Standard Chartered PLC
Pre-close trading update

26 June 2014

Standard Chartered PLC along with its subsidiaries, (the “Group”) will be holding discussions with analysts and investors ahead of its close period for the half year ending 30 June 2014. This statement details the information that will be covered in those discussions.

Peter Sands, Group Chief Executive, commented, “This has been a disappointing first half, with difficult trading conditions, particularly in financial markets. We are making good progress against our refreshed strategy and are taking the right actions in response to a challenging environment – managing costs very tightly, disposing of non-core businesses and optimising the deployment of capital. As we navigate this difficult period, we remain focused on the drivers of value creation for our shareholders, continuing to build our franchise to make the most of the enormous opportunities in our markets.”

Unless otherwise stated all comparisons exclude the impact of the UK Bank Levy, Own Credit Adjustment and impairment of goodwill in respect of Korea.

In January, the Group announced a change to its organisation structure effective 1 April 2014. This trading statement provides an update of our financial performance by product and geography. A full set of disclosure reflecting the new structure will be provided in the Group’s Half Year results in August 2014.

**Group**

The momentum of most of the Group’s businesses remains in line with expectations. The primary exception is Financial Markets which continues to be impacted by the challenging external environment, alongside the rest of the industry.

Whilst expectations for the Group’s first half performance remain ahead of the second half of last year, Group income in the first half of 2014 is expected to be down by a mid single digit percentage on the first half of 2013, or by a low single digit percentage on a constant currency basis.

Markets such as China and Africa continue to grow income well, offset by weaker performance in markets such as India, Korea and Singapore.

Costs remain well controlled and are expected to be only slightly higher than in the same period last year despite continued investment, increases in regulatory and compliance costs and salary and other inflation across our footprint.
Loan impairment is expected to be up by a high-teens percentage in the first half of 2014 in line with expectations. Asset quality remains good and, in line with previous guidance, we remain watchful in India and of commodity exposures.

Other impairment includes some US$75 million in relation to valuation impairment of certain strategic investments.

As a result of these dynamics, the Group’s operating profit in the period, whilst up on the second half of 2013, is now expected to be down by around 20 per cent on a strong first half of the same year.

We continue to see growth in customer loans and advances, up by a low single digit percentage on the 2013 year end position. Balance sheet growth has been muted by property cooling measures across several Asian markets, assertive management of Risk Weighted Assets (RWA) generating low returns and continued de-risking of unsecured products in the Retail Clients segment. Customer deposits were broadly flat on the year end position.

Group RWA, on a Basel 3 basis, are expected to have grown by a mid single digit percentage since the start of the year. This is largely the result of the expected introduction of regulatory changes to risk models, in particular the change to Exposure At Default (EAD) calculations, and credit migration. Underlying RWA growth is expected to be largely offset by very good progress on RWA management initiatives.

Our balance sheet remains in excellent shape, highly liquid, well diversified and strongly capitalised.

**Income by product**

Transaction Banking income is expected to be down by a low single digit percentage. While margins remain lower than a year ago, Trade margins have shown improvement during 2014 and Cash margins are stable at year end levels. Average Trade balances, whilst up on the same period last year, are down year to date as a result of management action to optimise returns. Average Cash balances are also up on a year ago, yet flat year to date.

Financial Markets income remains the main challenge across the Group and is expected to be down by around 20 percent. Across the industry, a number of regulatory and structural changes, combined with cyclical factors, have dampened volatility, put pressure on spreads and led to softer volumes, particularly impacting Rates and Foreign Exchange. Own Account income has seen a strong reduction, whilst Client Income, which represents nearly 90 per cent of the total, has fallen by about half the rate of overall Financial Markets income. We have seen weakness in Rates, with declines in both volumes and spreads, and in Foreign Exchange, where good volume growth has been more than offset by spread compression.
Corporate Finance income is expected to be broadly flat on the same period last year. Political uncertainty in a number of markets has resulted in some delays in deal execution, but the transaction pipeline remains good.

Wealth Management is expected to be up by a mid single digit percentage with broad based growth by product, particularly in Bancassurance.

Income across Retail Products is expected to be down by a mid single digit percentage year on year, impacted by the continued de-risking of our unsecured portfolio, higher levels of competition for deposits and property cooling measures in a number of our markets.

Asset and Liability Management (ALM) income has benefitted from better accrual income and is expected to be up strongly.

Principal Finance income is expected to be down by over 10 percent on the first half of 2013, driven primarily by timing of realisations.

**Conclusion**

Notwithstanding the performance of the Group in the first half, our franchise remains strong, with deep client relationships and market share gains in selected areas. We are maintaining tight control of costs and risk and have a highly liquid, diverse and well capitalised balance sheet.

Looking forward, Transaction Banking has momentum, Wealth Management will benefit from the recently signed Prudential PLC Bancassurance agreement, and Corporate Finance has a good pipeline. However the outlook for Financial Markets remains somewhat uncertain. Given these dynamics, our expectation is that full year profits, excluding goodwill impairment and Own Credit Adjustment, but including the UK Bank Levy, will be down on 2013. However, profits in the second half are likely to be higher than in the same period last year.

We are responding to near term challenges and we remain confident in the strong underlying potential of our markets and of our competitive positioning, banking the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

We will provide a further update when we release the Group’s Half Year results on 6 August.
For further information, please contact:

James Hopkinson - Investor queries +44 (0)20 7885 7151
Sarah Lindgreen – Media queries +44 (0)20 7885 7613

FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference ‘forward-looking statements’ regarding the belief or current expectations of the Company, the Directors and other members of its senior management about the Group’s strategy, businesses, performance and the other matters described in this document. Generally, words such as “may”, “could”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. They are not guarantees of future performance and actual results could differ materially from those contained in the forward-looking statements. Forward-looking statements are based on current views, estimates and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Group and are difficult to predict. Such risks, factors and uncertainties may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Such risks, factors and uncertainties include but are not limited to: changes in the credit quality and the recoverability of loans and amounts due from counterparties; changes in the Group’s financial models incorporating assumptions, judgments and estimates which may change over time; risks relating to capital, capital management and liquidity; risks associated with implementation of Basel III and uncertainty over the timing and scope of regulatory changes in various jurisdictions in which the Group operates; operational risks inherent in the Group’s business; risks arising out of the Group’s holding company structure; risks associated with the recruitment, retention and development of senior management and other skilled personnel; risks associated with business expansion and engaging in acquisitions; reputational risk; global macroeconomic risks; risks arising out of the dispersion of the Group’s operations, the locations of its businesses and the legal, political and economic environment in such jurisdictions; competition; risks associated with the UK Banking Act 2009 and other similar legislation or regulations; changes in the credit ratings or outlook for the Group; market, interest rate, commodity prices, equity price and other market risk; foreign exchange risk; financial market volatility; systemic risk in the banking industry and among other financial institutions or corporate borrowers; cross-border country risk; risks arising from operating in markets with less developed judicial and dispute resolution systems; risks arising out of regional hostilities, terrorist attacks, social unrest or natural disasters and failure to generate sufficient level of profits and cash flows to pay future dividends.
Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Company 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 Company and/or the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Company and/or the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable law or regulations, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.