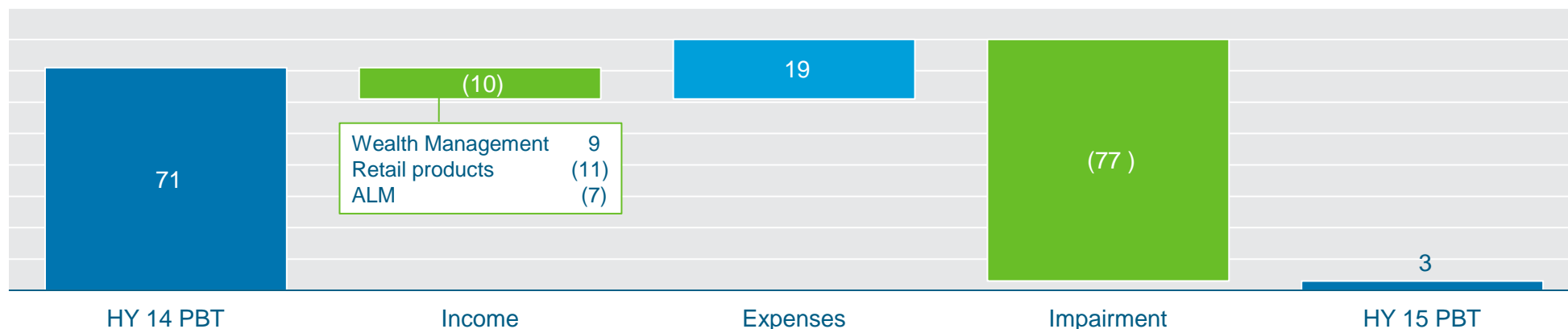


# Private Banking Clients – Underlying progress despite impairment

US\$m	HY 14	HY 15	Better/ (Worse) %
<b>Income</b>	<b>314</b>	<b>304</b>	<b>(3)</b>
Expenses	(227)	(208)	8
<b>Working profit</b>	<b>87</b>	<b>96</b>	<b>10</b>
Total impairment	(16)	(93)	nm
<b>Profit before tax</b>	<b>71</b>	<b>3</b>	<b>(96)</b>
<b>AUM<sup>1</sup> (US\$bn)</b>	<b>61</b>	<b>61</b>	<b>1</b>
<b>OP RoRWA</b>	<b>2.3%</b>	<b>0.1%</b>	

## Performance summary

- Income up 4% from continuing operations
- AUM up 9% from continuing operations
- Added more relationship managers
- Large impairment relating to alleged fraud



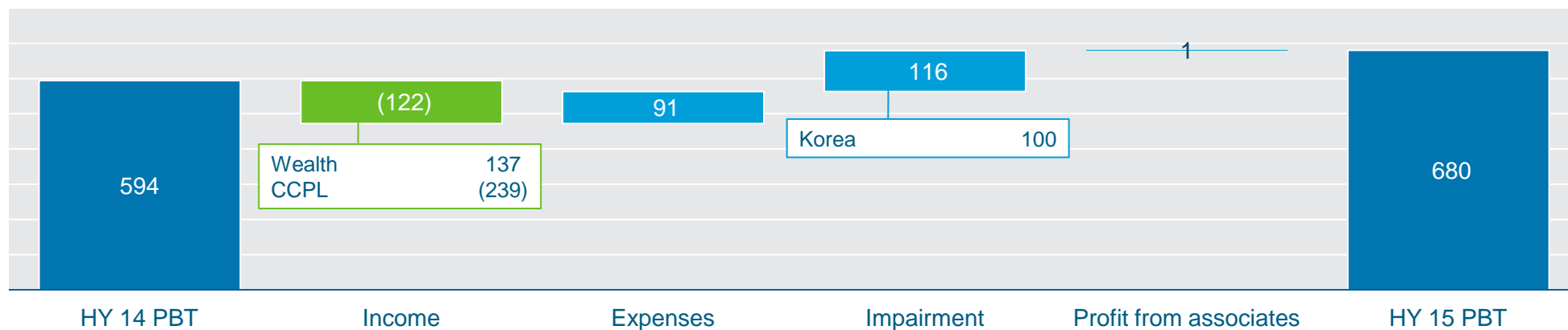
Note: nm = not meaningful; Excludes Own Credit Adjustments (OCA) and gain on sale; AUM: Assets Under Management

# Retail Clients – Changing business mix to drive improved returns

US\$m	HY 14	HY 15	Better/ (Worse) %
<b>Income</b>	<b>3,010</b>	<b>2,888</b>	<b>(4)</b>
Expenses	(1,948)	(1,857)	5
<b>Working profit</b>	<b>1,062</b>	<b>1,031</b>	<b>(3)</b>
Total impairment	(480)	(364)	24
Profit from associates	12	13	8
<b>Profit before tax</b>	<b>594</b>	<b>680</b>	<b>14</b>
<b>RWA (US\$bn)</b>	<b>69</b>	<b>62</b>	<b>(10)</b>
<b>OP RoRWA</b>	<b>1.7%</b>	<b>2.2%</b>	

## Performance summary

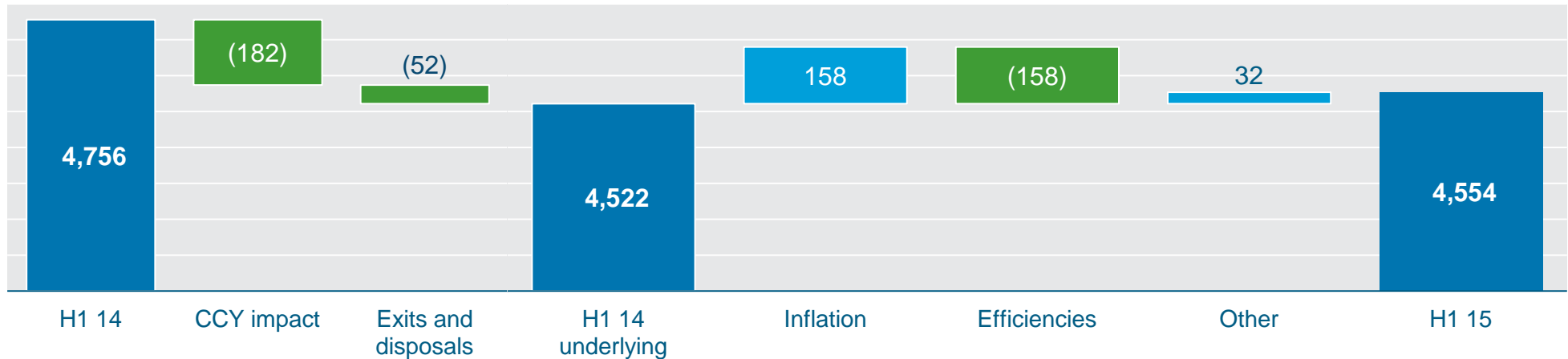
- Continued shift towards Priority and Business clients
- Wealth management growing strongly
- Focused on cost management
- Closed 74 branches and rationalised further 20
- Lower impairment reflecting de-risking and disposals



Note: Excludes Own Credit Adjustments (OCA) and gain on sale

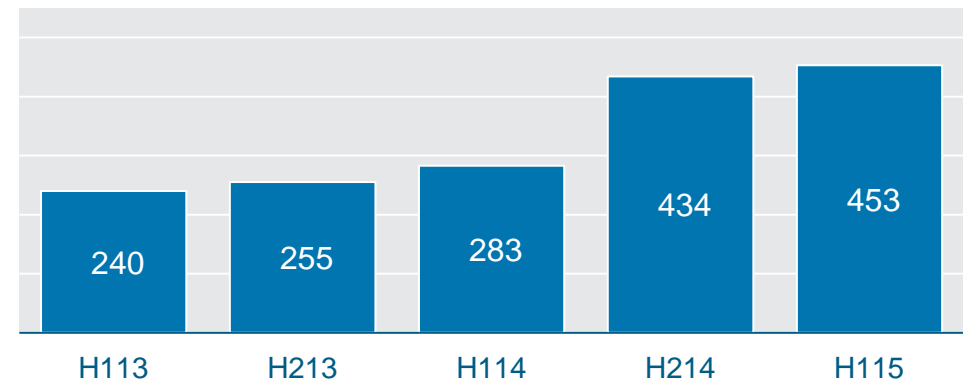
# Expenses excluding regulatory costs are flat

## Operating expenses excluding regulatory spend (US\$m)



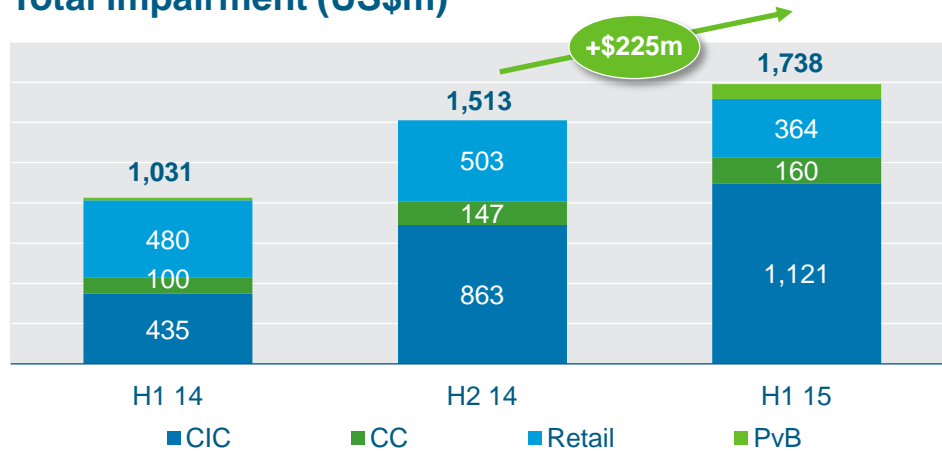
- Efficiency saves offset by inflation
- Headcount down 4,000 year to date
- Reduced Retail branches over 5% year to date
- Continued investment in Financial Crime and Compliance capabilities

## Regulatory costs (US\$m)

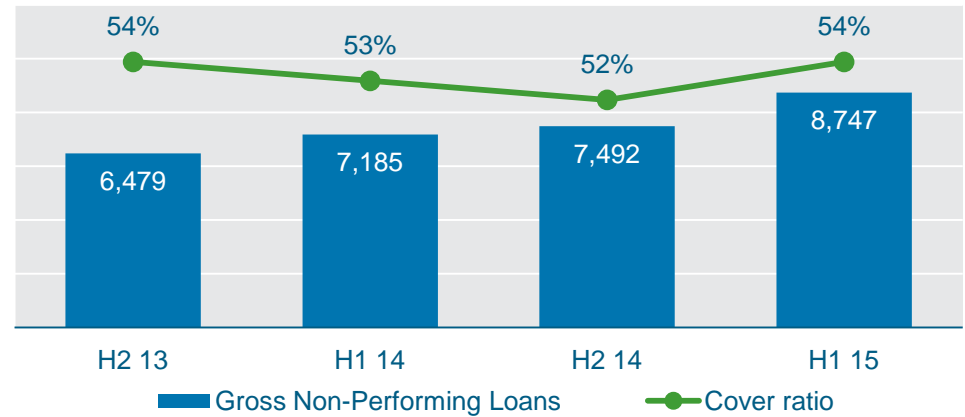


# Portfolio credit quality

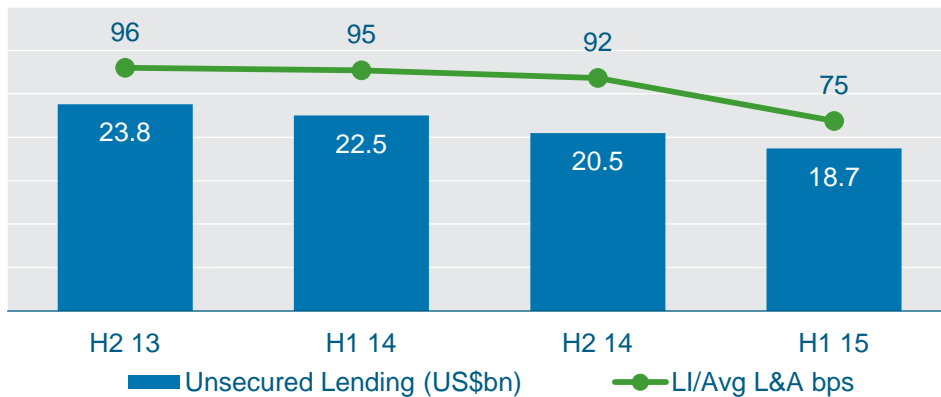
## Total impairment (US\$m)<sup>1</sup>



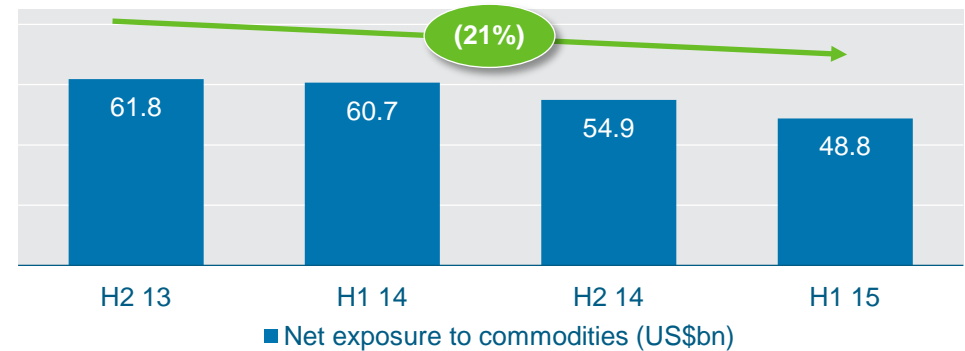
## Non-Performing Loans and cover ratio up



## Retail Products unsecured de-risking



## Reduced commodity exposure: 91% to Majors, SOEs, Investment Grade or <1 Year

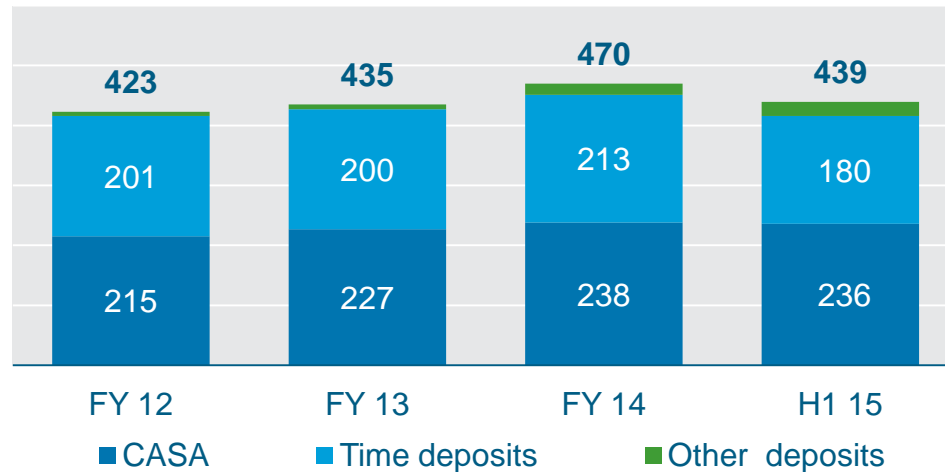


1) Excludes Goodwill



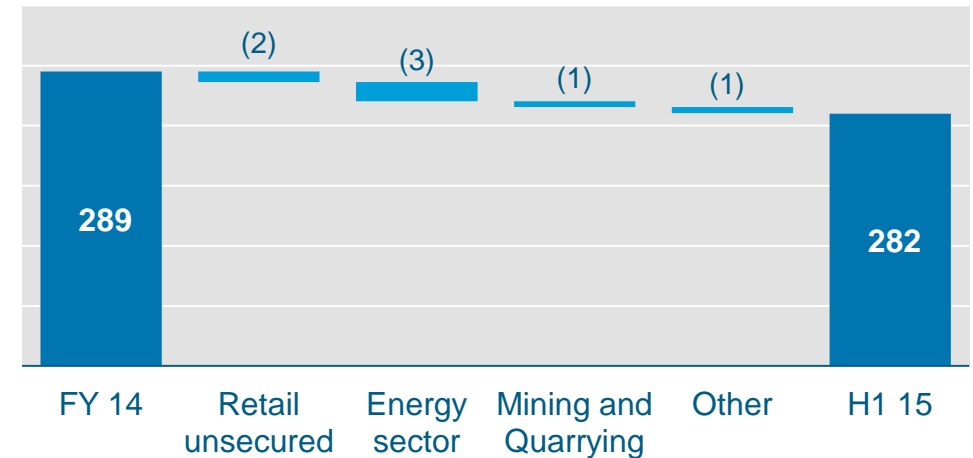
# Highly liquid balance sheet

## Total deposits (US\$bn)



- Leverage ratio 5.0%
- Managing down more costly deposits
- AD ratio 72.6%
- Liquid asset ratio of 31.4%

## Total loans and advances to customers (US\$bn)

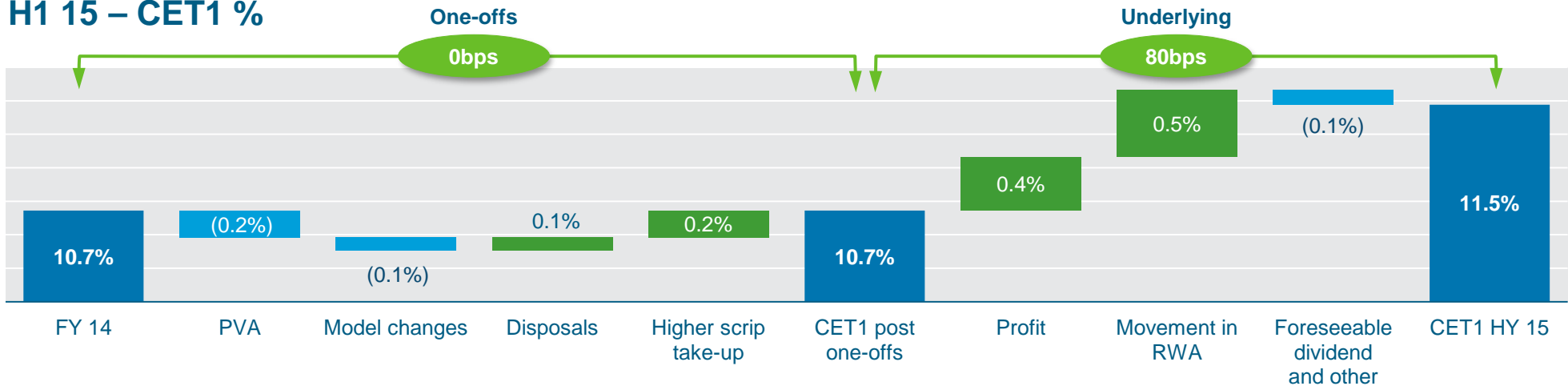


- Selective asset origination focusing on returns
- Continued de-risking of loan portfolios
- Reduced commodities exposure

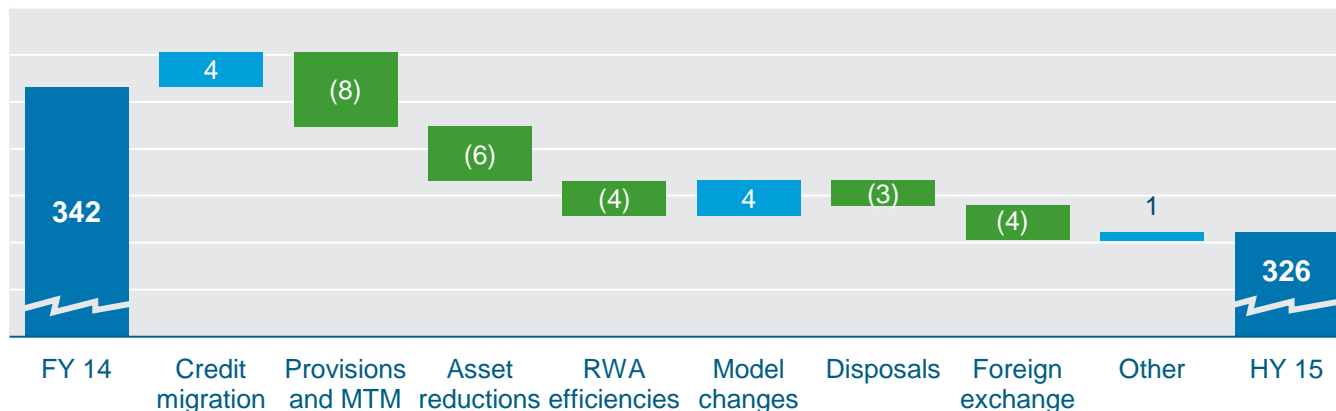
Notes: CASA = Current Account and Savings Accounts

# Prioritising actions that strengthen capital position

## H1 15 – CET1 %



## H1 15 – Risk Weighted Assets (RWA) (US\$bn)



- CET1 target of 11-12% achieved
- 80bps of underlying accretion
- RWA reduction of \$15bn since year end
- PVA deduction of 20bps
- CVA expected in second half

# Disappointing results but initial progress on priorities

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- Actions improved the CET1 ratio 80 bps to 11.5%
- Reduced Risk Weighted Assets by US\$15bn since the year end
- On track to deliver over US\$400m of cost saves in 2015
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- Profits adversely impacted by impairments and market to market valuations
- Significant improvement in performance in Korea



**Bill Winters**  
Chief Executive Officer

# Initial observations

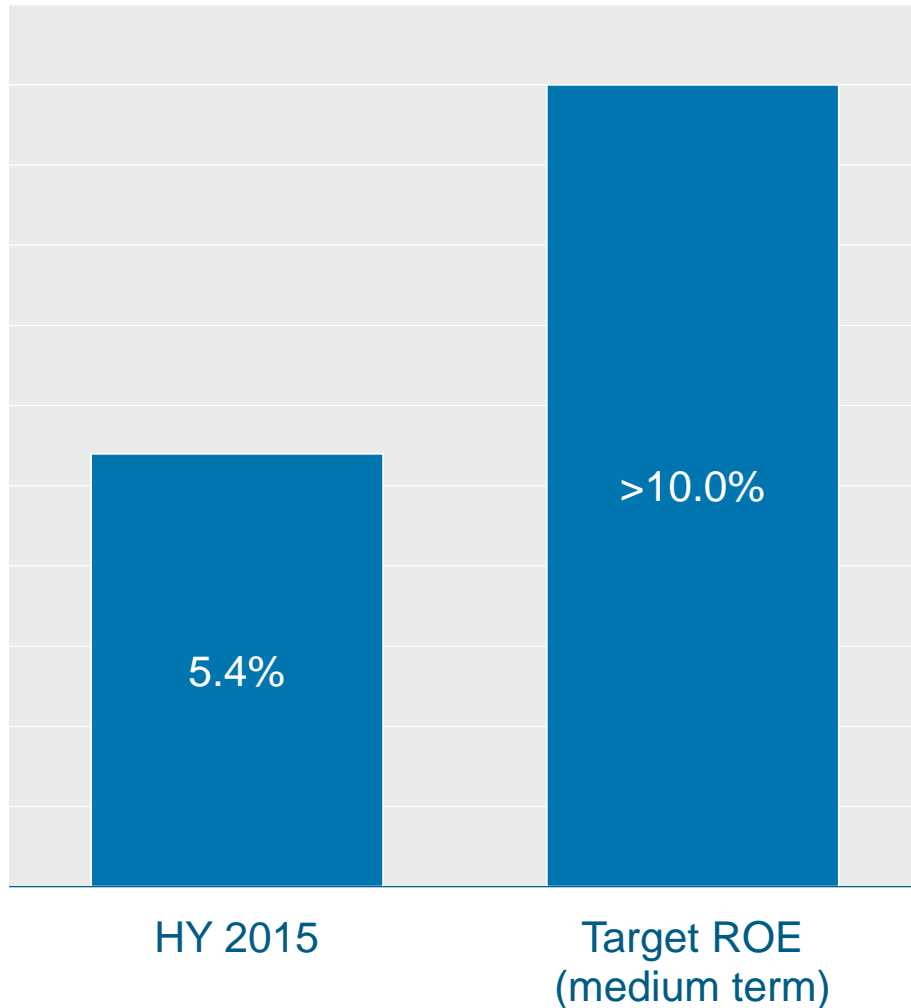
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- Excited to represent and lead the Bank
- Management actions underway are progressing well to address the Group's challenges
- We have great people, a strong brand and a strong core of businesses
- We are working through a legacy of growth over risk discipline and returns
- We are establishing clear risk tolerance appetite and returns targets
- The Group has been too slow to take hard decisions
- Here for good is genuine and captures the spirit of our Bank for people and our clients

# Strategic focus



# Our primary focus is on improving returns



- Institutionalise improvements in risk and returns frameworks
- Better focus on areas where we have an edge
- Accelerate exit of low-returning relationships
- Become more commercial in our mindset
- Simplify the organisation structure

# Organisation structure

## Why the need for change?

- Kick start performance
- Reduce costs
- Slash bureaucracy
- Improve accountability
- Speed up decision making

## Guiding principles

Local clients managed locally

Global clients and businesses managed globally

Consistent delivery of products and capabilities

Clear accountability

Reinforce highest standards of risk management, compliance and conduct

## Actions taken

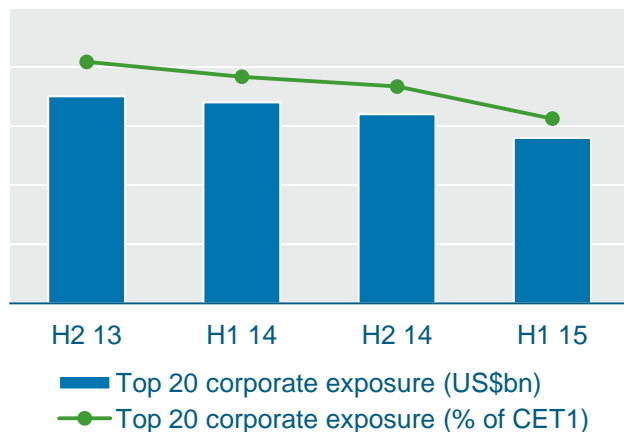
- New Management Team
- Simplified the client facing structure
- Streamlined the geographies
- Made regional CEO's responsible for local businesses
- Clients are managed locally or globally as their needs require
- Improved accountability



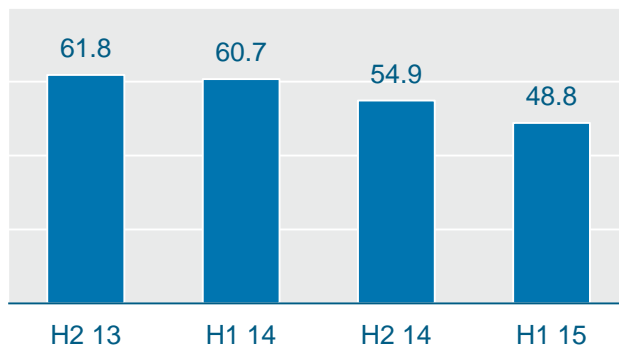
# Asset quality review

## Managing down concentration and commodities exposure

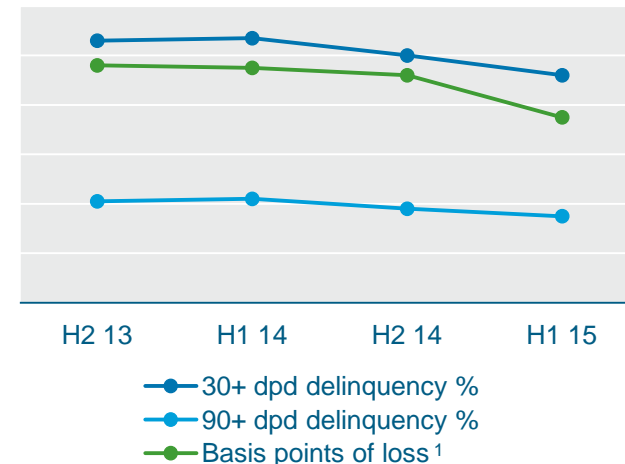
### Top 20 corporate net exposure



### Commodities net exposure (US\$bn)



### Retail delinquency rates



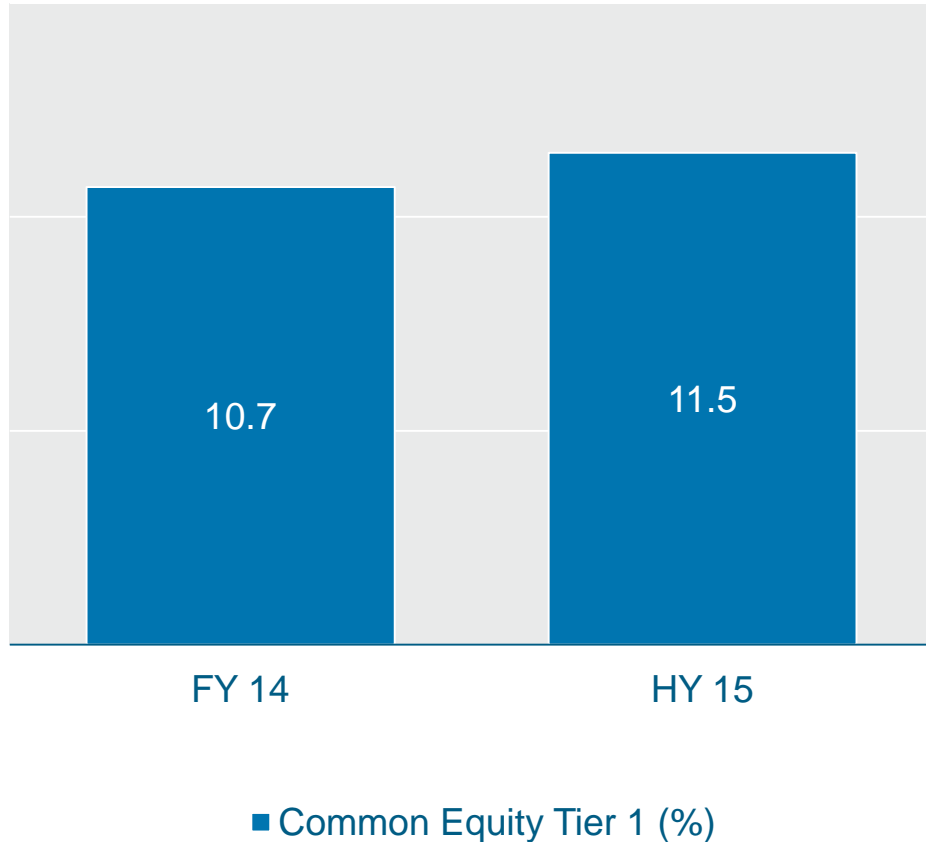
## Initial observations

- Credit culture generally sound
- Small number of concentrated exposures not representative of the wider loan book
- Mistakes have been made but lessons have been learned

1) Loan impairment / average customer loans and advances

# Capital and dividends

## Common Equity Tier 1 (%)



## Considerations for future capital needs

- Output of strategic review
- Bank of England stress test
- Ability to emerge from macro shocks in a position of strength
- Industry wide conduct related costs

# Conduct

- Determined to make meaningful contribution to the global fight against financial crime
- Working closely with regulators
- New organisation structure reinforces accountability
- Overseen by Board with focus from the Financial Crime Risk Committee
- Became a member of the Wolfsberg Group that sets industry standards

Creating the  
right environment

Effective  
operation  
of financial  
markets

Fair  
outcome  
for clients

Financial  
crime  
prevention

# Key questions for the strategic review

## Competitive environment

- How do we benchmark against evolving competition?
- Where are we advantaged and where are we not?

## Business mix

- How should we reshape our portfolios, business mix, and geographic presence?

## Digital agenda

- How can we better invest in and leverage technology?

## Organisational structure, processes and control

- How can we continue to evolve and simplify our structure so we are fit for purpose?

## Costs and investment

- Where can we take out unproductive costs and where should we redeploy to drive future performance?

## Capital

- Do we have sufficient capital and do we allocate capital as efficiently as possible?

# Summary – what will success look like?

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Standard Chartered will be a Bank that is

- Well capitalised and able to navigate any future shocks
- Delivering returns above the cost of capital
- More efficiently structured and cost effective
- Leading in the global fight against financial crime
- Clearly focused on what it can do well

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# Q&A