

Standard Chartered PLC - Interim management statement

Standard Chartered PLC (the Group) today releases its Interim Management Statement for the three months ended 30 September 2017. All figures are presented on an underlying basis and all comparisons are made to the equivalent periods in 2016 unless otherwise stated.

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

"We have doubled profits compared to the same period last year as we continue to make progress in realising the potential of the Group. We are transitioning our businesses to deliver higher quality income to improve sustainable returns. This process and the continued investments to support it are reflected in the results and will deliver greater long-term value to our shareholders."

Third quarter financial performance highlights

- Income of \$3.6 billion in the quarter was up 4 per cent year-on-year and income year-to-date was up 5 per cent
- Expenses of \$2.5 billion in the quarter were 4 per cent higher largely as a result of accelerated investments
- Loan impairment of \$348 million was 42 per cent lower year-on-year reflecting improved credit quality
- Underlying profit before tax of \$814 million in the third quarter was up 78 per cent year-on-year

Higher quality balance sheet and strong capital

- The Group is highly liquid and remains well capitalised
- Net loans and advances to customers of \$277 billion increased 3 per cent since 30 June 2017
- Customer accounts of \$418 billion increased 5 per cent in the third quarter
- Common Equity Tier 1 (CET1) ratio of 13.6 per cent (H1 2017: 13.8 per cent) remains above the target range
- The benefit of profit in the period and lower credit risk-weighted assets was more than offset by model changes
- It is estimated that IFRS 9 will reduce the CET1 ratio by 10 to 20 basis points phased in over five years

Continued progress against the strategy

- Corporate & Institutional Banking has made good progress on its new client on-boarding initiatives
- Retail Banking continues to increase the proportion of income it generates from Priority clients
- Commercial Banking has continued to reposition the business and selectively grow its client base
- Private Banking added a further \$2.2 billion in net new money during the quarter

Summary and outlook

- Statutory profit before tax doubled year-on-year on both a quarterly and a year-to-date basis
- The global economy is recovering slowly but competition is strong with asset margins remaining under pressure
- The Group's focus remains on growing quality income to further improve returns
- Continued investment is targeted at enhancing controls and efficiency and into key growth platforms

Performance summary

	3 months ended 30.09.17 \$million	3 months ended 30.06.17 \$million	3 months ended 30.09.16 \$million	9 months ended 30.09.17 \$million	9 months ended 30.09.16 \$million	Q3 2017 v Q3 2016 Better / (Worse) %	YTD 2017 v YTD 2016 Better / (Worse) %
Operating income	3,589	3,614	3,465	10,811	10,275	4	5
Other operating expenses	(2,146)	(2,101)	(2,109)	(6,316)	(6,097)	(2)	(4)
Regulatory costs	(336)	(290)	(278)	(935)	(824)	(21)	(13)
Operating expenses	(2,482)	(2,391)	(2,387)	(7,251)	(6,921)	(4)	(5)
Operating profit before impairment losses and taxation	1,107	1,223	1,078	3,560	3,354	3	6
Impairment losses on loans and advances and other credit risk provisions	(348)	(385)	(596)	(931)	(1,692)	42	45
Other impairment	(19)	(31)	(64)	(103)	(277)	70	63
Profit from associates and joint ventures	74	67	40	207	67	85	n.m.
Underlying profit/(loss) before taxation	814	874	458	2,733	1,452	78	88
Restructuring	(68)	(110)	(141)	(233)	(256)	52	9
Other items	28	-	-	28	84	n.m.	(67)
Statutory profit/(loss) before taxation	774	764	317	2,528	1,280	144	98

Income of \$3.6 billion in the third quarter was 4 per cent higher compared to the same period in 2016. Income year-to-date was 5 per cent higher year-on-year with better performances in liability-led businesses including Transaction Banking, Wealth Management and Deposits as well as in Treasury. This was partly offset by lower income from Corporate Finance, Credit Cards and Personal Loans and the impact of lower market volatility on income in Financial Markets.

Operating expenses in 2017 have increased compared to the equivalent periods in 2016 at a similar rate to income, rising 4 per cent in the third quarter and 5 per cent year-to-date, reflecting accelerated investments in areas of competitive differentiation and the strengthening of controls and processes. Non-regulatory operating expenses for the full year are expected to be broadly flat year-on-year while regulatory costs are likely to be slightly higher.

Loan impairment of \$348 million in the quarter was 42 per cent lower than in the same period last year and 10 per cent lower than in the previous quarter benefiting from broad-based improvements across all client segments. This reflects past management actions taken to enhance the Group's risk profile as well as an improvement in the quality of new originations.

Other impairment improved year-on-year because of the Group's decision to exit Principal Finance that is now reported within restructuring and excluded from the Group's underlying performance in 2017.

Third quarter profit from associates and joint ventures of \$74 million was higher year-on-year reflecting the improved performance of the Group's joint venture in Indonesia and the continuing good performance of the Group's associate investment in China.

As a result underlying profit before tax of \$814 million in the third quarter was 78 per cent higher year-on-year or 42 per cent higher excluding Principal Finance losses in 2016.

Third quarter statutory profit before tax of \$774 million, which is stated after restructuring charges of \$68 million relating largely to Principal Finance losses, was more than double the same period last year.

Client segment income

	3 months ended 30.09.17 \$million	3 months ended 30.06.17 \$million	3 months ended 30.09.16 \$million	9 months ended 30.09.17 \$million	9 months ended 30.09.16 \$million	Q3 2017 vs Q3 2016 Better / (Worse) %	YTD 2017 vs YTD 2016 Better / (Worse) %
Corporate & Institutional Banking	1,629	1,595	1,596	4,847	4,743	2	2
Retail Banking	1,252	1,222	1,186	3,648	3,502	6	4
Commercial Banking	338	333	323	998	990	5	1
Private Banking	128	125	125	370	386	2	(4)
Central & other items	242	339	235	948	654	3	45
Total operating income	3,589	3,614	3,465	10,811	10,275	4	5

Corporate & Institutional Banking income in the third quarter and in the year-to-date was up 2 per cent year-on-year. Excluding Principal Finance losses in 2016, income in the third quarter was broadly flat year-on-year and income year-to-date was down 2 per cent. Rises in US dollar interest rates as well as the Group's continued focus on attracting higher quality client operating account balances has benefited margins and volumes in Cash Management that together offset the impact of lower market volatility on income in Financial Markets. In Trade Finance and Corporate Finance continued growth in volumes was offset by margin compression.

Retail Banking income in the third quarter was up 6 per cent year-on-year and income year-to-date was up 4 per cent. Broad-based improvement in Greater China & North Asia offset the impact of business exits in ASEAN & South Asia. Excluding the impact of business exits, Retail Banking income in the third quarter was up 9 per cent year-on-year reflecting continued strength in Priority Banking and Wealth Management, renewed growth in Business Banking and recent stabilisation in Personal Banking. Wealth Management income in the third quarter benefited from the early achievement of a full year bancassurance performance bonus of around \$40 million.

Commercial Banking income in the third quarter was up 5 per cent year-on-year and income year-to-date was up 1 per cent with higher margins and balances in liability products, particularly in Hong Kong, partly offsetting lower asset margins.

Private Banking income in the third quarter was up 2 per cent year-on-year and up 2 per cent on a comparable year-to-date basis excluding an insurance recovery in the first half of 2016. The Group continues to reposition the business and a further \$2.2 billion of net new money has been attracted since 30 June 2017.

Income in the third quarter from Central & other items was up 3 per cent year-on-year as a result of lower interest expense following the replacement of subordinated debt on issue with Additional Tier 1 securities during 2016. Income year-to-date from Central & other items was 45 per cent higher due to Treasury gains in the first quarter following the sale of securities in India and favourable market conditions in Hong Kong.

Geographic region income

	3 months ended 30.09.17 \$million	3 months ended 30.06.17 \$million	3 months ended 30.09.16 \$million	9 months ended 30.09.17 \$million	9 months ended 30.09.16 \$million	Q3 2017 vs Q3 2016 Better / (Worse) %	YTD 2017 vs YTD 2016 Better / (Worse) %
Greater China & North Asia	1,414	1,410	1,310	4,205	3,861	8	9
ASEAN & South Asia	937	958	1,005	2,901	3,059	(7)	(5)
Africa & Middle East	700	701	669	2,087	2,089	5	(0)
Europe & Americas	378	374	383	1,187	1,200	(1)	(1)
Central & other items	160	171	98	431	66	63	n.m.
Total operating income	3,589	3,614	3,465	10,811	10,275	4	5

Income from Greater China & North Asia in the third quarter was up 8 per cent year-on-year and income year-to-date was up 9 per cent reflecting broad-based growth across all markets and client segments, particularly in Wealth Management, Deposits and Cash Management products.

In ASEAN & South Asia income in the third quarter was 7 per cent lower and income year-to-date was 5 per cent lower compared to the same periods in 2016. Excluding the impact of the Group's decisions to exit Retail Banking in Thailand and Philippines during 2016, income was 4 per cent and 2 per cent lower respectively driven by lower asset margins and lower levels of market volatility in Financial Markets.

Income from Africa & Middle East in the third quarter was 5 per cent higher year-on-year and flat on a year-to-date basis. Better performances in Transaction Banking and Wealth Management were offset by the impact of lower volatility in Financial Markets and lower margins in Corporate Finance.

In Europe & Americas income in the third quarter and year-to-date was broadly stable year-on-year. Compared to the second quarter of 2017 a decline in Financial Markets income resulting from low volatility was partly offset by higher income from Transaction Banking products, which continue to benefit from US dollar interest rate rises as well as higher balances.

Income from Central & other items in the third quarter and year-to-date benefited from the non-repeat of fair valuation losses on private equity investments in 2016 which are part of Principal Finance. Income was 6 per cent lower quarter-on-quarter as second quarter income reflected the receipt of a dividend from a strategic investment.

Asset quality

	30.09.17			30.06.17		
	Ongoing business \$million	Liquidation portfolio \$million	Total \$million	Ongoing business \$million	Liquidation portfolio \$million	Total \$million
Loans and advances						
Gross loans and advances to customers	280,538	3,494	284,032	271,795	3,643	275,438
Net loans and advances to customers	276,342	1,068	277,410	267,692	1,206	268,898
Credit quality						
Gross non-performing loans	6,101	3,473	9,574	6,303	3,619	9,922
Individual impairment provisions	(3,714)	(2,426)	(6,140)	(3,551)	(2,437)	(5,988)
Net non performing loans	2,387	1,047	3,434	2,752	1,182	3,934
Credit grade 12 accounts ¹	1,378	21	1,399	1,283	21	1,304
Cover ratio ² (%)	71	70	70	67	67	67
Cover ratio (after collateral) ³ (%)	77	83	79	73	81	76
Risk-weighted assets	277,615	2,374	279,989	271,396	2,767	274,163

¹Includes Corporate & Institutional Banking, Commercial Banking and Central & other items

²Includes portfolio impairment provision

³Excludes portfolio impairment provision

Credit quality for the Group overall has improved though stresses remain in parts of the portfolio and the Group remains vigilant in view of persistent challenging conditions in some markets and sectors as well as continued geopolitical uncertainty.

Gross non-performing loans (NPLs) in the ongoing business decreased \$202 million since 30 June 2017 to \$6.1 billion mainly due to the settlement of a small number of Corporate & Institutional Banking exposures.

Credit grade 12 accounts in the ongoing business increased \$95 million over the same period following the downgrade of a small number of Commercial Banking exposures in Africa & Middle East to reflect the continued challenging conditions there.

As a result of increased provisions against a small number of Corporate & Institutional Banking exposures to reflect the Group's current view of valuations, the cover ratio of NPLs in the ongoing portfolio improved from 67 per cent to 71 per cent and from 73 per cent to 77 per cent after including collateral.

The credit quality of exposures in the liquidation portfolio remained stable in the third quarter.

Balance sheet, capital and leverage

	30.09.17	30.06.17	31.03.17	31.12.16
	\$million	\$million	\$million	\$million
Balance sheet				
Net loans and advances to customers	277,410	268,898	269,740	255,896
Customer accounts	417,565	398,338	397,564	378,302
Advance-to-deposits ratio (%)	66.4	67.5	67.8	67.6
Capital				
Common equity tier 1 ratio (%)	13.6	13.8	13.8	13.6
Risk-weighted assets	279,989	274,163	273,303	269,445
Leverage				
UK Leverage ratio (%)	5.9	6.0	5.9	6.0

Further details on Capital and Leverage are contained in the Group's Pillar 3 Disclosures

The Group's balance sheet remains strong, liquid and is becoming increasingly diverse.

Net loans and advances to customers were up 3 per cent since 30 June 2017 to \$277 billion with around half this growth driven by Corporate Finance. The remainder is broad based by client segment, region and product. Customer deposits of \$418 billion were up 5 per cent since 30 June 2017 reflecting growth in repurchase agreements as well as the Group's continued focus on growing high quality client operating accounts.

As a result the Group's advances-to-deposits ratio was 66.4 per cent at the end of the third quarter compared to 67.5 per cent as at 30 June 2017.

The Group's CET1 ratio of 13.6 per cent was 15 basis points lower than as at 30 June 2017. The Group generated profits and reduced underlying credit risk-weighted assets (RWA) in the third quarter that together increased the CET1 ratio by over 30 basis points. This benefit was more than offset by an increase in RWAs from the application of loss given default (LGD) floors to certain financial institutions exposures, which equated to over 35 basis points of reduction in the CET 1 ratio. This followed agreement reached in the third quarter with the Prudential Regulation Authority (PRA) to implement proposed changes to the Group's relevant internal ratings-based models. Based on this feedback the Group will make additional model changes related to certain corporate exposures during the course of 2018.

The Group was advised during the period that its Pillar 2A requirement as reviewed regularly by the PRA for all banks has increased. As a consequence this raises the Group's estimate of its known minimum CET1 requirement in 2019 to 10.0 per cent from 9.9 per cent and its expected minimum requirement in 2022 for own funds and eligible liabilities (MREL) including the combined buffer to 25.9 per cent from 25.4 per cent. The Group continues to operate above estimated known CET1 minimum requirements and remains well positioned relative to expected MREL requirements.

Based on information currently available the Group estimates that the capital impact of adopting IFRS 9 on 1 January 2018 will result in a reduction in the CET1 ratio of 10 to 20 basis points after taking into account the offset against regulatory expected losses. It is expected this impact will be phased in over five years.

Summary and outlook

We have made further progress executing our strategy with substantial improvements in both underlying and statutory profit before tax in the third quarter and year-to-date. Economic conditions are improving slowly in our footprint but competition is strong and geopolitical tension remains elevated. We are investing to enhance the Group's controls, efficiency and income potential and remain focused on improving the rate of growth in quality to further improve returns.

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ADDITIONAL INFORMATION

Quarterly operating income	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Corporate & Institutional Banking	1,629	1,595	1,623	1,729	1,596	1,593	1,554
Retail Banking	1,252	1,222	1,174	1,167	1,186	1,165	1,151
Commercial Banking	338	333	327	305	323	319	348
Private Banking	128	125	117	110	125	146	115
Central & other items	242	339	367	222	235	242	177
Total operating income	3,589	3,614	3,608	3,533	3,465	3,465	3,345
	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China & North Asia	1,414	1,410	1,381	1,329	1,310	1,277	1,274
ASEAN & South Asia	937	958	1,006	993	1,005	1,011	1,043
Africa & Middle East	700	701	686	653	669	711	709
Europe & Americas	378	374	435	464	383	426	391
Central & Other Items	160	171	100	94	98	40	(72)
Total operating income	3,589	3,614	3,608	3,533	3,465	3,465	3,345
	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Transaction Banking	856	812	785	744	722	702	716
Trade	306	296	297	295	300	299	305
Cash Management and Custody	550	516	488	449	422	403	411
Financial Markets ¹	663	637	708	780	727	753	775
Foreign Exchange	238	272	225	272	249	264	365
Rates	172	127	162	147	187	174	169
Commodities	42	32	48	53	59	34	44
Credit and Capital Markets	90	82	119	97	112	80	75
Capital Structuring and Distribution ¹	72	74	82	104	13	111	78
Other Financial Markets	49	50	72	107	107	90	44
Corporate Finance ^{1,2}	325	360	325	401	378	334	357
Lending and Portfolio Management ²	128	122	135	130	123	159	185
Principal Finance ³	-	-	-	(20)	(30)	(37)	(130)
Wealth Management	488	435	421	377	387	370	349
Retail Products	891	905	871	900	925	918	915
CCPL and other unsecured lending	349	340	344	370	394	390	403
Deposits	344	363	346	326	333	327	301
Mortgage and Auto	179	185	164	185	178	183	193
Other Retail Products	19	17	17	19	20	18	18
Treasury ⁴	255	339	349	198	233	266	203
Others ⁴	(17)	4	14	23	-	-	(25)
Total operating income	3,589	3,614	3,608	3,533	3,465	3,465	3,345

¹The Group has established a Capital Structuring and Distribution Group to sharpen the focus on asset distribution that has resulted in some income being reclassified from Corporate Finance into Financial Markets. All prior periods have been restated

²Certain non-specialised lending exposures which were previously reported under Corporate Finance are now reflected under Lending and Portfolio Management. All prior periods have been restated

³In 2016 the Group disclosed its decision to exit Principal Finance and from 1 January 2017 gains and losses are treated as restructuring and excluded from the Group's underlying performance

⁴Treasury income comprises items previously reported under Asset and Liability Management and Treasury-related aspects of Other income. This reflects the reorganisation of the Group's balance sheet, liquidity, and capital management activities such that they are now managed within one Treasury function. All prior periods have been restated

Basis of presentation

This interim management statement covers the results of Standard Chartered PLC together with its subsidiaries (the Group) as at and for the three and nine months ended 30 September 2017.

The Group uses a number of alternative performance measures including underlying earnings, credit grade 12 and cover ratio in the discussion of its business performance and financial position. These are defined as follows:

Underlying earnings

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 30.09.17		3 months ended 30.06.17		3 months ended 30.09.16	
	Restructuring \$million	Other items \$million	Restructuring \$million	Other items \$million	Restructuring \$million	Other items \$million
Operating income	7	28	27	-	11	-
Operating expenses	(40)	-	(61)	-	(15)	-
Operating profit before impairment and tax	(33)	28	(34)	-	(4)	-
Impairment losses on loans and advances and other credit risk provisions	(29)	-	(67)	-	(107)	-
Other impairment	(6)	-	(9)	-	(30)	-
(Loss)/profit before taxation	(68)	28	(110)	-	(141)	-

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 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 142 to 143 and a credit quality mapping table is provided on page 152 of the 2016 Annual Report.

Cover ratio

The cover ratio represents the extent to which non-performing loans are covered by 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.