

## Leading the way

in Asia, Africa and the Middle East



# Standard Chartered PLC – Financial highlights

For the six months ended 30 June 2012

## Reported results

### Profit before taxation

**\$3,948m**

H1 2011: \$3,636m / H2 2011: \$3,139m

### Profit attributable to ordinary shareholders<sup>1</sup>

**\$2,806m**

H1 2011: \$2,516m / H2 2011: \$2,232m

### Operating income

**\$9,511m**

H1 2011: \$8,764m / H2 2011: \$8,873m

### Loans and advances to customers

**\$279bn**

H1 2011: \$268bn / H2 2011: \$269bn

### Customer deposits

**\$360bn**

H1 2011: \$343bn / H2 2011: \$352bn

## Performance metrics<sup>2</sup>

### Normalised earnings per share

**116.6 cents**

H1 2011: 105.2 cents / H2 2011: 92.8 cents

### Interim dividend per share

**27.23 cents**

H1 2011: 24.75 cents / H2 2011: 51.25 cents

### Normalised return on ordinary shareholders' equity

**13.8%**

H1 2011: 13.0% / H2 2011: 11.3%

## Capital and liquidity metrics

### Tangible net asset value per share

**1,413.7 cents**

H1 2011: 1,354.6 cents / H2 2011: 1,355.6 cents

### Total capital ratio

**16.9%**

H1 2011: 17.9% / H2 2011: 17.6%

### Core Tier 1 capital ratio

**11.6%**

H1 2011: 11.9% / H2 2011: 11.8%

### Advances-to-deposits ratio

**77.6%**

H1 2011: 78.1% / H2 2011: 76.4%

## Significant highlights

- Record first half profit for the tenth successive year with consistent strategy delivering consistent performance
- Strong broad-based and diverse performance spread across products and geographies
- A highly liquid and a well diversified balance sheet with continued momentum and limited exposure to problem asset classes
- The Group continues to be well capitalised to meet evolving regulatory requirements whilst leveraging the growth opportunities in our markets
- Overall strength of the franchise and balance sheet acknowledged by virtue of being the only major international bank to be upgraded by all three ratings agencies since the onset of the financial crisis

<sup>1</sup> Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 71).

<sup>2</sup> Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items set out in note 11 on page 71.

Unless another currency is specified, the word 'dollar', symbol '\$' or reference to USD in this document means United States (US) dollar and the word 'cent' or symbol 'c' means one-hundredth of one US dollar.

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'; The Republic of Korea is referred to as Korea or South Korea; Middle East and Other South Asia (MESA) includes: Pakistan, United Arab Emirates (UAE), Bahrain, Qatar, Jordan, Sri Lanka and Bangladesh; and 'Other Asia Pacific' includes: China, Malaysia, Indonesia, Mauritius, Brunei, Thailand, Taiwan, Vietnam and the Philippines.

# Standard Chartered PLC

For the six months ended 30 June 2012

## Summary of results

	6 months ended 30.06.12 \$million	6 months ended 30.06.11 \$million	6 months ended 31.12.11 \$million
<b>Results</b>			
Operating income	9,511	8,764	8,873
Impairment losses on loans and advances and other credit risk provisions	(583)	(412)	(496)
Other impairment	(74)	(72)	(39)
Profit before taxation	3,948	3,636	3,139
Profit attributable to parent company shareholders	2,856	2,566	2,283
Profit attributable to ordinary shareholders <sup>1</sup>	2,806	2,516	2,232
<b>Balance sheet</b>			
Total assets	624,431	567,706	599,070
Total equity	42,934	41,561	41,375
Total capital base	48,311	47,034	47,507
<b>Information per ordinary share</b>			
	Cents	Cents	Cents
Earnings per share – normalised <sup>2</sup>	116.6	105.2	92.8
– basic	117.6	107.0	93.9
Dividend per share <sup>3</sup>	27.23	24.75	51.25
Net asset value per share	1,709.7	1,667.2	1,653.2
Tangible net asset value per share	1,413.7	1,354.6	1,355.6
<b>Ratios</b>			
Return on ordinary shareholders' equity – normalised basis <sup>2</sup>	13.8%	13.0%	11.3%
Cost to income ratio – normalised basis <sup>2</sup>	52.3%	54.0%	59.0%
<b>Capital ratios</b>			
Core Tier 1 capital	11.6%	11.9%	11.8%
Tier 1 capital	13.4%	13.9%	13.7%
Total capital	16.9%	17.9%	17.6%

## Contents

<b>1</b>	<b>Summary of results</b>				
<b>2</b>	<b>Chairman's statement</b>	<b>56</b>	<b>Financial statements</b>	<b>61</b>	<b>Notes</b>
<b>3</b>	<b>Group Chief Executive's review</b>		Condensed consolidated	<b>96</b>	<b>Statement of directors' responsibilities</b>
<b>7</b>	<b>Financial review</b>	<b>57</b>	interim income statement	<b>97</b>	<b>Independent review report</b>
7	Group summary		Condensed consolidated	<b>98</b>	<b>Additional information</b>
9	Consumer Banking		interim statement of	<b>116</b>	<b>Glossary</b>
12	Wholesale Banking	<b>58</b>	comprehensive income	<b>121</b>	<b>Financial calendar</b>
16	Balance sheet		Condensed consolidated	<b>122</b>	<b>Index</b>
18	Risk review	<b>59</b>	interim balance sheet		
52	Capital		Condensed consolidated		
		<b>60</b>	interim statement of		
			changes in equity		
			Condensed consolidated		
			interim cash flow statement		

<sup>1</sup> Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 71).

<sup>2</sup> Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items presented in note 11 on page 71.

<sup>3</sup> Represents the interim dividend per share declared for the six months ended 30 June 2012 and 30 June 2011 and the recommended final dividend per share for the six months ended 31 December 2011 (subsequently declared at the Annual General Meeting on 9 May 2012 and recognised in these financial statements).



### Profit before taxation

+9%

\$3.95 billion

### Interim dividend

27.23 cents

+10%

“Standard Chartered has performed strongly during the first six months of 2012. Set against a macroeconomic environment that is increasingly challenged, we have continued to deliver consistent good returns to our shareholders.”

Standard Chartered has performed strongly during the first six months of 2012:

- Profit before taxation was up 9 per cent to \$3.95 billion.
- Income increased 9 per cent to \$9.51 billion.
- Normalised earnings per share were up 11 per cent to 116.6 cents.

The Board has declared an interim dividend of 27.23 cents per share, up 10 per cent.

This is another excellent set of results, our tenth consecutive first half of record profits. Set against a macroeconomic environment that is increasingly challenged, we have continued to deliver consistent good returns to our shareholders.

Once again, it seems that the world is becoming more uncertain by the day. Nonetheless, our focus will remain, as always, resolutely on the interests of our shareholders. I would like to reiterate that we have a firm grip on the business, with the ability to turn adversity to our advantage. We will keep investing as we see long-term opportunities for growth.

In recent weeks, issues have surfaced around governance and behaviour in banking. At Standard Chartered, we believe it is not just about what we do, but how we do it. Our culture and values continue to be a source of strength and a competitive advantage. Strong corporate governance and an obsession with the basics of banking remain key areas of focus for our Board.

With all the noise going on around us, we are determined not to become distracted, but to maintain our focus on doing good business. We continue to support our customers and clients, deepening our long-term relationships with them. I would like to thank our customers and clients for their trust and commitment to banking with Standard Chartered.

We have the right strategy, and we are sticking to it. We are alive to opportunities for further growth, but alert to the risks. We are investing for the future, but keeping a tight rein on the fundamentals. That is why we remain confident in our ability to grow our business and deliver sustained value. We thank our shareholders for their continued support.

With normalised return on equity (ROE) at 13.8 per cent, we remain on target to reach our key financial objective of mid-teens ROE over the medium term.

Our strong performance in the first half is testament to the resilience of our business model and the quality of our people. Once again, I would like to thank the Board, the management team and the Bank's employees for their dedication and hard work. Standard Chartered has had a strong start to 2012, and the positive momentum has continued into the second half.

**Sir John Peace**

Chairman

1 August 2012





“Our record is testament to the resilience of the Bank’s business model, and underscores the sheer diversity of our income. We will continue to invest for growth and to be obsessed with the basics of banking – balancing the pursuit of growth with disciplined management of costs and risks, and keeping a firm grip on liquidity and capital.”

These results represent a very positive start to the year. Amidst all the turbulence in the global economy and the apparently never-ending turmoil in the world of banking, we remain consistent in delivering strong performance.

It may seem boring in contrast to what is going on elsewhere, but we see some virtue in being boring. We have stuck to our strategy – focusing on our markets in Asia, Africa and the Middle East, supporting our customers and clients, maintaining a tight grip on the business. We have held true to our values, to the spirit of our brand promise, Here for good – taking a long-term view, always trying to do the right thing.

Our record of consistent delivery is testament to the resilience of the Bank’s business model, and underscores the sheer diversity of our income engines. These results are not a bounce-back, nor flattered by big one-off items. They are just our tenth consecutive first half of record profits.

Such consistency is all the more important – and all the more remarkable – given the scale and unpredictability of the external events and trends affecting us.

### Macro environment

The avalanche of regulation shows no sign of abating and, given the seemingly endless flow of bad news about the industry, the calls for yet more regulation have predictably intensified.

Meanwhile, and more fundamentally, the global economy continues to weaken. The eurozone faces profound challenges, a political and economic morass that has defied every attempt at resolution. We don’t see the eurozone’s problems being solved any time soon, and every failed plan makes it more difficult to win market credibility for the next.

In the US, ultra-low interest rates and continued fiscal largesse have undoubtedly been a tonic. But neither is sustainable. Concern is already rising about the prospect of a post-election ‘fiscal cliff’.

Indeed, across the West, central banks, including the Bank of England, have had to deploy an unprecedented array of tools and initiatives in an attempt to offset the effects of fiscal austerity and bank deleveraging. But quantitative easing and similar measures appear to have less effect with every hit. Think how quickly the Long Term Refinancing Operation (LTRO) wore off.

For too many years, the West boosted growth and at least the illusion of prosperity through ever more private debt and ever more public spending, and thus public debt. We are now in the painful process of weaning ourselves from that addiction, but the risk is we become overly dependent on what central banks can do. Some action is undoubtedly desirable, but we are already in uncharted territory, so must be extremely thoughtful.

As we have often said before, Asia is not immune to the woes of Europe and the fragility of economic recovery in the US. The West is some two-thirds of the global economy and if it slows no one is unscathed. Yet, although Asia is slowing, we remain reasonably confident about the outlook. The underlying structural drivers of growth remain robust – urbanisation, demographics, industrialisation and the growth of intra-regional trade and investment. We see no dimming of Asia’s longer-term growth prospects.

While some degree of near-term slowdown appears inevitable, policy makers in many of our markets have far more room for manoeuvre than their counterparts in the West. Of course, there is scope for policy errors, and every market has its own specific issues, but at this stage we are not expecting a sharp departure from the growth trajectory, rather some bumps in the road.

We are not complacent, but with demand for financial services growing at around twice GDP growth at this level of per capita income, and with ample room to win market share, we still see exciting prospects for growth across our markets.

## Standard Chartered PLC – Group Chief Executive's review continued

### Strategy

It should therefore be no surprise that we are not changing our strategy. We will continue to focus on Asia, Africa and the Middle East. We will continue to invest for growth, and we will continue to be obsessed with the basics of banking – balancing the pursuit of growth with disciplined management of costs and risks, and keeping a firm grip on liquidity and capital.

The strength of our balance sheet remains a source of competitive advantage. We are well capitalised, already exceeding Basel III requirements, and highly liquid, both in local currency and in US dollars. We are a leader in the internationalisation of the renminbi (RMB).

### Investment for growth

Whilst we delivered income growth higher than cost growth (positive jaws) by over two per cent in the first half of 2012 and are maintaining our guidance for flat to positive jaws for the year as a whole, we are continuing to invest at pace in both businesses.

Indeed, given the opportunities we see arising from the turbulence and the disarray of our competitors, we are stepping up the pace of investment. Most of this is to fuel organic growth. Whilst we do look out for acquisitions to build scale, get market access, or gain critical capabilities, the primary driver of growth is organic investment in our businesses.

For example, we continue to invest in building out our distribution networks in key markets. We opened our 90th branch in Dalian, China, last week, and expect to reach 100 branches in China by the time we announce the full year results early next year.

In India, we now have 94 branches – considerably more than any other international bank – and also expect to hit the 100 mark there by the same time. At that point we will be present in 43 cities across India.

In Africa, where we currently have 183 branches in 14 markets, we are also significantly stepping up the pace of network expansion, and anticipate that we will have some 250 branches within the next couple of years.

### Technology channels

Expanding our distribution is not just about branches. We have been increasing our investment in mobile and internet channels. For example, Breeze, our suite of award-winning retail banking apps, is now available in seven markets. In fact, in Consumer Banking we now offer mobile banking in 33 markets and internet banking in 29, and are rolling out new products and services at pace.

However, technology-driven innovation isn't just about electronic channels. We are also investing in standardised platforms across our markets and in both businesses. This is crucial to achieving continuous improvements in productivity, high levels of system stability, better risk management and rapid roll-out of innovation.

### Customer service and productivity

The benefits for customers and clients are very tangible. In Consumer Banking customer complaints have halved from 2009. We have also seen significant improvements in our

Net Promoter Score – a measure of those customers who would positively recommend us.

The benefits for productivity are equally impressive. Through automation, hubbing and process re-engineering, we are driving continuous improvement in cost efficiency. For example, in Trade the number of transactions processed per employee has increased by 35 per cent since 2008, while over 95 per cent of our payments are now initiated electronically.

### Trade

By making ourselves more productive, we maximise headroom to keep investing in innovation. For example, in Trade we have rolled out a standardised, state-of-the-art platform we call Trade Port, maximising straight through processing rates and providing better risk management through centralised control of trade limits and utilisations.

In May we executed the world's first end-to-end automated trade finance transaction using SWIFT's Bank Payment Obligation, through our Straight2Bank platform. This electronically matches documentation between banks on either end of the trade flow, enabling faster payment for goods and quicker shipping. This kind of innovation is critical since trade finance is at the core of Standard Chartered. From the outset of the financial crisis, our Trade income has more than doubled, from \$470 million in the first half of 2008 to \$958 million at the end of June, a compound annual growth rate (CAGR) of 19 per cent.

International commercial banking – trade, cash, lending and foreign exchange (FX) – is at the heart of our Wholesale Banking franchise. Our strengths in facilitating cross-border trade and investment links explain our continued success in our Americas, UK & Europe region.

### Americas, UK & Europe

It might seem odd that we have delivered rapid income growth in the West, both this first half, up 26 per cent, and by a CAGR of 28 per cent over the last five years. This is not about us drifting into doing domestic business in such markets; it is purely about winning market share in facilitating trade and investment between Europe and the Americas and our core markets. We are helping German companies sell cars in China; Indian companies make acquisitions in the UK; and US or French companies raise capital from Asian investors.

A good example is BP's RMB bond in September 2011, a first for BP and the first ever RMB bond listed in London. We acted as joint lead manager and bookrunner, and also assisted BP in remitting the proceeds onshore to mainland China.

We manage Wholesale Banking as a network, not as a collection of individual geographies, identifying key trade and investment corridors and deploying resources to capture the opportunities. For example, we are uniquely placed to facilitate the explosive growth in trade and investment between China and Africa.

### China-Africa trade and investment

No other bank has both a large network and deep relationships in China and a large network and deep relationships across Sub-Saharan Africa.

## Standard Chartered PLC – Group Chief Executive's review continued

Over the last decade, China's trade with Kenya has grown 30 times, with Nigeria 18 times and with Ghana 19 times. In fact, trade between China and Sub-Saharan Africa has risen twentyfold over that period, from just under \$6 billion, to nearly \$110 billion.

In July, we brought the senior leadership of our African businesses to Beijing to meet senior leaders, media and clients. In fact, of the 300 business leaders from Africa attending the recent forum on China-Africa co-operation, hosted by Premier Wen Jiabao, 20 were from Standard Chartered, the single largest group by some margin. This is a good example of how we are building our business in China.

### China strategy

We are sticking to what we know and where we can add value. In Wholesale Banking we are focusing on assisting the state-owned enterprises as they reach out overseas, such as to Africa, and on supporting multi-national corporates as they exploit the opportunities of China's growth.

Above all, we are focusing on working with China's new and rapidly-growing private sector companies, since these are often under-served by the local banks and represent the future of China's economy. We have no exposure to local government investment vehicles, don't try to compete for vanilla local currency business for the big state-owned enterprises, and our commercial real estate exposure is minimal.

Likewise in Consumer Banking we focus on SMEs and more affluent individuals – what we call the high-value segments. We are not yet making profits in Consumer Banking in China as we invest in building out the business at pace, but the number of active customers in the high value segments grew 31 per cent in the first half of 2012.

We are also generating business from the trade and investment links across Greater China, making use of our presence across the mainland, Hong Kong and Taiwan. Whilst Wholesale Banking income in China grew by 25 per cent in the first half of 2012, China's offshore income booked elsewhere – much of it in the rest of Greater China – grew by 56 per cent.

### Risk management

As the business develops, so does the way we manage risk. We are continually investing to enhance our risk management infrastructure and capabilities, but our fundamental approach to risk has stayed consistent over many years. We remain cautious and on the lookout for signs of trouble. We haven't changed our risk appetite, and don't plan to.

We are extremely watchful about the current environment, about the way our markets and clients are responding to global macroeconomic developments and about the potential second- or third-order consequences of possible stress events like further strains in the eurozone.

We have seen some increase in loan impairments in both businesses, but from very low levels, and we remain very comfortable with the shape and quality of our loan book.

In fact, it is at times like these when the relationship between a bank and its clients really gets tested. We know our clients very well. Many of our relationships go back decades or generations. We stand by our clients through good times and bad. That is what we did in the Asia crisis in the late 1990s, through the SARS epidemic in 2002 and throughout the global financial crisis in 2008-2009. It is what we are doing now.

This doesn't mean we are passive or simply agree to everything. On the contrary, we engage intensively with our clients as partners, actively helping them navigate the challenges they face, and grab the opportunities they see. In our view, that is what banks should do, and what they are for.

### Challenges

The Bank is in good shape and our businesses have good momentum. But we are not at all complacent about the external challenges. The global economy is fragile, with the risks to the downside. Politics and regulatory change continue to pose huge challenges, eroding our economics and creating obstacles to growth.

We are certainly not immune to such factors. For example, the economic and political paralysis in India has slowed the business and the decline in the rupee has resulted in a considerable FX drag. But our enthusiasm for India, and our commitment to investing in the market remains undiminished, given the strength of the longer-term growth story.

In India as elsewhere, we need to strike the right balance between tactically responding to immediate developments and keeping a view on the longer-term prize. This is a critical challenge for the management team, something we are continuously focused on and dynamically fine tuning.

### Culture and values

Taking a longer-term view of our business is one of the underlying tenets of our strategy and culture. We build longstanding relationships, we don't grab transactions. We build sustainably profitable franchises, we don't have proprietary trading desks. We build businesses that deliver a wider social and economic benefit. We are selective and turn things down that we don't understand, or don't like the look of.

Our culture and values have never been more important. As a source of competitive advantage, as the ultimate protection against risk, our culture and values are our first and last line of defence.

Doing the right thing. Supporting our customers and clients through good times and bad. Being Here for good. These may sound like glib phrases, but they underpin why Standard Chartered stands out, underscore why we are on track for ten years of record profits. For me as CEO, our culture and values are a top priority, something we can never take for granted – something we embed in our systems of measurement and reward.

### Outlook

As we consider the outlook for the full year it is important to bear in mind the growing turbulence and uncertainty in the global economy, particularly in the eurozone, the material and increasing drag from an ever more complex set of regulatory requirements, and the continued strength of the US dollar against Asian currencies.

Though the world is increasingly difficult to forecast, for the Group as a whole we currently remain on course to deliver on our full year financial objectives – double-digit revenue growth, flat to positive jaws and double-digit earnings per share growth. We have made good progress towards our medium-term target of mid-teens return on equity (ROE), with a pre-levy ROE at 13.8 per cent in this first half.

We have a firm grip on the levers of risk, costs and investment and we remain open for business. Indeed, we are proactively reaching out to support our customers and clients even more, growing our business as they grow theirs. As a result, we enter the second half with confidence. We have had a strong July, but we are watchful of the significant and growing challenges in the external world, and we are managing risk tightly.

We continue to focus on the basics of banking. We continue to invest in order to underpin future income momentum. And we continue to take market share in multiple markets and across multiple products.

That we have been able to deliver our tenth consecutive first half of record profits is a huge credit to our staff. I would like to thank them for their unwavering professionalism and commitment.



**Peter Sands**

Group Chief Executive

1 August 2012



## Standard Chartered PLC – Financial review

### Group summary

The Group has delivered another good performance for the six months ended 30 June 2012 (H1 2012). Operating income increased by \$747 million, or 9 per cent, to \$9,511 million and operating profit rose 9 per cent to \$3,948 million. The Group continues to leverage its geographic diversity, with income growth spread across a broad range of products and geographies. On a constant currency basis, operating income increased by 11 per cent and operating profit increased by 12 per cent, the difference reflecting the continued strength of the US dollar against currencies across our footprint, in particular the Indian rupee.

The normalised cost to income ratio improved to 52.3 per cent compared to 54.0 per cent in the six months to 30 June 2011 (H1 2011). In the current period we have delivered cost growth below the level of income growth as we continue to manage expenses tightly, creating capacity to invest in both businesses. Normalised earnings per share grew 11 per cent to 116.6 cents and we continued to improve returns to shareholders, with normalised return on shareholders' equity increasing to 13.8 per cent. Further details of basic and diluted earnings per share are provided in note 11 on page 71.

In accordance with current accounting requirements, the cost of the UK bank levy is charged in the second half of the year. The jaws (rate of income growth less rate of expense growth) would have been positive even after including the impact of the bank levy for the first six months. Note 5 on page 68 provides further details of the UK bank levy together with the impact, on a pro-forma basis, if the levy had been recognised in these financial statements.

The quality of the Group's asset book remains good – 63 per cent of Wholesale Banking (WB) customer loans have a tenor of less than one year and 73 per cent of the Consumer Banking (CB) book is fully secured although the Group has continued to

selectively grow unsecured lending during the period. Loan impairment increased in CB reflecting the change in mix. Impairment in WB also rose, driven by a very small number of exposures. Overall we remain watchful given the challenge in the external environment and continue to have a proactive and disciplined approach to risk.

The Group's balance sheet remains very strong and resilient - well diversified, conservative and with limited exposure to problem asset classes – and we continue to focus on the basics of banking. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details of our exposure to the eurozone are set out on pages 40 to 42.

The Group remains highly liquid and both businesses have continued to grow deposits, especially in Americas, UK & Europe on the back of our strong credit rating, and also in Hong Kong, and our advances-to-deposits ratio remained strong at 77.6 per cent, slightly up from 76.4 per cent at the year end. The Group maintains a conservative funding structure with only limited levels of refinancing required over the next few years and we continue to be a significant net lender to the interbank market.

The Group remains strongly capitalised and generated good levels of organic equity during the period. The Core Tier 1 capital ratio at 30 June 2012 was 11.6 per cent, slightly down from 11.8 per cent at the last year end due to lower scrip dividend take up.

We continue to be well placed for the significant opportunities we see across our footprint of Asia, Africa and the Middle East and we remain the only major international banking group to have its credit rating revised upwards by all three rating agencies since the beginning of the financial crisis.

### Operating income and profit

	6 months ended 30.06.12	6 months ended 30.06.11	6 months ended 31.12.11	H1 2012 vs H1 2011 Better / (worse)	H1 2012 vs H2 2011 Better / (worse)
	\$million	\$million	\$million	%	%
Net interest income	5,483	4,941	5,212	11	5
Fees and commissions income, net	1,974	2,179	1,867	(9)	6
Net trading income	1,565	1,366	1,279	15	22
Other operating income	489	278	515	76	(5)
	4,028	3,823	3,661	5	10
<b>Operating income</b>	<b>9,511</b>	<b>8,764</b>	<b>8,873</b>	<b>9</b>	<b>7</b>
<b>Operating expenses</b>	<b>(4,963)</b>	<b>(4,677)</b>	<b>(5,240)</b>	<b>(6)</b>	<b>5</b>
<b>Operating profit before impairment losses and taxation</b>	<b>4,548</b>	<b>4,087</b>	<b>3,633</b>	<b>11</b>	<b>25</b>
Impairment losses on loans and advances and other credit risk provisions	(583)	(412)	(496)	(42)	(18)
Other impairment	(74)	(72)	(39)	(3)	(90)
Profit from associates	57	33	41	73	39
<b>Profit before taxation</b>	<b>3,948</b>	<b>3,636</b>	<b>3,139</b>	<b>9</b>	<b>26</b>

### Group performance

Operating income grew to \$9,511 million, up \$747 million over H1 2011. On a constant currency basis, income rose 11 per cent. The Group's income streams continued to be well diversified, by product and geography. All geographic segments delivered income growth, except India which was negatively impacted by onshore business sentiment and depreciation of the Indian rupee.

CB continues to make good progress on its strategic transformation programme and income was 5 per cent higher

at \$3,515 million. Strong growth in Deposits and Cards and Personal Loans income offset lower Mortgages and Wealth Management income, which were impacted by continued margin pressure and market uncertainty respectively. WB income was 10 per cent higher than H1 2011 at \$5,996 million. Client income grew 8 per cent, on the back of a strong performance in Transaction Banking, with Trade income up 25 per cent. Own account income grew 21 per cent as Asset and Liability Management (ALM) and Principal Finance benefitted from improved market conditions.

## Standard Chartered PLC – Financial review continued

Net interest income grew by \$542 million, or 11 per cent, to \$5,483 million. The Group net interest margin was flat at 2.3 per cent as widening liability margins were offset by compression in asset margins. In CB, higher unsecured volumes compensated for the fall in secured asset margins, which continue to be affected by regulatory and competitive pressures, while Current Account and Savings Accounts (CASA) margins improved. WB interest income benefitted from higher volumes across both asset and liability products and improved margins on Trade and Cash Management, which helped offset the margin compression seen in Lending.

Non-interest income was up by \$205 million, or 5 per cent, to \$4,028 million and comprises net fees and commissions, trading and other operating income.

Net fees and commissions income fell by \$205 million, or 9 per cent, to \$1,974 million. Fees in CB were impacted by subdued Wealth Management income while WB fees were lower primarily due to fewer large value transactions within Corporate Finance.

Net trading income increased by 15 per cent to \$1,565 million with strong growth in Rates and ALM offsetting lower Commodities income and a muted Foreign Exchange performance.

Other operating income primarily comprises gains arising on sales from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income. It grew by \$211 million, or 76 per cent, to \$489 million, on the back of higher gains from realisations out of the available-for-sale investment securities portfolio, up \$90 million, increased income from operating lease assets, up \$42 million, and a gain of \$74 million from a property sale in Korea.

Operating expenses increased \$286 million, or 6 per cent, to \$4,963 million. H1 2011 benefitted from \$86 million of recoveries on structured notes in the Other Asia Pacific region whilst in the six months ended 31 December 2011 (H2 2011) expenses included \$206 million relating to the Early Retirement Programme (ERP) in Korea and \$165 million in respect of the UK bank levy. Excluding these items, operating expenses increased by 4 per cent against H1 2011 and 2 per cent against H2 2011. During H1 2012 we continued to invest in both businesses whilst maintaining a tight grip on discretionary spend. The growth in expenses reflected: higher staff costs, which rose by 4 per cent, or \$129 million, as we continued to invest in staff; additional infrastructure spend on technology and new branches (including renovations and relocations); and increased levels of marketing.

Pre-provision profit improved \$461 million, or 11 per cent, to \$4,548 million.

Loan impairment increased by \$171 million, or 42 per cent, at \$583 million. CB loan impairment increased by \$89 million in line with expectations reflecting the selective growth in unsecured lending across a number of markets, plus pockets of localised pressure. WB impairment increased by \$82 million driven by provisions taken on a very small number of large exposures in India and the UAE. Although asset quality across both businesses remains good, we have increased the number of WB clients subject to precautionary monitoring reflecting our proactive approach to risk in an uncertain environment.

Operating profit was up \$312 million, or 9 per cent, to \$3,948 million. While WB increased operating profit by 16 per cent, CB operating profit fell 11 per cent (or 7 per cent excluding the impact of the property gain in H1 2012 and the recoveries on structured notes in H1 2011).

The Group's effective tax rate (ETR) at 26.5 per cent is lower compared to H1 2011 largely as a result of the change in profit mix.