Standard Chartered PLC
Pre-close trading update

26 June 2013

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 2013. This statement details the information that will be covered in those discussions.

Peter Sands, Group Chief Executive, commented, “This is a good performance against a backdrop of ongoing turbulence in the global economy, with the Group’s second quarter showing an acceleration over the first quarter of 2013 and over the comparable period last year. Growth has remained resilient across our footprint markets of Asia, Africa and the Middle East with high levels of client activity. We continue to see good momentum across a wide range of products and services”.

Unless otherwise stated all comparisons will be made in relation to the first half of 2012 and excludes any accrual for the UK Bank Levy.

Group

Income for the first six months of 2013 is expected to grow at a mid single digit rate. This outcome reflects the acceleration in business momentum in the second quarter driven by strong volume growth and client activity levels across our markets, offsetting the pressure on margins.

Both businesses have grown income over the first quarter of 2013 with the Group expected to grow income by around a double digit percentage, representing a strong uplift to income. Additionally, both businesses have grown income by a high single digit percentage over the second quarter of 2012, more in line with historic rates of growth.

Income growth remains well diversified by product and geography with double digit growth expected in markets including Hong Kong and Africa, with India also growing at a good rate. Offsetting these areas of growth, income in Korea and Singapore is expected to remain weak.

The Group net interest margin is currently expected to be down from the full year 2012 by around 20 basis points reflecting margin compression arising from high levels of liquidity in our markets.

Costs remain tightly managed and have grown broadly in line with income. We have continued to invest selectively while absorbing significantly increased regulatory and compliance costs. Group headcount has reduced in the second quarter and at the end of May was at the same level as the year end.

Asset quality remains good in both businesses, however total Group Impairment, which also includes Other Impairment, is expected to be up on the first half of 2012 by around 15 per cent, driven wholly by increases in Consumer Banking loan impairment.

As a result of the above, and after including an estimate for the UK Bank Levy which has increased by some 75 per cent over the run rate for the first six months of 2012, operating profit for the Group is expected to grow at a low single digit rate over the comparative period.

The balance sheet is well diversified and conservative, with no material concentrations by industry, geography or business. Consumer Banking remains predominantly secured and Wholesale Banking exposures remain predominantly short dated reflecting the trade bias of the portfolio. We continue to have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and the Group's exposures to Commercial Real Estate, level 3 assets and Asset Backed Securitisations remain low. The Group has continued to distribute assets well and is seeing good appetite for credits it has originated. Syndicated loan stick positions have continued to decline from the year end position.

We have continued to see growth on both sides of the balance sheet since the end of 2012 and expect both Loans and Advances to customers and Customer Deposits to increase by a low single digit percentage.

We remain disciplined in the management of growth in Risk Weighted Assets which we currently expect to grow by a mid single digit percentage on the year end position, mainly arising from the growth in Wholesale Banking Loans and Advances to customers.

The Group remains strongly capitalised, highly liquid with a strong advances to deposit ratio, and has a conservative funding structure with limited levels of refinancing required over the next few years. We note the letter the Prudential Regulation Authority ('PRA') sent to the UK banks last week which confirmed both the strength of the Group's capital position and its leverage ratio, and that there are no capital actions to be taken.

Consumer Banking

Consumer Banking has continued the strong and broad based income performance from the first quarter of 2013 and has maintained a tight control of costs resulting in slightly positive jaws. Loan impairment however has continued to increase and therefore operating profit has fallen by a low double digit percentage.

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Consumer Banking is expected to deliver high single digit income growth in the first half of the year with a number of geographies performing well including Hong Kong, China, India, MESA and Africa, outweighing weaker performances in Korea and Singapore.

Deposit income is expected to be down by a high single digit percentage reflecting continued margin compression.

Credit Cards and Personal Loans income is expected to grow at around a double digit rate with strong performances in Malaysia, China, India and Africa. Income is also expected to be up by a double digit percentage in Mortgages and by a high single digit percentage in Wealth Management.

Consumer Banking loan impairment has increased, driven by underlying volume growth, seasoning effects and a lower level of debt sales in the period than the US$43 million benefit in the first half of 2012 and the US$35 million benefit in the second half of 2012. As a result, loan impairment is expected to be up by around US$120 million over the second half of 2012. Additionally, almost 40 per cent of total Consumer Banking loan impairment now arises in Korea, given the ongoing impact of the Personal Debt Rehabilitation Scheme (‘PDRS’).

While Credit Card margins have reduced, this reduction is compensated for across the other Consumer Banking asset classes.

Mortgage balances are slightly down on the end of 2012 impacted by property cooling measures across our markets and also the continued transfer of fixed rate mortgages under the Mortgage Purchase Program in Korea. Credit Card and Personal Loan balances are also slightly down when compared to the end of 2012, however are broadly flat on a constant currency basis. Overall, Consumer Banking deposits are expected to be slightly down compared to the end of 2012.

Wholesale Banking

Wholesale Banking has continued to build on extremely good levels of client activity and strong volumes across our markets, although pressure on margins and spreads has continued.

Wholesale Banking income in the first half of 2013 is expected to be ahead by a low single digit percentage on the comparative period in 2012. Within this performance, Client income, which represents over 80 per cent of Wholesale Banking income, is expected to grow by a high single digit percentage. From a geographic perspective, a number of markets have performed well including double digit growth rates in Hong Kong and Africa, and good income growth in India.

Client income has benefitted from market share gains and strong levels of client activity across Transaction Banking, Financial Markets and Corporate Finance.

Market wide margin and spread pressure, at historical highs, have eroded strong volume growth.

By contrast, own account income is expected to be down by a mid teens percentage, impacted in particular by lower Asset and Liability Management and Principal Finance income.

Transaction Banking is expected to show a mid single digit percentage decline in income as continued high levels of client activity and strong volume growth are more than offset by lower margins. Margins in Cash and Trade are expected to be down by over 15 and over 25 basis points respectively over the comparable period. This margin compression represents around an 18 per cent reduction in the margins for both Cash and Trade.

Whilst Trade margins have continued to decline through the second quarter as the back book repriced to the current margin levels, margins on new business appear to be stabilizing and volume growth remains strong.

Corporate Finance has achieved strong double digit growth across all four major business lines, with excellent levels of client activity and strong new deal growth. Income is expected to grow by over 20 per cent, ahead of the full year growth rate for 2012. The deal pipeline remains robust and broad based.

Financial Markets income is expected to grow by around a double digit percentage. Within this, Client Income, which represents around 80 per cent of Financial Markets income, is expected to be up by a double digit percentage driven by strong performance in Credit, Commodities and Equities. Excellent growth in volumes, particularly in Foreign Exchange and Rates was partly offset by continued spread compression.

ALM income is expected to be down by around 20 per cent representing almost US$100 million drag to Group income. This fall in income is driven in particular by the ongoing costs of meeting the regulatory liquid asset buffer requirements and lower reinvestment yields.

Principal Finance is currently expected to deliver lower income in the first half of 2013, down from the US$232 million in the first half of 2012 by around 25 per cent. This performance is driven by weak equity market sentiment impacting our ability to harvest gains on our portfolio and adversely affecting valuations.

Expenses in Wholesale Banking remain well managed, up by a low single digit percentage representing broadly flat jaws, with a continued investment focus on people and technology capabilities.

Asset quality continues to be good and the portfolio is not showing any new signs of stress. We remain watchful of the external environment particularly in India and the Middle East. Although the Wholesale Banking loan impairment charge will only be finalised towards the end of July, it is currently expected to be below the level seen in the comparable period in 2012.

As a result of the above, Wholesale Banking operating profit is expected to be up by a high single digit percentage.

Changes in Accounting Treatment

We will be assessing the carrying value of goodwill in respect of Korea on 30 June 2013, given the challenging domestic performance this year and the recent material movement in the discount rates since the end of May.

We are required by IFRS13 to recognise income for Own Credit Adjustments (‘OCA’) and Debt Value Adjustments (‘DVA’) for the first time this year. OCA and DVA relate to the valuation of our own issued debt instruments and derivative liabilities.

The above statement includes the impact of this accounting change. We currently anticipate that this will be a credit to Financial Markets Client Income in the first half of 2013 of over approximately US$100 million although this may vary in line with market volatility. Excluding this accounting change Financial Markets Client Income would have been up by a mid single digit percentage. We are currently proposing to normalise OCA for the purpose of the earnings per share metrics.

As highlighted in the May Interim Management Statement, and as per IFRS 11, the contribution to the Group from Permata, our joint venture business in Indonesia, will be equity accounted rather than proportionally consolidated from 2013 onwards. This change will be incorporated in our 2013 interim results, with prior periods restated. This change has been reflected in this statement.

Conclusion

The growth in Group income and operating profit is underpinned by strong business momentum driving a step up in performance over the first quarter of the year, continued market share gains and good client activity in both businesses.

Excluding the impact, if any, of the reassessment of the carrying value of goodwill in respect of Korea, we remain comfortable with full year consensus for operating profit.

The Group is highly liquid, well capitalised, has a good grip on costs and risk and remains focused on the growing markets of the world.

For further information, please contact:

James Hopkinson, Head of Investor Relations +44 (0)20 7885 7151
Edwin Hui, Head of Investor Relations, Asia +852 2820 3050
Jon Tracey, Head of Media Relations +44 (0)20 7885 7613

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