STANDARD CHARTERED PLC
渣打集團有限公司

(Incorporated as a public limited company in England and Wales with limited liability)
(Registered Number: 966425)
(Stock Code: 02888)

6 February 2020

Accounting Policy Changes & UK Bank Levy Guidance

Changes to selected accounting policies

Standard Chartered PLC (the Group) has reviewed its accounting policies and is making the changes set out below. These will be reflected in the full-year 2019 disclosures, to be published on 27 February 2020, along with prior period comparatives changed to align with the new disclosures.

1. Net interest income and the calculation of net interest margin

The Group has changed its accounting policy for net interest income and net trading income (a component of 'other income' in the table below) to better reflect the underlying performance of its banking book. There is no change in total income, only a reclassification between net interest income and net trading income on the face of the income statement.

The revised accounting policy will result in the Group recognising all gains and losses from the trading book within trading income. As before, interest income and expense from the banking book positions will still be presented in net interest income. The instruments moving out of average interest earning assets include reverse repurchase agreements, bonds and loans. These instruments are held to service client demand and risk-managed on a mark-to-market basis.

With the reclassification of the components of gross income, it is necessary to adjust the interest expense included in the net interest margin calculation to remove funding costs for the trading book. As with the change in classification of net interest income, the new basis of preparation for the presentation of the Group's net interest margin will better reflect the underlying performance of the banking book.

The tables below show the Group's previously reported net interest margin and the net interest margin under the revised accounting policy and new basis of preparation:

As reported

On a statutory basis

$ millions	**FY 2018**	**1Q'19**	**2Q'19**	**3Q'19**
Net interest income	8,793	2,256	2,362	2,369
Other income[1]	5,996	1,662	1,550	1,589
Statutory operating income	14,789	3,918	3,912	3,958
Average interest earning assets	558,135	585,408	584,135	602,798
Net interest margin (%)[2]	**1.58**	**1.56**	**1.62**	**1.56**

Memorandum: on an underlying basis

$ millions	FY 2018	1Q'19	2Q'19	3Q'19
Net interest income	8,840	2,272	2,371	2,385
Other income[1]	6,128	1,541	1,512	1,593
Underlying operating income	14,968	3,813	3,883	3,978

As restated

On a statutory basis

$ millions	FY2018	1Q'19	2Q'19	3Q'19
Net interest income	7,796	1,905	1,933	1,922
Other income[1]	6,993	2,013	1,979	2,036
Statutory operating income	14,789	3,918	3,912	3,958
Net interest income excluding funding costs for FVTPL portfolio	8,033	1,993	2,011	2,025
Average interest earning assets	476,114	487,424	484,066	499,260
Net interest margin (%)[2]	**1.69**	**1.66**	**1.67**	**1.61**

Memorandum: on an underlying basis

$ millions	FY 2018	1Q'19	2Q'19	3Q'19
Net interest income	7,840	1,920	1,942	1,937
Other income[1]	7,128	1,893	1,941	2,041
Underlying operating income	14,968	3,813	3,883	3,978

1 Other income is made up of net trading income, net fees and commissions, and other operating income. In 2018, net trading income was c.40% of other income

2 Net interest margin is annualised net interest income (or net interest income, excluding funding costs for the FVTPL portfolio) divided by average interest earning assets

2. Change in recognition of interest in suspense with regard to Stage 3 assets

Historically, the Group recorded Stage 3 loans at their book value at the time of reclassification to Stage 3. No further interest was accrued after reclassification.

Following a clarification issued by the International Financial Reporting Interpretations Committee in March 2019, the Group is changing its accounting policy to report interest in suspense for stage 3 exposures.

Under the revised policy, interest will continue to accrue on Stage 3 loans together with an equivalent increase in impairment provisions. This change will have no effect on total profit. The interest income and impairment are netted together for income statement reporting purposes. This has been the case historically and will remain the case going forward.

However, the increase in historical impairment provisions will result in gross stage 3 assets increasing by approximately a fifth under the new accounting policy. Net stage 3 assets remain unchanged as the increase in gross stage 3 assets is offset by an increase in provisions.

If there are ultimately any recoveries on Stage 3 loans, any recoveries will now be recognised within the credit impairment line whereas previously the Group's approach was to recognise residual amounts in excess of credit provisions within interest income.

There will be no material net impact on the balance sheet or income statement.

Stage 3 cover ratios have increased as the interest in suspense is fully provided.

The tables below show the Group's previously reported credit risk disclosures and the effect of their restatement:

As reported

$ millions	31.12.18
Gross stage 3 assets	6,924
Stage 3 provisions	(4,056)
Net stage 3 assets	2,868
Cover ratio of stage 3 before collateral[3]	59%
Cover ratio of stage 3 after collateral[4]	81%

As restated

$ millions	31.12.18
Gross stage 3 assets	8,454
Stage 3 provisions	(5,586)
Net stage 3 assets	2,868
Cover ratio of stage 3 before collateral[3]	66%
Cover ratio of stage 3 after collateral[4]	85%

3 The ratio of stage 3 provisions compared to stage 3 gross assets
4 The ratio of stage 3 provisions and realisable value of collateral held against these assets compared to stage 3 gross assets

3. Income re-allocation due to internal reorganisation of the Corporate Finance and Lending & Portfolio Management business lines

The Group is also reclassifying income by product following an internal reorganisation of the Corporate Finance and Lending & Portfolio Management business lines. There is no change to total income, income by region or income by segment.

All simple lending-related businesses are now managed by coverage bankers within the Lending & Portfolio Management team while more complex event-driven transactions and transactions requiring specialist structuring knowledge remain managed within the Corporate Finance team.

The tables below show what the Group's previously reported income in these related product lines would have been on the new organisational basis:

As reported

$ millions	FY 2018	1Q'19	2Q'19	3Q'19
Corporate Finance	1,423	321	330	340
Lending	518	129	140	145
Sub-total	1,941	450	470	485

As restated

$ millions	FY 2018	1Q'19	2Q'19	3Q'19
Corporate Finance	1,186	262	272	281
Lending	755	188	198	204
Sub-total	1,941	450	470	485

4. Updated guidance on UK bank levy

The Group's current expectation is that the UK bank levy for 2019 will be around $347 million (2018: $324 million). The levy applies to certain UK banks and the UK operations of foreign banks, and is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date.

For further information, please contact:

Mark Stride
Global Head, Investor Relations
+44 (0)20 7885 8596
mark.stride@sc.com