Standard Chartered PLC – Highlights

For the year ended 31 December 2014

Standard Chartered

Reported results

- Operating income[1] of $18,234 million is down 2 per cent from 2013
- Profit before tax[2] of $5,193 million is down 25 per cent from 2013
- Customer advances down 3 per cent to $289 billion, customer deposits up 6 per cent to $414 billion

Performance metrics[4]

- Dividend per share at 86.00 cents per share, the same level as 2013
- Normalised earnings per share declined 28 per cent to 145.9 cents from 204.0 cents in 2013
- Normalised return on ordinary shareholders' equity of 7.8 per cent (2013: 11.2 per cent)

Capital and liquidity metrics

- Common Equity Tier 1 (CET 1) of 10.7 per cent on an end point basis under CRD IV rules[5], 10.5 per cent on a transitional basis
- Advances-to-deposits ratio of 69.7 per cent (2013: 75.7 per cent)
- Liquid asset ratio of 32.2 per cent (2013: 29.8 per cent)

Key messages

- 2014 performance impacted by the challenging market environment, de-risking and disposal actions
- Loan impairment increased 32 per cent primarily in Corporate and Institutional and Commercial Clients
- Reallocated $8.5 billion risk weighted assets from low returning relationships and announced 15 business disposals
- Strong balance sheet with healthy liquidity, leverage, and capital ratios

Programme of actions

- Significant leadership changes
- CET1 target of 11-12 per cent in 2015 and thereafter
- Return on Equity target greater than 10 per cent in the medium term
- $1.8 billion of cost savings over the next 3 years
- $25 - $30 billion in Risk Weighted Assets savings over the next 2 years
- Sustain momentum on raising the bar on conduct

Commenting on these results, the Chairman of Standard Chartered PLC, Sir John Peace, said:
"2014 was a challenging year and our performance was disappointing, but it was also a year when we took decisive action to refocus our strategy and to reposition the Group for the future and to restore shareholder value."

Commenting on these results, the Chief Executive Officer of Standard Chartered PLC, Peter Sands, said:
"We are reshaping the Bank to respond to the way our world has changed and to ensure we fulfil our aspiration to bank the people and companies driving trade, investment and the creation of wealth across Asia, Africa and the Middle East. I leave Standard Chartered proud of what we have achieved and confident about what the future holds for this extraordinary institution"

[1] Excluding own credit adjustment
[2] Excludes, own credit adjustment, goodwill impairment and the civil monetary penalty incurred in 2014
[3] 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 79)
[4] Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items set out on note 11 on page 79
[5] See additional information on Capital pages 57-63

Standard Chartered PLC – Stock Code: 02888

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Standard Chartered PLC – Summary of results

For the year ended 31 December 2014

	2014 $million	2013 $million
Results		
Operating income[1]	**18,234**	18,671
Impairment losses on loans and advances and other credit risk provisions	**(2,141)**	(1,617)
Goodwill impairment	**(758)**	(1,000)
Other impairment	**(403)**	(129)
Profit before taxation, goodwill impairment, own credit adjustment and civil monetary penalty	**5,193**	6,958
Profit before taxation	**4,235**	6,064
Profit attributable to parent company shareholders	**2,613**	4,090
Profit attributable to ordinary shareholders[2]	**2,512**	3,989
Balance sheet		
Total assets	**725,914**	674,380
Total equity	**46,738**	46,841
Loans and advances to customers	**288,599**	296,015
Customer deposits	**414,189**	390,971
Total capital base (CRD IV) transitional	**57,099**	56,369
Information per ordinary share	**Cents**	Cents
Earnings per share – normalised [3]	**145.9**	204.0
– basic	**102.2**	164.4
Dividend per share [4]	**86.00**	86.00
Net asset value per share	**1,833.6**	1,872.8
Tangible net asset value per share	**1,610.9**	1,597.5
Ratios		
Return on ordinary shareholders' equity – normalised basis [3]	**7.8%**	11.2%
Advances to deposits ratio	**69.7%**	75.7%
Liquid assets ratio	**32.2%**	29.8%
Cost to income ratio – normalised basis [3]	**58.9%**	54.4%
Return on risk weighted assets [5]	**1.6%**	2.2%
Capital ratios[6]		
Common Equity Tier 1 (CRD IV) transitional	**10.5%**	10.9%
Common Equity Tier 1 (CRD IV) end point basis	**10.7%**	11.2%
Total capital (CRD IV) transitional	**16.7%**	17.0%
Leverage ratio[7]	**4.5%**	4.7%

1 Excludes own credit adjustment of $100 million (2013: $106 million)

2 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 79)

3 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 79

4 Represents the recommended final dividend per share for the respective years together with the interim dividend per share declared and paid in those years. Further details are set out in note 10 on page 78

5 Return on risk weighted assets is operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average risk weighted assets. 2013 risk-weighted assets are on a Basel II basis and 2014 on a CRD IV basis

6 See additional information on Capital on pages 57-63

7 The Leverage end point ratio at 31 December 2013 is not directly comparable; its calculation was on a different basis, following prevailing PRA guidance for the year

Resolved to restore shareholder value

2014 was a challenging year, and our performance was disappointing, but it was also a year when we took decisive action to refocus our strategy and to reposition the Group for the future.

- Profit before taxation, goodwill, own credit and the civil monetary penalty was down 25 per cent to $5.2 billion
- Statutory profit before taxation was down 30 per cent at $4.2 billion
- Income excluding own credit fell 2 per cent to $18.2 billion
- Normalised earnings per share declined 28 per cent to 145.9 cents

The Board continues to believe that there are significant opportunities for the Group in the medium to long term across our footprint, and that is why we have been careful not to take any knee-jerk actions which may damage the long-term prospects of the business.

However, at the same time, we need to be mindful that there are significant factors impacting our current performance which cannot be ignored: the imperative to build capital levels across the industry; the need for ongoing investment in enhancing our systems and processes associated with conduct and compliance; and the need to change the shape of our business to fit the demands of the current economic and regulatory landscape.

As a consequence of this, the Board has recently endorsed a number of priority areas. The first of these was to provide clarity on our governance, leadership and succession plans, and we are going further by highlighting a number of other priorities: taking steps to build on our capital levels, enhancing our return on equity and continuing to improve our conduct and compliance capabilities.

The Board is determined to reshape the business to restore the Group's performance and to fully realise the opportunities in our markets. At the same time, we are determined to continue to raise the bar on conduct and compliance to ensure that Here for good, our brand promise, is firmly embedded in the DNA of the Group worldwide.

Whilst we are comfortable with our current capital position, the Board does want to improve our capital trajectory, so we are taking actions around risk-weighted assets, cost reductions and business disposals, all of which are aimed at strengthening both our Common Equity Tier 1 ratio and our trajectory going forward.

We believe that we have identified strong levers to manage capital accretion over time and therefore the Board is recommending a final dividend for 2014 of 57.20 cents resulting in a total annual dividend of 86.00 cents which is the same level of dividend per share as 2013.

For several years, we have significantly increased the amount paid out to shareholders by way of dividend, while at the same time consecutively reducing the amount paid out in bonuses, despite increasing staff numbers over this period. In 2014, we are again proposing to pay out more to our shareholders by way of dividends than we pay out in bonuses.

This disciplined approach to managing variable compensation has created significant competitive pressures in some of our key markets. We are, of course, mindful of the external sentiment in some markets on bankers' pay, and conscious of our disappointing performance in 2014, but it is essential that we remain able pay competitively in the markets where we operate and where wage inflation, on average, is around 5 per cent.

Our people are much sought after by our competition, and we are acutely conscious of the importance of retaining and attracting the best talent as we look to execute on our strategy. It also goes without saying that, consistent with past practice, we will only reward our people for good performance as well as for their good behaviours.

Taking all these factors into account and reflecting our performance in 2014, the bonus pool is down on 2013 by 9 per cent, and 27 per cent lower than in 2011. In light of the disappointing performance of the Group, those executive directors on the PLC Board throughout the year came to the conclusion that they should show leadership by not taking any variable compensation for 2014.

I would like to take this opportunity to thank Peter on behalf of the Board for the immense contribution he has made to the success of the Group over the past 13 years, both as Group Chief Executive and as Group Finance Director. Since becoming Group Chief Executive in 2006, the Group has more than doubled in size and has been consistently profitable. His leadership and insight, over a period of huge change and challenge for the entire industry, ensures that he leaves the Group well placed to achieve its full potential as one of the world's leading financial institutions.

I would also like to thank Jaspal for his very considerable contributions to the business over the past 16 years, and the other long-serving Board members who are stepping down this year and who have done so much to help position this great bank for the future.

We are extremely fortunate to have Bill Winters, one of the most accomplished and respected bankers in the world today, taking over as Group Chief Executive from Peter in June to drive the Group's next chapter of growth. Bill brings substantial financial experience from leading a very successful global business, and has an exceptional understanding of the global regulatory and conduct environment. He is also a proven leader with a strong track record in nurturing and developing talent. I am thrilled that Bill is joining the Group at this strategically important time and we wish him well in his new role.

We are therefore confident that we are taking the right actions to restore shareholder value.

I would like to thank our clients, customers and shareholders for their support during 2014 and, above all, our great people for their hard work and ongoing commitment to Standard Chartered.

Sir John Peace
Chairman
4 March 2015

Taking action to deliver sustainable, profitable growth and improved returns

2014 was a tough year, our performance was disappointing and we are acutely aware of the impact of this for you, our shareholders. We faced a perfect storm: negative sentiment towards emerging markets, a sharp drop in commodity prices, persistent low interest rates and surplus liquidity, low volatility, and a welter of regulatory challenges.

As a result, we saw intense pressure on margins and volumes, a significant uptick in impairment and a sharp increase in regulatory related cost. Of course, it was not all about external factors. Some of the decisions we took in the past look less good now than they did at the time, such as Korea which in 2014 made a loss before tax of $145 million. Not everything we did was as well executed as it should have been, for example the upgrade of our transaction surveillance systems back in 2007 – shortcomings here ultimately resulted in the civil penalty of $300 million that we paid in August 2014.

We have taken a range of actions in response to the way our world has changed. We have overhauled our strategy, making it sharper and more focused. We have reconfigured the organisation to align it better with our strategic priorities. We have attacked our cost base. We have redeployed capital. We have disposed of, or are in the process of disposing of, 15 underperforming and non-strategic businesses. We have de-risked portfolios and segments, such as unsecured lending or correspondent banking, and we have stepped up the pace of our programme to raise the bar on conduct. While some of these changes actually made our 2014 performance worse, since we sacrificed income or increased investment, I am confident that the way we are reshaping the Group will get us back to a trajectory of profitable, sustainable growth, delivering returns above our cost of capital and driving the share price.

I should make clear that we are not counting on the world to do us favours. While we do expect a gradual return to a more normal interest rate environment, and this year we have already seen more volatility in currency markets, we are not counting on headwinds turning to tailwinds to boost our performance. We are focused on the levers we control, the things we can do, to improve returns and return to growth.

Our performance priorities are clear. First, we must dispel the concerns about capital, hence the clear target of achieving a Common Equity Tier 1 (CET1) ratio of 11 to 12 per cent for 2015 and thereafter. Second, we must improve returns, hence we are setting a target return on equity of over 10 per cent in the medium term, so that we are delivering sustainably above our cost of capital. This will take a bit of time to achieve, not least because the actions we are taking to strengthen the CET1 ratio make this more difficult. Each of these elements fits into an overall agenda of action, all of which is captured in the scorecards of the individual client and product groups, functions and geographies across the Group.

Capital

On capital, we start from a strong position. In terms of our CET1 ratio, at 10.7 per cent on an end-point basis, we have a 200 basis points (bps) buffer relative to known regulatory requirements. We weathered the Bank of England stress tests comfortably. We are strongly placed from a leverage and Total Loss Absorbency Capacity perspective.

However, we understand market concerns about forward trajectory given the uncertainties about how regulatory requirements will evolve. Although it is impossible to be definitive, a combination of 'risk-weighted assets (RWA) inflation' and escalating expectations do point to a continuing upward drift in requirements. That is why we have put such focus on capital accretion, so that we can absorb regulatory changes and fund growth, while also improving the CET1 ratio. We accreted some 50 basis points in 2014, 20 basis points in the first half and 30 in the second half. To achieve this, we cut some $9 billion of low-returning RWA, largely from Corporate & Institutional Clients, and saved another $2 billion from disposals.

We now plan to pull these levers even harder. Over the next two years, we plan to cut a further $25 to $30 billion of RWA from low-returning client relationships and underperforming businesses. We are making good progress on this already. By taking these actions we are confident that we can achieve our target CET1 ratio of 11 to 12 per cent in 2015 and thereafter.

Costs

In 2014, we kept a tight grip on costs. Headline expenses went up 5 per cent, but over half of this increase was due to the UK bank levy and restructuring costs attached to the very cost actions we are taking. Underlying expenses went up less than 3 per cent, driven largely by increased spend on regulatory and conduct priorities. In November, we announced a $400 million target for cost savings in 2015. We are more than on track to achieve this target, and the $400 million number relates to our underlying business, so it excludes cost saved from business exits and disposals. Combined with the impact of such actions, we are on track for savings to headline costs exceeding $600 million in 2015.

The progress we have made in attacking the cost base underpins our confidence in achieving $1.8 billion in cost savings over the period from 2015 to 2017. Some of the remaining savings will come from the full-year impact of actions we have already taken, for example our decision to exit equities, which will give us a $100 million of savings in 2016. Some will be the result of further peripheral-business exits or withdrawals that we are currently pursuing, but most will be from achieving sustainable efficiency improvements in our big markets and core business activities.

We are stepping up the pace of digitisation, automating and reengineering key processes and standardising technology platforms. For example, the only way we will get the cost-income ratio in the Retail Clients segment down to our target of 55 per cent is through accelerated digitisation of products, channels and internal processes. And the only way we can manage the ever-increasing complexity of regulation efficiently is through technology, so we are not cutting back on technology investment, but actually increasing this in order to achieve sustainable improvements in productivity.

Asset quality

It should be no surprise that impairment increased in 2014. GDP growth in key markets has been slower, commodity prices fell sharply, and we faced some specific challenges in particular markets, such as the Personal Debt Rehabilitation Scheme (PDRS) in Korea or fraud in China. Of course, we could have fared better. With hindsight there were clients and situations we should have avoided, but we were never going to be entirely immune to the shift in the credit environment. The actions we have taken to de-risk are having an impact – in India, in China, in our commodities book, and in our unsecured portfolio in the Retail Clients segment. There are still many uncertainties in our markets, but I am very comfortable with our provisioning and with the shape and quality of the book.

In the Retail Clients segment, whilst impairment remains at an elevated level, the indicators suggest some improvement, most notably in Korea. Looking at the early data for this year, PDRS filings are now less than half of what they were six months ago. In the Corporate & Institutional Clients and Commercial Clients segments, the signals are more mixed, but most of what we are dealing with now, and provisioning for, are accounts that have been troubling for some time. The inflow of new problem accounts into early alerts, Credit Grade 12 or Non-Performing Loans has slowed. Whilst it would certainly be premature to call the peak, we do not see signs of further deterioration.

The annualised income impact of the exits and disposals in 2014 and those planned for 2015 is some $450 million, although this depends on the timing of the completion of certain transactions. We will strip this out of our reporting of underlying performance for 2015. On top of this, de-risking and RWA savings in 2014, and the $25-30 billion of incremental RWA savings we plan for 2015 and 2016 will create a further drag on income, offset by our ability to redeploy into more attractively returning assets.

Income growth

In the Retail Clients segment, the priority has been to get cost down, shift the focus to more affluent clients and accelerate digitisation, as well as to de-risk from a conduct and credit perspective. It is all about getting the platform in more robust shape to support sustainable growth. Retail Clients income was up 2 per cent year-on-year in 2014, but up 5 per cent in the second half of 2014 compared to the first half, driven by Wealth Management and the shift towards more affluent Priority and Business clients. These will continue to be the key drivers of income growth. Indeed, we aim to increase the percentage of income from Priority and Business clients to 43 per cent in 2015 from 38 per cent in 2014.

In the Private Banking Clients segment, income growth was 4 per cent on a headline basis, or 6 per cent excluding disposals. We see Private Banking Clients as a steady and sustainable source of growth, although at this stage it is obviously very small in the overall scheme of the Group. In 2015, we are looking at on-boarding some 2,000 new clients, achieving double-digit assets under management growth.

The Commercial Clients segment is also quite small, but represents another huge opportunity, and after a year of restructuring and remediation, with income down 22 per cent, our priority for 2015 is to get back to a growth trajectory, strengthening the front line, leveraging the network and growing the client base. We are aiming for more than 3,000 new-to-bank clients in 2015.

Given that the Corporate & Institutional Clients segment contributes around 60 per cent of the Group's income, this is the crux of the issue. Income fell 2 per cent in 2014, impacted by a combination of de-risking and RWA actions, as well as pressure on margins and the impact of low commodity prices and low volatility. This overall picture disguises some areas of strong growth. Institutional investors, for example, saw 18 per cent income growth at attractive returns in 2014. This is a big opportunity. As for Corporates, right now it is all about improving return rather than income growth per se, and achieving this is all about leveraging the network and deepening relationships to drive non-funded income, hence our focus on increasing the number of markets and products per client. We are looking to take the product-client ratio from 6.3 in 2014 to over 6.5 and the market-client ratio from 2.8 in 2014 to over 3. We are also focusing on non-financing income, targeting to increase the current proportion of 41 per cent to more than 43 per cent. These metrics are the key to driving good income growth that lifts our return on RWA in this segment.

Step back from the segments and look at our markets and the scale of the income opportunity is evident. Despite all the turbulence and shifts in sentiment, the underlying drivers of economic growth – demographics, urbanisation and investment in infrastructure – remain immensely strong, and demand for financial services is rising rapidly. Our challenge is to capture these opportunities in a disciplined, return-focused way to drive shareholder value.

Conduct

We have launched a comprehensive programme called Raising the Bar on Conduct, which encompasses every aspect of conduct, and touches every person in the Group. We recognise that we cannot claim to be Here for good unless we make every effort to ensure that good conduct informs every interaction and is embedded in every decision we make – from strategy to client on-boarding, product design and remuneration. Among the more critical elements of this programme, I would highlight:

- Our Financial Crime Risk Mitigation Programme, which encompasses over 50 separate projects and initiatives to remediate and reinforce our controls and capabilities in this vital arena. This is a massive multi-year investment programme. Playing a stronger role in the fight against financial crime is a strategic imperative for Standard Chartered
- To complement stronger controls, we are de-risking our client portfolios. For example, we have exited a significant number of our correspondent banking relationships, mainly in Latin America and Central Europe. We have also exited around 70,000 small and medium-sized enterprise relationships over the past 18 months, and we are putting strict limits on the types of new client that we are prepared to take on in certain geographies and sectors.
- To reinforce our governance, we have established a Board-level Financial Crime Risk Committee, with a combination of experienced independent non-executive directors and expert advisors.

Conclusion

The actions we have taken, and are taking, on capital, cost, risk and conduct are all part of a package. We are reshaping the Group to respond to the way our world has changed. We are reshaping the Group to ensure we can fulfil our aspiration to bank the people and companies driving trade, investment and the creation of wealth across Asia, Africa and the Middle East. And we are reshaping the Group to get back to sustainable, profitable growth, delivering returns above our cost of capital.

This will be my last Group Chief Executive's review, and it is obviously one of the more challenging sets of numbers I have had to explain. In my 13 years at the Group, I have seen lots of ups and downs. Standard Chartered today is very different from the bank I first joined as Finance Director in 2002. That year we made about a $1 billion in profits, and in 2006, the year I became Group Chief Executive, we made about $3 billion. Since then, of course, we have navigated the global financial crisis, roughly doubled in size, and confronted all sorts of new challenges. The world of banking has changed far more dramatically than most people realise, and it is only part way through a fundamental transformation.

I will leave Standard Chartered proud of what we have achieved and confident about what the future holds for this extraordinary institution. In Bill Winters, I have a successor just right for the task. I am delighted to be passing the baton on to a banker of such calibre, to a leader of such strengths. Bill will inherit a bank with a superb client franchise, a unique network and an exceptionally strong balance sheet. Perhaps even more importantly, he will inherit a fantastic team of people – professional and collaborative, and truly believing in, and committed to being, Here for good.

I would like to take this opportunity to say thank you to our clients, and to all the people of Standard Chartered. The past couple of years have been pretty tough, but we have demonstrated resilience and an ability to adapt and reinvent. I know that Standard Chartered will once again show the world what a great bank this is.

Peter Sands
Group Chief Executive
4 March 2015

Performance summary

	2014 $million	2013 $million	Better / (worse) %
Client income[1]	**16,623**	16,872	(1)
Other income	**1,611**	1,799	(10)
Operating income[1]	**18,234**	18,671	(2)
Other operating expenses	**(10,198)**	(9,946)	(3)
Restructuring costs	**(181)**	(12)	nm
UK bank levy	**(366)**	(235)	(56)
Total operating expenses	**(10,745)**	(10,193)	(5)
Operating profit before impairment losses and taxation[1]	**7,489**	8,478	(12)
Impairment losses on loans and advances and other credit risk provisions	**(2,141)**	(1,617)	(32)
Other impairment	**(403)**	(129)	(212)
Profit from associates and joint ventures	**248**	226	10
Profit before taxation (excluding goodwill impairment, civil monetary penalty and own credit adjustment)	**5,193**	6,958	(25)
Own credit adjustment	**100**	106	(6)
Civil monetary penalty	**(300)**	-	-
Goodwill impairment	**(758)**	(1,000)	24
Profit before taxation	**4,235**	6,064	(30)
Normalised earnings per share (cents)	**145.9**	204.0	(28)
Dividend per share (cents)	**86.00**	86.00	-
Common Equity Tier 1 on a transitional basis	**10.5%**	10.9%	

[1] Excludes $100 million (2013: $106 million) benefit relating to own credit adjustment

Group performance

2014 performance was disappointing, impacted by a challenging market environment and by the significant programme of restructuring and repositioning actions taken during the year. Reported profit before tax was down 30 per cent to $4,235 million compared to 2013.

The Group's results have also been affected by the following items which are less reflective of the underlying performance of the franchise:

We have incurred restructuring costs of $181 million in the year. Approximately a quarter relates to redundancy programs in Korea with the balance reflecting the realignment of the client segments and product groups under the new organisation structure, including a number of business exits.

The UK bank levy has risen a significant 56 per cent to $366 million.

In August the Group reached a settlement with the US authorities of $300 million. See note 23 on page 93 for further details.

And more recently, the Group carried out a detailed review of the outlook for its Korean business. Whilst we are encouraged by the Personal Debt Rehabilitation Scheme (PDRS) trends - and hence the opportunity to improve upon the business' recent disappointing financial performance - it is nonetheless currently loss making and hence we are writing off the remaining goodwill of $726 million – on top of the $1 billion write-down last year. We have also impaired a further $32 million of goodwill relating to the closure of the Group's cash equities business. These write-offs have no cash flow impact and do not affect Group capital ratios, as goodwill is already fully deducted for prudential purposes.

The main normalising items are therefore the goodwill impairment, US settlement and the own credit adjustment.

On this basis adjusted profit before tax for the year was $5.2 billion, down 25 per cent.

Normalised earnings per share were down 28 per cent to 146 cents and normalised Return on Equity was 7.8 per cent.

The balance sheet remains in good shape. Our Basel III transitional Common Equity Tier 1 ratio of 10.5 per cent is flat in the second half despite absorbing 30 basis points of headwinds including model changes and the further foreseeable dividend as well as having taken greater provisions on our commodities exposure.