

## **Standard Chartered's 1Q 2022 results presentation**

**Bill Winters, Group Chief Executive**

**Andy Halford, Group Chief Financial Officer**

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

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

Good morning and good afternoon, everybody, and thanks very much for joining us for today's first quarter results presentation. So I'm going to make a few introductory comments, and then Andy will talk through the results in some detail. We'll then both be back for Q&A as usual.

We posted a really strong set of results for the first quarter in what's been a very volatile and challenging environment. Our profit before tax grew 5% year-on-year with strong business momentum driving top line growth of 9% with record Financial Markets performance and double-digit growth in net interest income, along with an 11.1% return on tangible equity.

During this period, we actively supported our clients, our customers and communities in navigating these challenging conditions, obviously, something that we hold most closely and dear to our heart. I am also very encouraged by the early progress we made against the 5 strategic focus areas we outlined in February, all on our path to deliver at least a 10% return on tangible equity by 2024, if not earlier.

Just a few highlights. In our Corporate Commercial and Institutional Banking segment, the income return on risk-weighted assets has improved over 1% to 6.4% in the first quarter. If you remember, what we said back in February was that we set ourselves a target of getting to 6.5% by 2024. So obviously, very good progress in the first quarter. Well, this is only one quarter, and we know that it's been very favorably impacted by our record Financial Markets performance, it's still showing good underlying progress.

During the quarter, we also successfully executed a program of optimisation initiatives that delivered a reduction in our credit risk-weighted assets of \$6 billion. Again, this is a significant chunk of progress against the target that we set ourselves back in February to take out \$22 billion of suboptimal RWAs over 3 years.

Now moving to our Consumer, Private and Business Banking segment. We've also made good progress as we look to improve productivity, drive efficiency, recognising that our goal is to bring our cost income ratio down below 60%. And we added more than 98,000 new mass retail partnership clients. The outlook for acceleration of growth is good. And we feel like that strategic program is very much on track.

Now moving to China. Despite some of the obvious challenges, we continued to make good progress in the offshore China business. So for example, we've grown the income on our China-ASEAN trade corridor with network income up 35% year-on-year. We've never been better positioned in China and the opportunity is never greater. And this is despite the current challenges that we all see. And those challenges are substantial, but we know that we're building a business for the medium to long term and have no reduced confidence that we can deliver on the objective that we set of doubling our profits in China.

We're also off to a very strong start with our 3-year \$1.3 billion expense reduction program, and we delivered \$72 million in gross structural savings in the first quarter. And then finally, on shareholder distributions, we are about 80% of the way through our \$750 million share buyback program, which we

announced back in February. Our target of delivering total shareholder returns in excess of \$5 billion over the next 3 years, again, looks very much on track.

Now as we set out earlier in the year, we're sharpening our focus on the most significant opportunities for growth within our group, while also simplifying our business. You will have seen a couple of weeks ago that we announced that we are refocusing resources in our Africa and Middle East region into new markets like Saudi Arabia and Egypt as well as ongoing investments into several of our larger markets in Sub-Saharan Africa. We're exiting 7 markets and focusing solely on the CCIB segment in tow more and redirecting resources to areas with the greatest scale and growth potential. We remain excited by a number of opportunities we see in the AME region but remain disciplined in our assessment of where we can deliver significantly improved shareholder returns. And this is a theme I think you'll see us coming back to, refocusing at every opportunity into those areas that can have the biggest impact on our progression towards and then through a 10% return on tangible equity.

Now we've also changed our reporting structure this quarter to include a third client segment, which is Ventures. This is the consolidation of SC Ventures and its related entities as well as the group's 2 majority-owned digital banks, with Mox and Trust. Now we continue to make positive progress with the various ventures already launched and have an exciting pipeline of new ventures, including the launch of Trust in Singapore, which is planned for the second half of this year. We've included a section in the appendix of our results presentation on Ventures to provide you with further details on the various digital initiatives and expect to provide a more fulsome update on the full range of Ventures in the way that we're thinking about them at the half year.

And finally, on Sustainability. Further, through the announcement of our net zero road map in October, we have updated our approach and enhanced our net zero pathway following extensive engagement with shareholders, clients and NGOs. We remain committed to achieving net zero in our financed emissions by 2050, and our enhancements give further clarity on how we will go about this, including: ending legacy direct coal financing globally by 2032, developing a time line to move from an intensity-based to an absolute financed emissions target for oil and gas, and expanding our coverage to include facilitated emissions from capital activities.

So just to wrap up, having successfully navigated obstacles in a very challenging environment, we remain vigilant, given the high levels of uncertainty in the external environment, particularly the challenges due to the global economic recovery and ongoing geopolitical tensions. But we remain confident in the delivery of our financial and strategic targets laid out back in February.

Now with that, I'll hand over to Andy, and then we will both be back for Q&A.

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

Thank you, Bill. We've presented our 2021 results and set out our 2022 guidance in February, the week before the start of the Russia-Ukraine conflict. The period since then has been difficult to navigate for everybody. And whilst we have experienced little first order impact, the second order repercussions are likely to affect us all over time. We have, however, weathered the storm well and our financial performance so far this year has been very strong.

And so turning to the numbers and starting on Slide 3, I'll cover the first quarter highlights before then providing more color. Starting at the top, income at constant currency and excluding DVA, was up 9% with strong growth in both net interest income and other income. This growth was largely driven by a record quarter for Financial Markets, offset by a more challenging Wealth Management environment. The expenses were up 8% at constant currency due mainly to the timing of performance-related pay accruals, inflation of around 4% and increased investment spend, which was funded by the cost efficiency savings that Bill referred to earlier. Taken together, the group delivered positive cost income jaws for the quarter. Credit impairment of \$200 million was principally made up of 3 major items: \$160 million relating to China commercial real estate exposures, \$107 million relating to the sovereign downgrade of Sri Lanka, offset by releases from our management overlays of a shade above \$100 million. At the associate level, income was up 37%, which was due mainly to the improved performance of China Bohai Bank in the fourth

quarter of their year. Having seen its most recent results, we remain comfortable with the carrying value of the investment on our books. All together, this led to a 5% increase in underlying profit before tax at constant currency to \$1.5 billion.

And finally, on this slide, our capital and liquidity positions remained strong. We took tough action on risk-weighted assets, driving a \$10 billion net reduction in the quarter. This was led by CCIB as a core part of their strategic action plan, but we also saw reductions in other areas such as treasury. Our CET1 at 13.9% is near the top end of our 13% to 14% target range despite absorbing the full impact of our \$750 million share buyback program and the impact of several adverse regulatory changes, which we highlighted at the full year 2021 presentation. This is a quarterly result update, not a strategic refresh. But nonetheless, I wanted to draw your attention to a couple of slides in the appendices.

The first slide, slide 14, summarises the strategic actions we set out in February and our tangible progress in delivering against them so far. We will keep this updated regularly going forward. The second, Slide 19 shows the strong performance of our Africa and Middle East region and the positive impact of the actions taken during the quarter to refocus the region on a lesser number but bigger markets.

So let's start looking in more detail at our income performance on slide 4. This is the usual view of income by product, excluding DVA and with currency fluctuations stripped out to highlight the underlying momentum, showing the growth of 9% that I referred to earlier. This reflects an outperformance relative to our previous guidance, mainly due to an extremely strong print in Financial Markets trading in March with, as you can see in the chart on the bottom left, income for the quarter up \$350 million or 27% at constant currency, excluding DVA. In the chart, you can see the strong performance in macro trading, which benefited from high levels of volatility, increased customer flows and elevated commodity prices.

In Financing and Securities Services, we have a \$94 million mark-to-market gain on liabilities driven by the current market volatility. This gain should reverse out over the coming quarters as conditions stabilise and spreads narrow. But even excluding this item, Financial Markets was still up 20% year-on-year. Treasury and other income was up 24% year-on-year. This was mainly due to the structural hedges we put in place over the past few quarters on which we generated around \$60 million in net interest income in the first quarter, partly offset by lower realisation gains. It's a similar picture in transaction banking to the previous quarter, reflecting encouraging signs of economic recovery in our markets, with trade income up 6% year-on-year and trade assets now above the levels we had at the start of 2019.

Cash Management income was up 5% year-on-year, supported by the current rising rate environment. With its high proportion of corporate operating accounts, Cash Management remains well positioned to benefit from further increases in interest rates. Wealth Management income was down around \$100 million or 17%, impacted by weak investor sentiment, which affected market-sensitive products and also extensive COVID restrictions still in place across China, Hong Kong, Korea and Taiwan. Notably, Bancassurance income was up in the first quarter with a strong performance in Singapore as it continues to open up from earlier COVID restrictions. Lastly, it is also worth remembering that this is again a difficult comparator, as first quarter income last year was a record performance for Wealth Management.

Retail products income was flat year-on-year with increased volumes, particularly in mortgages and deposits and improving retail deposit margins that are no longer a drag on income, and which are expected to turn into a tailwind in the coming months as interest rate rises flow through. Lastly, Lending and Portfolio Management was down 14% as new loans and the completion of a few M&A deals were offset by accelerated loan sales as our CCIB segment executed on its RWA optimisation initiatives, as highlighted by Bill earlier.

Looking at the early trading numbers for April. In Financial Markets, we are unlikely to see a repeat of the exceptionally buoyed March performance, though it is holding up well against the comparator period last year. In Wealth Management, we remain cautious, given the challenging market conditions, particularly with lockdowns continuing in China, albeit the situation in Hong Kong is starting to ease.

So all in all, income growth for 2022 is now expected to slightly exceed the previously guided 5% to 7% range, given the strong first quarter performance and the progressive benefit from increasing interest rates as we go through the remainder of the year.

I'm now turning to Slide 5 to talk about net interest income and margin. Net interest income was up 10% or about \$140 million on the first quarter 2021. This was driven by 2% growth in average income earning assets and a 7 basis point improvement in our net interest margin. The first quarter net interest margin of 129 basis points was 10 basis points up compared with the fourth quarter of last year.

Our structural hedge program drove about 3 basis points of this increase and generated around an incremental \$40 million of net interest income. The other 7 basis points was attributable to the interest rate picture generally, turning more positive with the Fed increasing its overnight rate by 25 basis points in mid-March. We have already started to see some benefit flowing through in our U.S. dollar book. Similarly, 3 months HIBOR has also started making a recovery, increasing by 29 basis points to 55 basis points at the quarter end.

And finally, on interest rate sensitivity, remember that having seen the near-term curve increase, not just by 100 basis points, but nearer to 200 basis points, the second 100 doesn't yield as much as the former as deposit bases will increase, Hong Kong mortgage margins reach the prime rate cap, and treasury hedges have already captured some rate rise benefit. We'll provide an updated sensitivity at the half year results in July. Lastly, taking into account the effects of the RWA optimisation actions, we expect loan growth in 2022 to be in the low-to-mid-single-digit range.

So turning to Slide 6 then. Our more capital-efficient non-funded income, which comprises net fees and commissions and net trading and other income has grown 8% year-on-year, now constituting close to 60% of our total income. Net fees and commissions were down 8% year-on-year, driven mainly by declining Wealth Management income, which, as I already mentioned, was down due to negative investor sentiment and the impact of COVID-related restrictions across large parts of our Northern Asia region. The real story on this slide is the growth in net trading and other income, which you can see in the blue bar, up 21%. This is driven by a record Financial Markets trading performance in what were particularly favorable market conditions. This strong Financial Markets performance was partially offset by lower realisation gains in Treasury Markets.

I'll now move on to cover the costs on Slide 7. At the headline level, excluding currency impacts, expenses were up 8%. However, this is not symptomatic of the rate of growth we would expect for the full year. The first quarter growth reflects both unusually low performance-related pay accruals in 2021, given the uncertainties at that time and a higher accrual in the first quarter for this year, given the improved outlook and the quarterly phasing of our profits.

Adjusting for these items, operating expenses were up 4%, which is in line with our stated 2022 full year guidance and in line with the current economic forecast and inflation for the Asian market of around 4%. We have also delivered \$72 million of the \$1.3 billion 3-year cost efficiency target in the first quarter, creating capacity to fund the equivalent increase in investment spend, particularly as we position ourselves for launching Trust, our digital bank in Singapore and to further expand on Mox's initial success in Hong Kong with the launch of new products. Taken together, we have delivered positive income to cost jaws of 1%.

Looking forward to the rest of the year, our higher income growth expectation will have an impact on performance-related pay. So we therefore now expect 2022 operating expenses to be slightly higher than the previously guided \$10.7 billion, whilst we continue to expect to deliver positive income to cost jaws.

Turning now to credit impairment and asset quality on Slide 8. Credit impairment was \$200 million for the quarter, slightly lower than the fourth quarter of last year. As I mentioned earlier, there were 3 major items. Firstly, there is a \$160 million charge relating to increased provisions for exposures to China commercial real estate. The second is a \$107 million charge resulting from the sovereign rating downgrade of Sri Lanka. The final item is a \$104 million release from our management overlays, taking

them down to \$239 million. The remaining overlays comprised \$153 million against COVID and \$86 million on the China commercial real estate portfolio. As we do every quarter, we have also updated the macroeconomic variables for the Stage 1 and 2 expected credit loss calculation, but the impact has been minimal as there have been upgrades as well as downgrades in our footprint.

Turning to the bottom chart, the stock of high-risk assets in our CCIB portfolio across the 3 indicators is down slightly, the seventh consecutive quarter of decline. Early alerts have ticked up mainly in the China commercial real estate sector. And in our CPPB business, days past due continue to improve across both measures. We are not changing our previous guidance for this year's impairment charge in that we continue to expect it to start normalising towards the medium-term range of 30 to 35 basis points.

And finally, to complete the financial overview, risk-weighted assets and capital on Slide 9. Starting with the charts at the top. Overall RWAs were down just over USD 10 billion in the quarter. This movement reflects a USD 12 billion increase in RWAs through asset growth and regulation changes, offset by a huge USD 22 billion reduction in other RWAs. The USD 22 billion reduction has 3 main components. Firstly, CCIB delivered a USD 6 billion reduction through a variety of actions, including the sell-down of suboptimal returning assets, securitisations and trade distributions. These are part of our earlier announced target to take out USD 22 billion of sub-optimal RWAs in the next 3 years. The net impact on first quarter profit from these actions was not material.

Secondly, we also executed a further USD 7 billion reduction from other efficiency actions across the group, including in Treasury, where we put in place sovereign credit insurance, improved the portfolio mix and reduced the commercial surplus, all of which helped reduce RWAs by USD 1.5 billion. Finally, we also saw positive credit migration across our portfolios and improvements in asset base, delivering a further USD 6 billion reduction. Looking forward, we expect 2022 full year RWAs to be similar to those at the end of 2021.

Turning to the chart at the bottom, we remain strongly capitalised with a CET1 ratio of 13.9%, which is at the top end of our target range and over 3 percentage points above our regulatory minimum. Strong profit accretion and RWA optimisation was offset by a 70 basis point reduction from regulatory headwinds as flagged in February, as well as a 30 basis point impact from the USD 750 million share buyback. We also recognised a 30 basis point movement in FVOCI driven by the impact of rising rates on the Treasury securities portfolio. Looking forward, we intend to continue to operate dynamically within the full 13% to 14% CET1 target range using the capacity we've created to fund profitable growth supporting our clients in the coming quarters, whilst at the same time returning in excess of USD 5 billion to shareholders in the next 3 years.

And now on to the final slide before we will open the line to questions. As I said in my opening, a lot has happened in the world since we set out our 2022 guidance at the annual results presentation in February. As you can see from the financials, we have had a strong start to the year. There is increased confidence and meaningful near-term interest rate increases, but there are many uncertainties relating to the consequential impact upon both global GDP growth and GDP growth in the regions in which we operate. Taking all these into account, we now expect that we will slightly exceed the 5% to 7% full year income growth range that we set out in February. This would bring with it some increase in performance-related pay expenses, but overall, it should be positive for our bottom line and our income cost jaws progression. Whilst not without its uncertainties, we remain resolute in our aspiration to deliver 10% RoTE by 2024, if not earlier.

So with that, I will hand back to the Operator, so Bill and I can take your questions.

**Operator**

Your first question today comes from the line of Joseph Dickerson from Jefferies.

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

Congrats on a good set of results in the first quarter. I guess, given that you've largely completed the buyback that you announced at the full year and given the capital strength and also your RWA guides for the full year. I mean, is it safe to assume on that path to in excess of USD 5 billion capital return that we could see a reload on the buyback at half year? Or what's your thoughts on the timing of that? Any help would be appreciated.

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

Okay, Joseph, thank you for that question. I mean just context-wise, we've clearly pushed very, very hard on risk-weighted assets during the quarter and have been very, very pleased with the progress we've made there and that has been a significant underpinning for the high print that we've had on the CET1. I think that now gives us license to do 2 things: one, where there are opportunities with clients to do more profitably, then we will do it. And it's good to actually be in that position. So over the balance of the year, we can make the most of any of those opportunities as they arise.

And secondly, to the extent that there is still further left over, then obviously, we will have a look at whether there is a capability to return more at a point in time. That's entirely consistent with what we said in February, the USD 5 billion, et cetera. So we'll monitor that. We'll see where we get to and out and when there is anything more to update on, you'll be the first to hear about it.

**Operator**

Your next question comes from the line of Yafei Tian from Citi.

**<<Yafei Tian - Citigroup Inc., Research Division>>**

My question is around the revenue guidance as well as the net interest margin guidance you put out. So looking at the margin guidance of 1.4% and where the consensus is probably lower than 1.3%, that implies probably actually USD 600 million also of net interest income upgrades alone. But then the revenue guidance of slightly better than 7% seems a little bit conservative, which only implies probably USD 200 million-ish of consensus upgrades on revenue. So I just wanted to circle on the guidance on revenue for this year? And then secondly, is that when you think about that margin guidance being the full year average, which would suggest even higher margin for next year, can you confirm that you are actually expecting most of the interest rate benefit and margin expansion to happen this year as opposed to next year?

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

Great. Thanks very much for the question. I'm going to turn to Andy in a moment who can dig into the specifics around interest rate guidance and impact on NII, et cetera. Directionally, I'm sure you're correct, which is why we indicated that we thought we'd be slightly above the top end of our indicated range for 2022. But in the broader context in terms of revenue guidance, of course, we've had a good start to the year. We're very happy with the Financial Markets results. Interest rates have moved even further in a helpful direction relative to the last time we spoke to you. That's all quite clear.

We're also very aware that there's quite a bit of uncertainty in the world as we sit here today. And while our business has been very resilient, both from an income perspective, but also from a credit perspective, in the face of higher inflation and the face of rising geopolitical tensions, obviously, the war in Ukraine, et cetera. We sit here today and there are plenty of things to keep a very close eye on as well.

So it's not clear exactly how that will flow through to the income flows that are non-interest rate dependent. The interest rate dependent flows, obviously, our income impact is relatively closer to math, the other items are not. So we look at that and say, let's maintain a relatively cautious outlook and say, yes, of course, we're going to bank the relative outperformance in the first quarter. We think the business is strong and resilient from here. We think the underlying strategic drivers are very much in place.

The focus on Affluent customers is difficult as the first quarter was, there are plenty of signs that, that business is strengthening for us. The Corporate business has performed very well beyond FM. So we sit here thinking, yes, we've been resilient in the first quarter, the outlook is as good as we've seen, but

there's a ton of uncertainty out there, so let's calibrate the enthusiasm around that reality. But Andy, there are a bunch of specific questions, which I know you've got a strong view on as well.

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

Yes. So let me just spend a bit more picture. I know it's very difficult from the outside looking in to convert the interest rate sensitivity guidance that we've given with what's actually happening within the business, in part because the rate changes are happening at different points in time in different currencies in part because we have such a big mix of currencies. We've put a chart into the appendices to the pack today on the forward rate curves comparing what we saw at the time we stood up in February with what is happening now. And it is quite clear, but as Bill has just said, the very near-term curves have steepened quite a lot, less so by 2024, but certainly, the 2022, 2023 curves have steepened a lot.

Now if you look at what we just published for the quarter with the 129 NIM, you can extrapolate from that, that there's about USD 100 million of rates benefit that we've seen in the first quarter. But the steepness of the curve essentially if it goes through this year, will mean that the pace on that picks up over the course of the year. And hence, our view is that something approaching the 140 level for the year as a whole on the NIM is entirely feasible.

Now slightly as a caution, but not massively, we do need to be reflective of the fact that the Wealth Management space is still somewhat sluggish. Hong Kong, which is our major market there clearly has had a slow first quarter for reasons which you understand it will take a while for that to come back. So Wealth Management side probably will take a bit of time to get back into its rhythm. And secondly, that we have taken some gains from mark-to-market in the period that could well reverse over the balance of the year. So I think there will be a couple of things, albeit I think they're slightly more transitory that could happen in the balance of the year.

Now your question also and I think importantly then went into what do we see beyond this year because of the curve rising, then clearly, there is a momentum that takes the current rates through into next year and then build beyond that. The way I'd look at this is if the current forward rates do hold true, it's not impossible to see the level of NIM that we had in 2019 being something we get back to in 2023. Put another way, as we came down NIM curve in the 2021 period, we probably dropped about USD 2 billion of income. And I think it is quite reasonable to think that the vast majority of that we could pick up with the current rate curve by the 2023 year all else being equal. So I hope that gives you a little bit more clarity on where our thinking is.

**Operator**

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

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

I guess one follow-up on revenue, actually. When we're looking at the revenue expectations for '22, should we be currency adjusting the start point in terms of 2021? I guess, currencies have moved around a bit. And if so, could you help us with revenues, what the kind of currency-adjusted start point is actually, also if you could be the same for cost as well, that would be really helpful.

And then on the cost point, how are you looking to manage the 2022 cost base? Clearly, you're talking about greater than USD 14.7 billion for performance-related pay. I mean, could you help us put a range on that? I know you talked about positive jaws this year. But could you kind of tighten that for us in terms of what that USD 14.7 billion can be or exactly what kind of jaws you might want to target this year, please?

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

Yes. Okay. So obviously, currency moves around a little bit. Overall, in this business, we tend to find that the income effect and the cost effect on currency broadly offset each other and therefore the overall profit effect is not particularly significant. So that's why most of what I talked to there is broadly on a constant currency basis.

But profit-wise, it would be net neutral. Trying to predict the currency over the balance of this year is tricky to do. On the cost front, I think USD 10.7 billion is our cost number that was on USD 14.7 billion. But just on the performance-related pay, listen, it all depends on how much the top line does exceed the range. But I think we'll be talking USD 100 million maybe, if it really, really was strong at the top line, maybe it could be USD 200 million, but something in that range, I think, is where we're probably thinking.

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

Okay. Sorry, just to be clear on that, the first part of that question, should we just be taking, as the income start point, should we just be taking the USD 14.7 billion that you printed in '21 and grow that by slightly in excess of 5 to 7 per cent? Is that how you'd encourage us to think about it?

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

Well, yes, I mean, it's actual certainly the way to look at it. What I'm saying is the extend of that proves to be slightly inaccurate. You will find that inaccuracy offset in the cost line. So net-net, it would come down to roughly the same thing.

**Operator**

Your next question comes from the line of Fahed Kunwar from Redburn.

**<<Fahed Irshad Kunwar - Redburn (Europe) Limited, Research Division - Research Analyst>>**

Just one really, actually, my questions have been answered. On the risk-weighted asset gains, thanks for the disclosure and a strong print. But I'm just wondering about the permanence of the risk weighted gains. I know you talked about FY'22 being flat versus FY'21, but there was USD 6 billion to USD 7 billion in there for positive risk migration and other model changes. Could you give some color on exactly what those 2 moves were outside the CCIB optimisation? And the follow-up on that really is, given the struggles we're seeing in China on the property side of things, and I appreciate you've given full disclosure on the CRE. Could we start to see some negative migration impacting the risk weight as we move through the course of the year?

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

We highlighted in February that the focus on risk-weighted assets, particularly in the Corporate side of business was going to be the primary focus and very integral to getting our income return on risk-weighted assets up, which as you all see in the CCIB business has made amazing progress in the space of one quarter. And I think really we have pulled the levers on a number of fronts on the risk-weighted asset side. Most of those, I think, are enduring.

Now clearly, the overall global economic outlook and the quality of the book and so on, there are some things like that, which is difficult to forecast accurately. But many of the things we've done here have been about exiting some arrangements. It has been about securitisation. It has been about taking out credit insurance. It has been about looking at our models, but I would say that this is not, generally speaking, of one-quarter burst and then you're going to see it all flip back the other way. I think it is enduring. And I think the changes we have made and the focus we put on this has been very, very strong and very, very encouraging.

The asset quality improvement, we're coming off the back, obviously, of a period when COVID has impacted a lot of rating assessments over a period of time. As we go forward, we just needs to be a little bit thoughtful on that because the whole Russia-Ukraine situation and what that's doing for global economic growth, we obviously cannot ignore. We will not be immune from it. But I think substantively the actions we've taken there, you should see a being enduring. And that is why we have said that we think the risk-weighted assets for the full year will end up somewhat fairly close to where we started the year.

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

If I can just add a little bit of color because it's a central question. When Andy and I, together with Simon and Ben and Judy stood up in February and talked about the RWA optimisation program, we obviously hadn't started thinking about it then. This is something that we've been working on very deliberately for a few years. What we agreed in the latter part of last year, we committed ourselves to and then committed



to you, was to be much more aggressive in terms of the implementation of that. So the tools we've been putting in place for some time. And we pulled those levers in the first quarter and we will continue to pull those levers.

So what are those things? It's all the optimisation tools that Andy talked about in terms of various forms of distributing credit in a more effective way. It's also a much more aggressive origination machine with a view to giving the market what it wants in a point in time, not just what we want. And we're also setting a much higher bar for what we consider to be a good use of capital. I think we're very clear about that in February. And what you've seen in the early part of this year is the early stage manifestation of that.

So while, of course, Andy is completely correct and you're correct in the way that you framed the question that there will be things that come and go and you asked specifically about RWA increases as a result of China CRE credit migration. Yes, I mean, those things could happen. I will note that we think we're pretty cautiously provided against the China CRE exposures that we've got, both on an absolute basis and relative to others. And that's the way we like to be and I think in everything that we do. But of course, there could be some further migration, it would be pretty small in the overall scheme of things just given the size of that portfolio. But there will be other things that could come in and out of the portfolio. But the structural change that Andy referred to and that I'm commenting on are structural. And as Andy said, not a flash in the pan.

#### **Operator**

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

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

A couple of questions from me. Firstly, just to go back on to this RWA and loan growth question. I mean given that your RWA control has been so good in 1Q and you're targeting flat for the year, that would suggest something like 4% growth in the last 3 quarters. And obviously, I mean, I know you have an asset growth target, which is mid-single digit. But given the loans are down 1% in Q1, if loan growth is going to match your asset growth, then again, that would suggest quite a decent rate of quarterly growth for the next 3 quarters. So I just wonder if you could comment on whether I'm thinking about that in the right way or whether at the end of the day, it will be that you end up undershooting your RWA target at the full year? And if I am right in thinking about what areas do you think that loan growth will come in? And then I have a second question on credit quality.

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

Okay. Well, let me take that question, Nick. What we've done, I think, is created to capacity capital wise to be heavily involved with clients to the extent there is a good business opportunity to go for it. The loan growth and the RWAs are a little bit confused in the recent period because you've got the 2 opposite effects of the optimisation actions versus the growth that we've got. If you strip that out, the actual loan growth has been pretty good during this period.

We've said over the balance of the year that's low to mid-single-digit growth in loans and exposures. But the RWA is staying fairly flat to the start of this year. So by implication of 2 things: one, still see further opportunities to client activity. But secondly, that we'll do that in a way that is capital and risk-weighted asset efficient. Now there's 9 months to go, obviously, a lot of stuff can move around in that period, but that is directionally where our minds are in terms of our thinking over the balance of this year.

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

Maybe just a bit more color and particularly on your second point, where might that growth come from. In the early part of the year and then looking at our pipeline, the pipeline is healthy for sure. While capital markets activity has been down across the world, it's been a little bit more robust in our markets and loan activity has been good. And the outlook, I'd say that the pipeline is relatively robust. Sustainable finance, obviously an enormous area of focus for us, has been strong, and the pipeline is good. Trade has been strong, I won't say the geopolitical tensions are likely to recede, but I think people are finding ways to work around them.

We can look forward to, obviously, Hong Kong opening up relatively soon. And while China news from day to day is terrible. It really is focused on Shanghai and more recently Beijing. But the bulk of the population in China is still operating relatively normally. And while the economic growth impact is meaningful, we think it will be meaningful in the second quarter, maybe into the third quarter. The overall trade volumes, we think will prove relatively resilient.

So looking across the piece, we see a decent economic backdrop, a good pipeline, for which we're well positioned. And as yet, we're actually remaining a relatively strong consumer profile across the markets we're operating. So as Andy said, plenty of opportunities to get that low to mid-single-digit loan growth. It's going to be reduced as it was in the first quarter from time to time by the optimisation efforts. But net-net, the underlying opportunity to grow profitable business it feels pretty good right now.

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

Okay. And my second question is just on credit quality. I mean, obviously, it looks like a very benign environment apart from 1 or 2 pockets at the moment. So really 3 questions. First of all, on China CRE, I'm trying to remember your numbers from 4Q. But if I'm right, you haven't released any of the overlay from 4Q. So those are all specific provisions you put through on the 160. Just your thoughts on any further risk we have there?

Secondly, I noticed you haven't made any more overlays for inflation risk, which I would have thought is quite high in some of the markets you operate on. So any thoughts or comments on that, especially given what's happening in commodities and the disruptions we're seeing.

And then thirdly, you just mentioned in one of your slides about watch list and commodity traders. I just wonder if there's anything we need to be sensitive to or aware of on our commodity trader side or if it's just watchlist at this stage?

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

Yes. I mean let's take those in order. So on China, we've taken some specific provisions against 1 or 2 situations. We've left the overlay there at about the \$90 million level that we had at the end of last year. And we're obviously keeping an eye on the situation there. It's mid flow, I guess, in terms of resolving itself. But at this point in time, we feel we are appropriately marked on the exposures as we see them. There is a slide that does actually give more detail on the quality of the China book in the appendices, which you maybe will look at, at some stage.

Overlays for inflation risks I think what we're trying to do is to be thoughtful about the situation that we're at, at a point in time. Clearly, there are situations going forward where things could become slightly more risky. There are some situations in some countries where the opposite could be the case. But again, we've gone through this individually component by component, and we think we're appropriately marked on this.

Commodity traders, commodity trading and support commodity trading clients is clearly a part of our activity. Commodity income has been very good in the FM business in the first quarter. Again, in the appendices, we showed some of the exposures we've got in that area. But overall, we're keeping a close eye on it. We think the quality of the book is good. We also showed on one of the slides, the overall higher risk client situations. And whilst the mix within it has changed a little bit, overall, that continues to be slightly down, but fairly static. So monitoring it, but we feel pretty comfortable where we've marked the book at this point in time.

**Operator**

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

**<<Guy Stebbings - BNP Paribas Exane, Research Division - Analyst of Banks>>**

I had a couple of questions. First one was on cost and then the second one around the exit of markets in Africa. So on costs, thanks for the color that you gave in terms of sizing the potential uplift as to the previous guidance and costs and the link to revenue. I just wondered whether we should be thinking

about certain revenue line items that you would place more weight to in terms of that being passed off on to the cost line, I presume things like mark-to-market moves on funding spreads, DVA volatility, we should kind of ignore? But to the extent there's otherwise strong performance of Financial Markets, you would reward employees. I'm not sure if that also goes in terms of the extent to which rate tailwinds help NII, whether that also gives back on performance related pay or not?

And then on exiting certain markets, now on this instance, what's changed? I think in the past, you've talked about the importance of the retail presence in some markets or banking licenses and you're positive about the digitalisation, improving efficiencies in these markets. So just what's changed there? And I think you gave some numbers around revenue and PBT impact being modest in terms of current contribution there, but is there anything else you can say around exit costs or capital allocation to those markets that might be helpful.

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

Okay. On the cost side and the potential for slightly upward pressure on that, I mean, listen, it's quite difficult to say I think 9 months ago exactly which products at which area it's going to be, who knows. We've got good momentum in Financial Markets. We said market is particularly strong. So don't take the first quarter as a run rate. April is good against the comparable period last year. Wealth Management is a little sluggish, and I think that will take a period over the course of the year to pick up again. But to try to associate the cost increase with particular product areas, I think, is probably a degree of precision, which is tricky. But as I said earlier, that 100, maybe 200 range, just depending upon how strong the top line is, I think, would be the right way to look at it.

On your second question, the Africa and the Middle East, I think the way we should look at this is the repositioning of the region into bigger markets, bigger growth areas. We have got one new license. We've now started with a branch. We've got another one in the offing. But we've equally said some of the smaller markets will come out of. Put this into context, the GDP of the markets we're getting into is about 3x that of the markets we're coming out of. The AME business itself was very strong in the first quarter. We saw double-digit growth in income, and we saw the underlying operating profit up over 50%. So this is really one of strengthening the franchise as we move it forward. and the businesses that we'll be exiting, they're not huge in the overall scheme of things. I think it's about 1% of the group income, 1% of the group profit. So not big numbers there. We will ex those out, I think, next quarter probably in our reporting.

And then finally, the Africa and the Middle East region is a great capital return generator, 13% RoTE in the first quarter. It's a very, very strong part of our business and a very strong differentiator for us from some of our competitors.

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

Just a couple of additional bits of color for me. Back on the cost point, obviously, you pointed out that the Financial Markets areas, you could say the same thing about Wealth in an environment where we're actually performing better, which we hope it will, expect it will, are the most direct connections between results and variable pay. But we've had strong performance across the board. And in periods where we've had weaker performance across the board, the whole bank has paid for it. And in periods where we have stronger performance across the board, the whole bank is going to benefit from it. So which I think is part of the reason it's tough to be very precise about the weightings of different revenue lines in terms of cost impact. As Andy said, it is relatively small in the overall scheme of things, and we really hope we have to explain further why our very, very strong revenue performance is driving an increase in performance-related pay. I mean I would hate to have to tell the opposite sorry. But for the time being, it feels pretty good.

And then on the exits, a couple of things. I think we've been clear in our public disclosures about this. We will continue to serve the countries that we've exited from offshore. So in terms of sovereign level and large corporate-related support and capital raising and the like, we'll continue to be as involved as we have been. And that's a meaningful proportion of the income in those markets. What we've exited is the onshore businesses in those countries and then specifically the onshore retail business in two others.

And these are areas where we looked and said there's meaningful technology spend, there's a meaningful compliance and other related spends just to stay relevant. And in some of these cases, there may be other people who are better at providing that service. And we're much better off taking our resources and focusing on the areas where we can have the biggest impact on clients and therefore, obviously, the biggest benefit to our shareholders as well.

So it's not about abandoning any of these countries at all. Rather, it's about focusing on getting the most value from the Standard Chartered franchise into those markets, which we have a high degree of confidence will result in the most value for us and our shareholders.

**Operator**

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

**<<Gurpreet Singh Sahi - Goldman Sachs Group, Inc., Research Division - Equity Analyst>>**

My question is on margin. Can you help us quantify the margin increase from Hong Kong? And then secondly, any thoughts around the mortgage margin being capped around prime rate? Can I ask what is the assumption regarding when will the prime rate be increased? And will the prime rate then move as much as the increase in CASA deposit rates?

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

Yes. I mean in terms of the move on the net interest margin in the first quarter, so we've had about 10 basis points of increase from the fourth quarter to first quarter. We've got about 3 basis points of that from treasury hedges and the rest is coming from a variety of different currency rates. I'd say probably, it's a third Hong Kong, the U.S. a third, the hedging a third, directionally, that's probably the way that you should think about that.

On the Hong Kong mortgages, I mean, it's a slightly complex situation because there's a prime rate, there is a cap that is a certain percentage below the prime rate. And then obviously, we have a margin on our borrowing cost on what we lend there. But I think if we're at around the 2.5% rate on the mortgages, then we're starting to get close to the cap on the prime. And hence, at that point in time, we get less upgrade sensitivity than we do below that level.

**<<Gurpreet Singh Sahi - Goldman Sachs Group, Inc., Research Division - Equity Analyst>>**

So just following up. So let's say, the initial first 100 basis points, as you say, is quite sweet and you get a big beta on the margin. So this year, we could have a 20 basis points higher group margins. But then once the prime rate moves in Hong Kong, which is one of the biggest markets for the group, then can we have the same kind of group NIM increase next year? Because I thought from the call, you referenced that 2023 margins can be as good as 2019 margins, which were 1.6%. And again, we're looking at 20 basis points, another increase. So trying to square that guidance.

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

Yes, what you just said at the back end of that is right. You said the full year. For this year, we think we could be near 140. I said earlier on that 2023 being at the levels of 2019 or getting close to those, which are 160 is still feasible. The problem is under the surface of it that whilst there are some things that won't be symmetric there and the Hong Kong prime rate clearly is one of those. The other thing that you need to factor in is that when we get a rate increase, we don't reprice the whole of the book immediately and some of that book will reprice after 12, 18 months, et cetera. So there is a buildup in the benefit of the rate increases we get in other parts of the business.

So at the helicopter level, that's nearer 140. And this is all on the assumption of the current forward rate, as I have stressed, but nearer 160 the 2023 year would be, I think, the best proxy to have taking account for the pluses and minuses under the surface.

**Operator**

Your next question comes from the line of Tom Rayner from Numis.

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

Bill, Andy, well done on the figures. I think the general thrust I'm picking up from the questions is people may be thinking you're being too cautious perhaps on some of your guidance here. Consensus revenue growth is currently 6% this year. If we just factor in the 140 NIM guidance, I think that adds 4% to that figure. And clearly, your very strong Q1 financial markets is in the bag. And I think, Andy, you said April was holding up well compared to prior year as well. So no signs that, that is going into reverse. So I'm just wondering, is this just a general level of caution, which I think is to be expected maybe given the environment? Or is there anything specific that you're seeing that has markedly deteriorated perhaps the speed of which you expect Hong Kong to reopen or anything like that? And I guess we could knock this on to your RoTE guidance as well. So I know you're saying 10% to 2024 or earlier. I'm just wondering how confident you are that maybe 10% can be achieved in 2023. Is that something that comment is meant to hint at?

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

Yes, Tom, I mean, a good set of questions. We're obviously, I think, hoping to be thoughtful about what we do. We're not setting out to be overly cautious. But then if forgive me for saying this, but February stood up and within a week of doing that, there was a huge situation arose in another country which we never envisaged. So it does make doing things with confidence here tricky. We've used the word slightly exceed the previous 5% to 7% range. Whether that's 8%, whether it's 9% or whether 10%, I think events will unfold over the course of the year, which will make that clearer.

There isn't anything that is a big drag here that we're sitting on sheltering from you. The mark-to-markets could reverse. I'd be hoping to clear about that. Wealth Management, it's been a little bit sluggish and it will take a period of time and things for that to pick up again. So it's not that there's anything under the bonnet that is causing us big alarm. And if not earlier words on the 10%, they were very deliberately.

Back to my previous point, if you look at where the forward curves are at the moment and the potential to get the NIMs back in 2023 to where they were in 2019, you can do the numbers on that. And we could be at or very close to the 10% in that year if those curves hold. And equally, we would need there not to be a massive reversion of confidence globally and GDPs maybe can moderate a little bit, but not dramatically in order for that to happen.

So we're just trying to be thoughtful. I think the way the rate curves move just recently does strengthen the view that '24 should be perfectly feasible. And it is possible that '23 could be that year.

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

Tom, maybe it's the right point to make the comment you'd probably expect from me, which is that while we're very sensitive to interest rates, we're not running this business just to wait for interest rates. We're driving on every single line of the income statement and the balance sheet to blow through the 10% return on tangible equity. That's the objective. And that's what we're doing. It's what we've done in the first quarter. We're delivering on that. And if we get the tailwind from interest rates that the market is suggesting right now, obviously, it becomes easier. If we don't get that, for whatever reason, we could also speculate as to what could lead to that, it will only further stiffen our resolve to take the operational steps we need to take to make this place a structurally cost of capital plus, plus, plus delivering bank.

**Operator**

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

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

Sorry to be asking about revenue again. So thank you for what you said already. Just wanted to check on my understanding is correct because in full year, I think you talked about 5% to 7% underlying and 3% impact, additional for rising rates. So it's actually 8% to 10% CAGR. So when you said it's a little bit better than 7%, is that overall or is that just the underlying part? Because if it's just underlying part, then we're actually getting to something more like an 11%, which seems that if you're taking through the NIM guidance, et cetera, that would actually drop down to where people seem to think it is. So that's #1.

#2 is, sorry, is a boring one. For FVOCI losses, so it's about 30 basis points of CET1 this quarter. Would you say that's the right level of sensitivity. So if we see similar rate movement, is that something that we might expect to repeat next quarter?

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

Yes. Okay. So let me take those 2. So on the first one, in February, what we said was over a 3-year period, we would expect the underlying to be 5% to 7% plus, potentially 3 percentage points to growth because of interest rates. But we importantly said for the 2022 year that the 5% to 7% would be inclusive of interest rate effects. So we did actually describe the 2 slightly differently. What we're saying is that the latter, the 5% to 7%, including interest rate effect is likely to be slightly higher than that, again, including interest rate effects.

On the second, the FVOCI is about 30 basis points hit in the first quarter. I think in the month of April, we've probably moved about another 6 to 7 basis points further than that, but that is the order of magnitude as of today.

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

Okay. Great. Sorry for missing your '22 guidance.

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

No, no that's fine.

**Operator**

Your next question comes from the line of Manus Costello from Autonomous.

**<<Manus Costello - Autonomous Research LLP - Founding Partner, Managing Partner & Global Head of Research>>**

I wanted to just come back to the Africa exits, please. Firstly, is your guidance adjusted for removing the African business this year? Or is it so small an impact that it doesn't really matter that much whether it is included or excluded? Secondly, more fundamentally, I wondered if you could give us an update on the UAE, which I think is still the biggest market in the region, and has been a bit of a headache for a while. So I wondered if you could give us some color on what's going on there, please.

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

On the first part of the question, Manus, first, thanks. Yes, the Africa exits are included in the guidance that we're giving, but you're also right that it's small, both on revenue and operating profit. In any case, we'll be running these things through the course of this year, almost certainly because whether we ultimately divest those or wind some parts of those businesses down, it's going to take some time, and we'll extend through this year.

On the UAE, UAE performance has continued to be good. We've refocused the retail business very substantially and are back into a healthy zone of growth. Credit conditions have remained good. Economic activity has picked up. The resilience through the COVID period was particularly strong. So we feel our business in the UAE, I think you mentioned there's a bit of headache. I think were the terms you used, it's been bumpy for sure, but it feels very good right now.

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

Yes. I mean we've seen mid-teens percentage growth in the income there, year-on-year profitability up quite a lot. So it's actually been a good quarter for the UAE.

**<<Manus Costello - Autonomous Research LLP - Founding Partner, Managing Partner & Global Head of Research>>**

And is it still the biggest market within the region?

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

Yes, it is. It is.

## Operator

Your next question comes from the line of Omar Keenan from Credit Suisse.

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

Congratulations on a good set of numbers. I just had 3 questions, please. So firstly, on Financial Markets. I just wanted to ask your thoughts about the trading environment and whether you see that the volatility that we've seen is something that's likely to be sustained. Clearly, there were a lot of geopolitical events, in particular events in the commodity market that were very volatile. But I think beyond that, an environment of Central Banks hiking, it's been suggested that, that might lead to sustained outperformance in Financial Markets. Could you just help us perhaps distill what was potentially a little bit exceptional and what can be sustained going forward?

Then my second question on capital. I was hoping that you could give a little bit more color on the \$6.5 billion of efficiency measures. It's encouraging to see that, that was there. Do you think there's potential for more efficiency measures beyond this year, kind of over and above the CCIB optimisation that you were talking about. And I just wonder whether it says something about maybe collateral policies or something that were in place? So I just want to get an idea of how much potential there is for further efficiency measures.

And then just lastly, I wanted to ask you a bit more big picture question on central bank rates going up and hear you that NIMs can go back to 2019. But what kind of levels of central bank policy rates do you think higher rates become problematic to things like asset quality if you look at corporate debt positions and so on. So I was just curious to hear your thoughts on what you think the inflection point is when the higher rates become more decreative to RoTE rather than accretive?

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

Thanks very much, Omar. Good set of questions. The first quarter from a Financial Market perspective was exceptional. And that was exceptional both in terms of the volume of client-related flows that we saw and the nature of those flows, the underlying volatility. So I'd love to say that we could repeat that quarter after quarter, that would be a very, very, very good outcome and not one that we could forecast. But the shift in the nature of volatility in these markets, I think is structural. So we're into a rate hiking cycle at a time when the market is also expecting some economic pressures. And does that manifest itself ultimately in a recession? That's one of the huge questions on everybody's mind. At the moment, it feels like that question is in the balance. But those types of situations typically led themselves to a reasonably good trading environment and ones where our clients are very, very focused on scoring their own books.

As we've indicated, we're going to have a deep dive on the Financial Markets business in June. I don't want to give too much of a trailing for what we will be covering there. But I think one of the clear messages that we've been delivering for quite a while is that our Financial Markets business, it's a bit different than some of the others that you look at. It is fundamentally more client anchored than certainly some of the other places that I've come across in my working life. And it's fundamentally more flow driven. And it doesn't mean that those flows themselves aren't volatile. They are, but it's a structurally higher quality business than I think is probably recognised externally. And I think that will hold us in good stead through this period of almost inevitably ongoing volatility, albeit we're not forecasting or suggesting that we can match the first quarter regularly, that would be too much to expect.

And your second question, are there more efficiency opportunities beyond CCIB, and the optimisation program - I'm going to let Andy take that question. Andy and team have done a really good job over the past 5 years in continually optimising the way that we're positioning our RWAs and obviously incorporating models and the like. There's always more of that to come. But I would say the low hanging fruit is always picked first. So from here, it gets a little bit harder, but Andy will have more color on that. And then where do rates become problematic from a credit perspective? Well, in some cases, they already are, obviously, looking at markets like Sri Lanka and where we took a material provision in the first quarter on the back of a foreign currency defaults and a downgrade, it's not exclusively the result of higher interest rates, but it's not helped by the prospect of higher interest rates at all. And certainly, the

higher interest rates had a direct effect on the currency, which then flowed through to a domestic financial crisis, obviously, adding to a political crisis.

Sri Lanka is not the only country that's going through a very difficult patch right now. And while we've seen some really important turnarounds in a few other markets who actually hit difficult spots earlier with or without IMF assistance, they have come through and look to be in pretty good shape right now, in some cases, supported by higher commodity prices. But really, to your direct question, when does this become a problem? Well, it already is a problem in a number of cases. Thankfully, we've got a very high-quality book that we've managed very actively. And we think while we've had an increase in impairments, and we guided to a return to what we think is probably a more normal through the cycle credit cost of 30 to 35 basis points, we're not there yet. We think we are on the way to get there over some period of time and through some route. And that will obviously be accelerated if rates go up much higher than the market is forecasting today.

And Andy on the answer to the optimisation question.

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

Yes. We are continuously looking at areas of efficiency, opportunity. I think this has been a particularly bumper quarter. So I wouldn't go in fact to these numbers going forward. But looking at models, looking at credit insurance, looking at collateral management, we continue to look to do that. I think there will be some further opportunities out there, but just don't pencil these numbers in every quarter that you would not get to the right place.

**Operator**

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

**<<Jason Clive Napier - UBS Investment Bank, Research Division - MD, Head of European Banks Research and Bank Research Analyst>>**

And again, fantastic numbers today and very significant indicated upgrade. I wonder whether I could just ask one question around the mix of the expansion in net interest margin. The quarter-on-quarter dynamics are interesting in the sense that there was quite a substantial improvement in gross asset yield.

And I wondered whether you might talk a little bit to competitive dynamics and assumptions going forward on the lending side of the business. Is the expansion in the market mostly driven by policy rates? Or are there areas in competitive terms that make up a bigger difference to the walk forward on rates? Just noting that returning to 1.6% NIM with much the same loan deposit ratio you had in 2019, I'm just wondering whether there are any shifts in the book or the start of the business that we should be thinking in terms of the way asset yields and funding costs behaved in that process?

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

Yes. I mean we have gone through country-by-country, asset class by asset class, liability class by liability class, trying as best we can to work out what the sensitivities are, both on the income and the cost side of things. And the summation of that, I guess, is the NIM guidance that we have given you today. Obviously, there's a lot of moving parts. And as you say, there's also how the competitors react to things, how much of the forward curve actually manifests itself in being the actual rates at the time. So I just think at a high level, that the direction of travel is what we painted today, there will be many moving parts below the surface. But if you aggregate it at where we think as best we can see it at the moment, things are likely to pan out.

**<<Jason Clive Napier - UBS Investment Bank, Research Division - MD, Head of European Banks Research and Bank Research Analyst>>**

And can I have a follow-up and just ask, I guess, you've been spared a dozen questions on U.K. mortgages, which I'm sure you're quite grateful. But one would expect, I guess, credit spreads and your forward planning to be allowed to narrow somewhat as liability spreads do better. Can you confirm that, that is the way that you think about things, the liability side of the balance sheet does much better credit spreads do narrow for borrowers?



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

Yes. I mean generally, yes, that is right. And yes, I am glad I'm not having to talk about U.K. mortgages as well. But as I say, we've gone through country, country because every country dynamics are a little bit different, but as a generality, yes.

**Operator**

We will now take the last question and the question comes from the line of Robert Noble from Deutsche Bank.

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

Most of the questions have been answered. I just wanted an update on how your new ventures are going and where we can expect some significant revenue contribution from these?

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

Good. Thanks for the question, Robert. The ventures are going well. Mox, the Digital Bank in Hong Kong has crossed a few important milestones, over 300,000 customers, 60% now active users of our credit card. We're the fastest growing credit card in Hong Kong, which is a key part to delivering profitability. Obviously, with the proposition that up until the launch of our credit card product last year and then personal loans later this year, the source of profitability is deposits in the low-rate environment. That wasn't so helpful. That will obviously improve.

So we see a substantial uptick in the profitability of Mox going forward. We're on track to launch our Trust Bank, which is the Singapore bank using the same tech stack obviously adapted as necessary to the Singapore market, together with our partner, NTUC in Singapore in the second half of the year, very excited about that. We'll be leading with a credit proposition there.

So obviously, those are the 2 important ventures that shift from being net drags and consumers of expense and capital into revenue contributors. Obviously, it's going to take some time to fully ramp up in both cases.

SOLV is going extremely well. I'll get the numbers a bit wrong here because they go up so quickly, but over 300,000 SMEs on the platform in India. We launched in Kenya. We've got a very interesting and important partnership that we're working on in another large populated country in the ASEAN region. And I think more and more, we're getting interest from third parties to partner with us in one form or other in those ventures, I think recognising we've created something that's very, very valuable.

The custody business for digital assets is going well. We're continuing to add customers and ramp up revenues. That should be a revenue contributor that's noticeable in the coming quarters. So yes, I mean everything is on track or maybe even slightly better relative to what we talked about back in October of last year. And we'll give, as indicated, we'll give a little bit more, maybe quite a bit more color on that on this whole topic at the half year earnings.

We didn't want to distract too much from this extremely volatile first quarter and with all this happening to give general updates on other things, but please don't take that as any indication of anything other than we're very comfortable with the progress there as well.

So I think that's it for the questions. Thank you very much as always, for spending this time with us and trying to understand and put some very good questions. Look forward to continuing to update as our situation evolves. Thanks again.

**Operator**

Thank you. That concludes the presentation for today. Thank you all for participating. You may now disconnect.