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STANDARD CHARTERED PLC

渣打集團有限公司

(Incorporated as a public limited company in England and Wales with registered number 966425)
(Stock Code: 02888)

Interim Management Statement

Standard Chartered PLC (the Group) today releases its Interim Management Statement for the quarter ended 31 March 2019. All figures are presented on an underlying basis and comparisons are made to the equivalent period in 2018 unless otherwise stated.

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

“The first quarter demonstrated our determination to deliver the refreshed strategic priorities at pace. We announced a number of digital initiatives across Hong Kong, Africa and India aimed at growing our customer base and enhancing our services. Our first quarter profit supports our belief that we will generate full-year returns of at least 10% by 2021. The resolution of our legacy conduct and control issues means we can now manage our capital position more dynamically. We will maintain our strategic investment programme and start to buy back \$1 billion of our shares, reflecting our confidence in our ability to execute the strategy and create long-term shareholder value.”

Strategic execution and outlook

- Regulatory approval received to start buying back shares for up to \$1bn
- Majority shareholder in one of the first three consortiums granted a virtual bank license in Hong Kong
- Resolved legacy conduct and control issues including the termination of all compliance monitorships
- Sentiment in our markets is showing signs of improvement

First quarter financial performance highlights

- Underlying profit before tax of \$1.4bn up 10%; or up 12% on a constant currency basis
- Statutory profit before tax of \$1.2bn up 5%; or up 7% on a constant currency basis
 - Further and final charge of \$186m to resolve all material legacy conduct and control issues
 - Net credit of \$44m in restructuring and other items primarily related to Principal Finance revaluations
- Operating income of \$3.8bn down 2%; or up 2% on a constant currency basis
 - Solid performance in conditions less buoyant than at the start of Q1 2018
 - FM income rose 3% despite a \$77m negative movement in DVA; excluding DVA income was up 14%
 - TB income was 5% higher resulting from a strong performance in Cash Management
 - WM income was 14% lower in a less favourable market environment; significant underlying improvement QoQ
 - Income in the AME region grew 4%, having contracted by 6% in 2018
 - Net interest margin of 1.56% down 1bps QoQ largely as a result of adopting IFRS 16
- Operating expenses down 2% to \$2.4bn; or up 1% on a constant currency basis
 - Positive income-to-cost jaws on both a reported and a constant currency basis
- Asset quality overall has improved YoY and remained stable in the first quarter
 - Credit impairment more than halved to \$78m having benefited from a \$48m release in Private Banking
 - Underlying credit metrics continued to improve and stage 3 assets reduced 1% in the quarter

The sections of this announcement relating to the proposed share buy-back contain inside information and is issued pursuant to Part XIVA of the Securities and Futures Ordinance and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

- RoTE improved 100bps to 9.6%; benefiting from the absence of the UK bank levy that is charged in the fourth quarter

Balance sheet and capital

- Average interest-earning assets were 5% higher
 - Growth in loans and advances to customers and increased trading book assets to support client demand
- Average interest-bearing liabilities were 5% higher
 - Driven by higher customer account balances and client demand for repurchase agreements
- CET1 ratio down 30bps since 31 December 2018 to 13.9% before the impact of the proposed buy-back
 - Profits generated in the period net of dividends were offset by higher RWAs
 - Resolution of legacy conduct and control issues reduced retained earnings by \$186m; equivalent to 7bps of CET1
 - RWAs up \$9.9bn: ~2/3 related to underlying asset growth and ~1/3 market risk seasonality and IFRS 16
 - The \$1bn share buy-back programme is expected to reduce the CET1 ratio in Q2 by ~35bps

Performance summary

	3 months ended 31.03.19 \$million	3 months ended 31.12.18 \$million	3 months ended 31.03.18 \$million	Q1 2019 vs Q4 2018 Better / (Worse) %	Q1 2019 vs Q1 2018 Better / (Worse) %
Net interest income	2,272	2,263	2,187	-	4
Other income	1,541	1,332	1,686	16	(9)
Operating income	3,813	3,595	3,873	6	(2)
Operating expenses excluding UK bank levy	(2,415)	(2,512)	(2,469)	4	2
UK bank levy	-	(324)	-	n.m.	-
Operating expenses	(2,415)	(2,836)	(2,469)	15	2
Operating profit before impairment and taxation	1,398	759	1,404	84	-
Credit impairment	(78)	(332)	(191)	77	59
Other impairment	(2)	(21)	(24)	90	92
Profit from associates and joint ventures	66	26	68	n.m.	(3)
Underlying profit before taxation	1,384	432	1,257	n.m.	10
Provision for regulatory matters	(186)	(900)	-	79	-
Restructuring and other items	44	(392)	(70)	n.m.	n.m.
Statutory profit before taxation	1,242	(860)	1,187	n.m.	5
Taxation	(424)	(376)	(384)	(13)	(10)
Profit/(loss) for the period	818	(1,236)	803	n.m.	2
Net interest margin (%) ¹	1.56	1.57	1.59		
Underlying return on equity (%)	8.5	(1.7)	7.6		
Underlying return on tangible equity (%)	9.6	(1.9)	8.6		
Statutory return on equity (%)	7.1	(12.8)	6.8		
Statutory return on tangible equity (%)	8.1	(14.5)	7.7		
Common Equity Tier 1 (%)	13.9	14.2	13.9		
Weighted average equity	43,981	44,257	44,610		
Weighted average tangible equity	38,898	39,223	39,567		

¹ Statutory net interest income divided by average interest earning assets, annualised

The global macroeconomic outlook remains uncertain but there were encouraging signs of improvement in sentiment towards the end of the first quarter.

Operating income of \$3.8 billion was 2 per cent lower, or up 2 per cent on a constant currency basis. Net interest income was 4 per cent higher offset by 9 per cent lower other income including a \$77 million adverse swing in the debit valuation adjustment (DVA). Transaction Banking income was up 5 per cent following a strong performance in Cash Management. Income from Retail Products was up 1 per cent (4 per cent on a constant currency basis) driven by continued good performance in Deposits. Financial Markets income was 3 per cent higher, or 14 per cent excluding the movement in DVA, with positive contributions from most products. Wealth Management income improved 22 per cent quarter-on-quarter adjusting for the timing of bancassurance bonuses but was down 14 per cent year-on-year reflecting the relatively more buoyant market conditions in the first two months of 2018.

Operating expenses were 2 per cent lower on a reported basis and up 1 per cent on a constant currency basis, resulting in 1 per cent positive constant currency income-to-cost operating leverage. The Group will continue to invest significantly with an increasing proportion into strategic initiatives on digital capabilities.

Credit impairment of \$78 million was less than half the level it was in 2018 driven primarily by the \$48 million release of a Private Banking provision partly offsetting new gross expected credit losses provisions.

Other impairment of \$2 million benefited from the Group's decision to discontinue ship leasing and the subsequent reclassification of profit and loss related to this business as restructuring from 1 January 2019.

Profit from associates and joint ventures was slightly lower reflecting the decision to classify the Group's joint venture in Indonesia as no longer core from 1 January 2019.

As a result, underlying profit before tax was 10 per cent higher, or 12 per cent higher on a constant currency basis. The Group has incurred monetary penalties totalling \$1.1 billion to resolve legacy conduct and control issues that resulted in a further and final charge of \$186 million in addition to the \$900 million provision in 2018. This was partly offset by a net restructuring credit predominantly related to revaluations of Principal Finance exposures. Including these items statutory profit before tax was 5 per cent higher, or 7 per cent higher on a constant currency basis.

Client segment income

	3 months ended 31.03.19	3 months ended 31.12.18	3 months ended 31.03.18	Q1 2019 vs Q4 2018 Better / (Worse) %	Q1 2019 vs Q1 2018 Better / (Worse) %
	\$million	\$million	\$million		
Corporate & Institutional Banking	1,790	1,763	1,742	2	3
Retail Banking	1,265	1,153	1,339	10	(6)
Commercial Banking	371	339	351	9	6
Private Banking	149	118	144	26	3
Central & other items	238	222	297	7	(20)
Total operating income	3,813	3,595	3,873	6	(2)

Corporate & Institutional Banking income was 3 per cent higher due to continued strong performance in Transaction Banking driven by Cash Management and a resilient underlying performance in Financial Markets. This was partly offset by the impact of a \$77 million adverse movement in DVA and the continued impact of compressed asset margins, particularly in Trade Finance and Lending.

Retail Banking income was down 6 per cent driven by lower Wealth Management income relative to a buoyant 2018 comparator period and the foreign exchange translation impact of a stronger US dollar in what is predominantly a local currency business. On a constant currency basis income was 2 per cent lower.

Commercial Banking income grew 6 per cent, or 10 per cent on a constant currency basis, with broad-based improvements across multiple markets resulting from positive momentum in Cash Management, Financial Markets and Lending.

Private Banking grew income 3 per cent, and attracted over \$1.0 billion of net new money in the first quarter.

Included within Central & other items is income from Treasury and Others as detailed in the product table on page 6. Income declined 20 per cent or \$59 million primarily due to the impact of foreign exchange translation on subsidiary dividends, a gain in India in 2018 that was not repeated and higher interest expense arising from the adoption of IFRS 16. This was partly offset by an increase arising from changes in hedge ineffectiveness.

Geographic region income

	3 months ended 31.03.19	3 months ended 31.12.18	3 months ended 31.03.18	Q1 2019 vs Q4 2018 Better / (Worse) %	Q1 2019 vs Q1 2018 Better / (Worse) %
	\$million	\$million	\$million		
Greater China & North Asia	1,527	1,510	1,564	1	(2)
ASEAN & South Asia	1,046	940	1,075	11	(3)
Africa & Middle East	708	624	684	13	4
Europe & Americas	359	409	441	(12)	(19)
Central & other items	173	112	109	54	59
Total operating income	3,813	3,595	3,873	6	(2)

Income from Greater China & North Asia declined 2 per cent with all markets in the region impacted by less buoyant conditions in Wealth Management. Lower income in Korea offset continued growth in China while income in Hong Kong was broadly flat.

ASEAN & South Asia income was down 3 per cent impacted by lower income in Wealth Management and Financial Markets particularly in Singapore and Malaysia reflecting the more buoyant market conditions in early 2018. Income in both India and Indonesia was broadly flat.

Africa & Middle East income was up 4 per cent, or 10 per cent on a constant currency basis, with stronger performances in Financial Markets and Corporate Finance offsetting lower income from Wealth Management and Retail Products. Higher contributions from Nigeria and Pakistan more than offset lower income in UAE.

The 19 per cent decrease in income from Europe & Americas reflects the impact of a \$49 million movement in DVA in Financial Markets. Excluding the impact of DVA income in the region was down 8 per cent reflecting lower income from Treasury Markets.

Income from Central & other items increased 59 per cent due primarily to a gain on hedge ineffectiveness versus a loss in the same period in 2018, partly offset by higher interest expense arising from the adoption of IFRS 16.

Net interest margin

	3 months ended 31.03.19	12 months ended 31.12.18	9 months ended 30.09.18	6 months ended 30.06.18	3 months ended 31.03.18
	\$million	\$million	\$million	\$million	\$million
Statutory net interest income	2,256	8,793	6,549	4,361	2,173
Average interest-earning assets	585,408	558,135	554,744	554,214	555,461
Average interest-bearing liabilities	509,823	484,068	484,157	486,569	487,405
Gross yield (%)	3.36	3.09	3.03	2.99	2.90
Rate paid (%)	2.07	1.75	1.66	1.60	1.50
Net yield (%)	1.29	1.34	1.37	1.39	1.40
Net interest margin (%) ¹	1.56	1.58	1.58	1.59	1.59

¹ Statutory net interest income for the year-to-date divided by average interest earning assets for the year-to-date, annualised

Average interest-earning assets were 5 per cent higher driven by higher loans and advances to customers and increased trading book assets to support client demand for emerging market bonds and reverse repurchase agreements. Gross yields increased 27 basis points compared to the average through all of 2018 and predominantly reflected the rises in global interest rates that occurred through last year.

Average interest-bearing liabilities were 5 per cent higher driven by growth in customer accounts and client demand for repurchase agreements. The rate paid on liabilities increased 32 basis points reflecting the same historic rises in interest rates.

Compared to the fourth quarter of 2018 net interest income was stable and the net interest margin was 1 basis point lower largely as a result of the impact of adopting IFRS 16 on 1 January 2019. Comparative periods have not been restated.

Credit quality

	31.03.19 ¹	31.12.18		
	Total \$million	Ongoing balances \$million	Liquidation portfolio \$million	Total \$million
Gross loans and advances to customers	269,918	260,094	1,361	261,455
Of which stage 1 and 2	263,082	254,445	86	254,531
Of which stage 3	6,836	5,649	1,275	6,924
Expected credit loss provisions	(4,813)	(3,932)	(966)	(4,898)
Of which stage 1 and 2	(804)	(838)	(4)	(842)
Of which stage 3	(4,009)	(3,094)	(962)	(4,056)
Net loans and advances to customers ²	265,105	256,162	395	256,557
Of which stage 1 and 2	262,278	253,607	82	253,689
Of which stage 3	2,827	2,555	313	2,868
Cover ratio stage 3 before collateral (%)	59	55	75	59
Cover ratio stage 3 after collateral (%)	82	78	93	81
Credit grade 12 accounts (\$million)	1,376	1,437	86	1,523
Early alerts (\$million)	4,258	4,767	-	4,767
Investment grade corporate exposures (%)	62	62	-	62

¹ The remaining portfolio of loans and advances to customers previously separately identified in the liquidation portfolio are included in the ongoing business from 1.1.19

² Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$5,122 million at 31.03.19 and \$3,151 million at 31.12.18

The Group has stopped reporting the liquidation portfolio separately and has transferred the remaining outstanding balances into the ongoing business from 1 January 2019.

Credit quality for the Group overall has improved across all metrics on a like-for-like basis and coupled with net recoveries against stage 3 exposures resulted in credit impairment that was less than half the level seen in the same period in 2018, largely because of a provision release of \$48 million related to a Private Banking exposure.

Gross credit-impaired (stage 3) loans have reduced by 1 per cent since 31 December 2018 and early alert accounts were 11 per cent lower. The cover ratios both before and after collateral remained stable.

The Group remains watchful in view of continued geopolitical uncertainty but no new areas of stress have emerged.

Balance sheet, capital and leverage

	31.03.19 \$million	31.12.18 \$million	30.09.18 \$million	30.06.18 \$million	31.03.18 \$million
Balance sheet					
Assets					
Loans and advances to banks ¹	59,873	61,414	60,789	64,153	69,210
Loans and advances to customers ¹	265,105	256,557	254,798	259,331	259,633
Other assets	383,896	370,791	369,018	371,390	357,602
Total assets	708,874	688,762	684,605	694,874	686,445
Liabilities					
Deposits by banks	32,434	29,715	31,337	30,816	36,491
Customer accounts	377,974	391,013	371,493	382,107	373,094
Other liabilities	247,365	217,682	230,132	230,463	225,002
Total liabilities	657,773	638,410	632,962	643,386	634,587
Equity	51,101	50,352	51,643	51,488	51,858
Total equity and liabilities	708,874	688,762	684,605	694,874	686,445
Advance-to-deposits ratio (%)²	69%	65%	67%	67%	68%
Capital					
Common equity tier 1 ratio (%)	13.9	14.2	14.5	14.2	13.9
Risk-weighted assets	268,206	258,297	265,245	271,867	280,205
Leverage					
UK leverage ratio (%)	5.4	5.6	5.8	5.8	5.9

¹ Includes reverse repurchase agreements and other similar secured lending balances held at amortised cost for banks of \$4,204 million (31 December 2018: \$3,815 million) and customers of \$5,122 million (31 December 2018: \$3,151 million)

² Loans and advances to customers exclude reverse repurchase and other similar secured lending held at amortised cost of \$5,122 million (31 December 2018: \$3,151 million) and include balances held at fair value through profit or loss of \$5,768 million (31 December 2018: \$4,928 million). Customer accounts include balances held at fair value through profit or loss of \$6,523 million (31 December 2018: \$6,751 million)

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

Loans and advances to customers increased 3 per cent since 31 December 2018 to \$265 billion reflecting growth in Financial Markets, particularly within rates and credit, and Corporate Finance.

Customer accounts of \$378 billion were 3 per cent lower than at 31 December 2018 primarily driven by seasonal outflows of client operating account balances in Corporate & Institutional Banking. As a result, the Group's advances-to-deposits ratio increased to 69 per cent from 65 per cent.

Other assets and other liabilities since 31 December 2018 were \$13 billion higher and \$30 billion higher respectively driven by increases in reverse repurchase and repurchase agreements.

The Group's CET1 ratio of 13.9 per cent before the impact of the proposed buy-back was 30 basis points lower than at 31 December 2018 due to profits generated in the quarter net of dividends offset by \$9.9 billion higher risk-weighted assets (RWAs). The further and final charge of \$186 million to resolve legacy conduct and control issues reduced the CET1 ratio by 7 basis points. The increase in RWAs related to \$6.5 billion higher credit risk RWAs associated with growth in assets, a \$2.4 billion increase primarily related to seasonality of market risk RWAs and a \$1.4 billion impact of adopting IFRS 16. These increases were offset partly by a \$0.5 billion reduction in operational risk RWAs following changes in the mix and quantum of income over a three-year period.

The legacy conduct and control matters were among the main regulatory uncertainties facing the Group. The Board has decided to carry out a share buy-back for up to a maximum consideration of \$1 billion to reduce the number of ordinary shares in issue by cancelling the repurchased shares. The terms of the buy-back will be announced and the programme will start imminently and is expected to reduce the CET1 ratio in the second quarter by approximately 35 basis points.

Summary and outlook

Our financial performance in the first quarter gives us confidence that we are on the right path to achieve our financial targets. We are determined to deliver the strategic objectives that we announced recently and are encouraged by the progress we have seen already.

By Order of the Board
Elizabeth Lloyd, CBE
Group Company Secretary

Hong Kong, 30 April 2019

As at the date of this announcement, the Board of Directors of Standard Chartered PLC comprises:

Chairman:

José María Viñals Iñiguez

Executive Directors:

William Thomas Winters and Andrew Nigel Halford

Independent Non-Executive Directors:

Dr Louis Chi-Yan Cheung; David Philbrick Conner; Dr Byron Elmer Grote; Christine Mary Hodgson (Senior Independent Director); Gay Huey Evans, OBE; Naguib Kheraj (Deputy Chairman); Dr Ngozi Okonjo-Iweala; Carlson Tong and Jasmine Mary Whitbread

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ADDITIONAL INFORMATION – Quarterly underlying operating income

By client segment	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Corporate & Institutional Banking	1,790	1,763	1,646	1,709	1,742	1,649	1,629
Retail Banking	1,265	1,153	1,268	1,281	1,339	1,186	1,252
Commercial Banking	371	339	346	355	351	335	338
Private Banking	149	118	127	127	144	130	128
Central & other items	238	222	337	304	297	178	242
Total operating income	3,813	3,595	3,724	3,776	3,873	3,478	3,589

By geographic region	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China & North Asia	1,527	1,510	1,550	1,533	1,564	1,411	1,414
ASEAN & South Asia	1,046	940	958	998	1,075	932	937
Africa & Middle East	708	624	604	692	684	677	700
Europe & Americas	359	409	391	429	441	414	378
Central & other items	173	112	221	124	109	44	160
Total operating income	3,813	3,595	3,724	3,776	3,873	3,478	3,589

By product	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Transaction Banking	962	942	936	924	916	876	856
Trade	277	257	277	285	304	298	306
Cash Management	602	604	577	553	528	506	476
Securities Services	83	81	82	86	84	72	74
Financial Markets	749	580	631	677	724	536	663
Foreign Exchange	299	232	239	280	250	208	238
Rates ¹	221	63	194	121	177	74	172
Commodities	45	50	38	53	51	35	42
Credit and Capital Markets ¹	140	83	48	87	106	85	90
Capital Structuring Distribution Group	82	91	71	92	55	51	72
Other Financial Markets	(38)	61	41	44	85	83	49
Corporate Finance	321	434	324	334	331	466	325
Lending and Portfolio Management	129	117	123	141	137	111	128
Wealth Management	464	343	465	452	539	397	488
Retail Products	948	925	929	953	943	916	891
CCPL and other unsecured lending	305	294	320	345	351	334	349
Deposits	492	481	476	431	394	366	344
Mortgage and Auto	128	127	114	156	176	196	179
Other Retail Products	23	23	19	21	22	20	19
Treasury	308	253	342	338	290	200	255
Others ²	(68)	1	(26)	(43)	(7)	(24)	(17)
Total operating income	3,813	3,595	3,724	3,776	3,873	3,478	3,589

¹ Following a reorganisation of certain product teams, \$46 million of income was transferred from Credit and Capital Markets to Rates in Q3 2018. Prior periods were not 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 three months ended 31 March 2019. 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 2018, except for IFRS 16 as described below.

The information in this announcement does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018, which contained an unqualified audit report under Section 495 of the Companies Act 2006 (which did not make any statements under Section 498 of the Companies Act 2006) have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

IFRS 16

IFRS 16 *Leases* became effective on 1 January 2019 and introduced a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The impact on the Group of adopting IFRS 16 is primarily where the Group is a lessee in property lease contracts. The Group has elected to adopt the simplified approach of transition and has not restated comparative information. On 1 January 2019 the Group recognised a lease liability, being the remaining lease payments including extensions options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of recognition of the lease liability and right-of-use asset as of 1 January 2019 was approximately \$1.4 billion, with no adjustment to retained earnings. The asset is presented in 'Property, plant and equipment' and the liability is presented in 'Other liabilities'.

In the first quarter of 2019, following the adoption of IFRS 16 *Leases*, premises costs decreased by \$84 million and depreciation increased by \$70 million (both included in operating expenses excluding the UK bank levy) and interest expense increased by \$16 million (included in net interest income).

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 31.03.19		3 months ended 31.12.18		3 months ended 31.03.18	
	Provision for regulatory matters	Restructuring and other items	Provision for regulatory matters	Restructuring and other items	Provision for regulatory matters	Restructuring and other items
	\$million	\$million	\$million	\$million	\$million	\$million
Operating income	-	105	-	(184)	-	(73)
Operating expenses	(186)	(55)	(900)	(160)	-	(27)
Credit impairment	-	-	-	(13)	-	29
Other impairment	-	(18)	-	(35)	-	1
Profit from joint ventures	-	12	-	-	-	-
Loss)/profit before taxation	(186)	44	(900)	(392)	-	(70)

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 148 to 149 of the 2018 Annual Report and a credit quality mapping table is provided on page 146.

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.

Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

This information will be available on the Group's website at www.sc.com.