1 November 2016

Standard Chartered PLC - Interim management statement

Highlights

Standard Chartered PLC today releases its interim management statement for the quarter ended 30 September 2016. All figures are presented on an underlying basis as laid out in the performance summary table, unless otherwise stated.

"We have made progress executing the strategic actions announced a year ago. We now have a stronger balance sheet, reduced concentrations and are becoming more efficient, but income and profit levels are not yet acceptable. Putting our clients' needs back at the heart of everything will improve our performance."
Bill Winters, Group Chief Executive

Third quarter financial performance summary

- Operating income of $3.5 billion continued the recent stable trend
- Other operating expenses of $2.1 billion were similar to the run-rate seen in the first half of the year
- Regulatory expenses continued at an annualised run-rate of over $1 billion
- Loan impairment of $596 million was 5 per cent lower quarter-on-quarter but remains elevated
- Underlying profit before tax of $458 million compares favourably to a $139 million loss in the equivalent period in 2015
- Further restructuring charges of $141 million were incurred relating primarily to the liquidation portfolio
- The Group reported statutory profit before tax of $153 million

Executing the strategy

- Progress made reducing exposures in the liquidation portfolio since the end of the third quarter
- Remain on track to deliver gross cost savings in excess of $1 billion in 2016
- Increased the pace of investment through the year

Strong and liquid balance sheet

- Common Equity Tier 1 (CET1) ratio of 13.0 per cent remains at the top end of the 12-13 per cent target range
- Issued $2 billion Additional Tier 1 and $1.25 billion of Tier 2 capital and $2.2 billion of senior unsecured debt
- Recently completed and further restructuring actions are expected to add around 50 bps to CET1 in the fourth quarter

Summary and outlook

- Delivered income, underlying profit and balance sheet stability in the third quarter
- Market conditions are expected to remain challenging
- The Group is maintaining a strong capital level given regulatory reform uncertainties

Performance summary	**3 months ended 30.09.16 $million**	3 months ended 30.06.16 $million	3 months ended 30.09.15 $million	**9 months ended 30.09.16 $million**	9 months ended 30.09.15 $million
Operating income	**3,465**	3,465	3,682	**10,275**	12,177
Other operating expenses	**(2,109)**	(1,982)	(2,263)	**(6,097)**	(6,852)
Regulatory costs	**(278)**	(303)	(237)	**(824)**	(690)
Operating profit before impairment losses and taxation	**1,078**	1,180	1,182	**3,354**	4,635
Impairment losses on loans and advances and other credit risk provisions	**(596)**	(625)	(1,230)	**(1,692)**	(2,882)
Other impairment	**(64)**	(90)	(161)	**(277)**	(247)
Profit/(loss) from associates and joint ventures	**40**	(10)	70	**67**	179
Underlying profit/(loss) before taxation	**458**	455	(139)	**1,452**	1,685
Restructuring[1]	**(141)**	8	-	**(256)**	-
Own credit adjustment	**(164)**	(159)	570	**(234)**	625
Gains arising on repurchase of subordinated liabilities	**-**	-	-	**84**	-
(Losses)/gains on businesses disposed/held for sale	**-**	-	(1)	**-**	218
Statutory profit before taxation	**153**	304	430	**1,046**	2,528

[1]Restructuring comprises for the three months ended 30 September 2016 and the 9 months ended 30 September 2016 respectively, operating income $11m, $122m, other operating expenses $14m, $24m, impairment for losses on loans and advances and other credit risk provisions $108m, $308m, other impairment $30m, $46m.

Operating income in the period of $3,465 million was flat compared to the previous quarter continuing the stable trend during 2016. Higher income in Greater China & North Asia, driven by a better result in Hong Kong, and flat performance in ASEAN & South Asia was offset by lower income in Africa & Middle East and Europe & Americas.

Other operating expenses of $6,097 million year-to-date were 11 per cent lower year-on-year due to restructuring actions. Other operating expenses in the third quarter of $2,109 million were at a run-rate similar to that seen in the first half. Regulatory costs of $278 million were 8 per cent lower than in the second quarter and continue to annualise at over $1 billion.

The Group remains on track to deliver in excess of $1 billion in gross cost efficiencies by the end of 2016. This creates capacity for investment in the franchise. This year's UK bank levy is estimated to be approximately $400 million.

Loan impairment of $596 million in the third quarter and $1,692 million year-to-date was lower by $634 million and by $1,190 million respectively than in the comparable periods last year. This reflects the benefit of past risk management actions. Stresses in the Group's markets remain and credit portfolios continue to be managed proactively.

Profit from associates and joint ventures has been impacted by continued challenging market conditions.

As a result underlying operating profit before tax of $458 million in the third quarter was stable on the previous quarter and a substantial improvement on the $139 million loss incurred in the equivalent period of last year.

Third quarter restructuring charges of $141 million take the total cost of restructuring since November 2015 to $2.1 billion. It remains the Group's expectation that restructuring charges will total around $3 billion as guided in November 2015 though some may be incurred after the end of 2016.

The Group has made progress reducing exposures in the liquidation portfolio since the end of the third quarter. Around 70 per cent of the $20 billion risk-weighted assets have now been resolved for no significant incremental restructuring charge.

Client segment income	3 months ended 30.09.16 $million	3 months ended 30.06.16 $million	3 months ended 30.09.15 $million	9 months ended 30.09.16 $million	9 months ended 30.09.15 $million
Corporate & Institutional Banking	**1,596**	1,563	1,725	**4,743**	5,668
Commercial Banking	**323**	349	377	**990**	1,296
Private Banking	**125**	146	127	**386**	417
Retail Banking	**1,186**	1,165	1,199	**3,502**	3,941
Central & other items	**235**	242	254	**654**	855
Total operating income	**3,465**	3,465	3,682	**10,275**	12,177

Corporate & Institutional Banking income of $1,596 million was up 2 per cent quarter-on-quarter benefiting from strong levels of debt issuance by clients, relative stability in trade values and a focus on servicing client operating accounts. This was offset by lower Foreign Exchange demand and reduced Corporate Finance activity.

Commercial Banking income of $323 million was down 7 per cent quarter-on-quarter and down 14 per cent year-on-year. Quarter-on-quarter income growth in Transaction Banking and Financial Markets was offset by lower income from Lending due to continued portfolio optimisation. A better quarter-on-quarter performance in Hong Kong and China was more than offset by weaker performances in the UAE and in Africa.

Income from Private Banking of $125 million was down $21 million or 14 per cent quarter-on-quarter. Excluding the previously disclosed $25 million one-off insurance recovery in the second quarter, Private Banking income was up 3 per cent quarter-on-quarter. Investor sentiment improved in the third quarter and the Group continues to invest in this segment as a strategic priority.

Third quarter income of $1,186 million in Retail Banking was up 2 per cent quarter-on-quarter, and broadly stable year-on-year, despite the impact of earlier business disposals and de-risking initiatives. There has been improvement in Wealth Management investment sales and continued growth in Deposit balances, as well as stability in Credit Cards and Personal Loans. The Group continues to build the priority clients business which now accounts for around 40 per cent of total Retail Banking income. From a regional perspective higher quarter-on-quarter income in Hong Kong and Korea was partly offset by declines in income in Singapore and the UAE.

Central & other items income relates largely to Asset and Liability Management (ALM) and Corporate Treasury activities. Income of $235 million was down 3 per cent quarter-on-quarter impacted by fewer securities sales in ALM.

Operating income by product	**3 months ended 30.09.16 $million**	3 months ended 30.06.16 $million	3 months ended 30.09.15 $million	**9 months ended 30.09.16 $million**	9 months ended 30.09.15 $million
Transaction Banking	**722**	702	800	**2,140**	2,517
Trade	**300**	299	363	**904**	1,167
Cash Management and Custody	**422**	403	437	**1,236**	1,350
Financial Markets	**714**	642	622	**2,053**	2,339
Foreign Exchange	**249**	264	361	**878**	1,120
Rates	**187**	174	180	**530**	652
Commodities	**59**	34	61	**137**	209
Credit and Capital Markets	**112**	80	72	**267**	284
Other Financial Markets	**107**	90	(52)	**241**	74
Corporate Finance	**421**	474	517	**1,365**	1,378
Wealth Management	**387**	370	375	**1,106**	1,269
Retail Products	**925**	918	952	**2,758**	3,055
CCPL and other unsecured lending	**394**	390	443	**1,187**	1,492
Deposits	**333**	327	291	**961**	902
Mortgage and Auto	**178**	183	199	**554**	601
Other Retail Products	**20**	18	19	**56**	60
Asset and Liability Management	**63**	112	78	**280**	326
Lending and Portfolio Management	**93**	130	180	**373**	586
Principal Finance	**(30)**	(37)	(17)	**(197)**	142
Other	**170**	154	175	**397**	565
Total operating income	**3,465**	3,465	3,682	**10,275**	12,177

Transaction Banking income of $722 million in the period was up 3 per cent quarter-on-quarter. Within this, Trade income of $300 million was broadly stable and Cash Management and Custody income was up 5 per cent. Average Trade balances and margins were broadly in line with the second quarter while Cash balances were up 3 per cent and margins improved slightly as the Group continued to gather high quality customer deposits.

Financial Markets income of $714 million was up 11 per cent on the previous quarter and benefited from higher volumes in primary and secondary debt markets. This was partially offset by lower Foreign Exchange activity.

Corporate Finance income of $421 million was down 11 per cent quarter-on-quarter, with challenging market conditions delaying execution of transactions in the deal pipeline.

Third quarter Wealth Management income of $387 million was up 5 per cent quarter-on-quarter, benefiting from improved investor sentiment and the Group's focus on more affluent Retail Banking and Private Banking clients.

Income from Retail Products of $925 million was broadly stable compared to the previous quarter and down 3 per cent year-on-year. The proportion of unsecured lending has reduced compared to last year as the Group focuses on more affluent client segments. The Group is continuing to invest in digital capabilities as well as increasing sales capacity in core markets.

Principal Finance income was negative $30 million in the third quarter. Continued weakness in equity markets in the Group's footprint resulted in further fair value losses on investments, taking the total negative income this year to $197 million.

Asset quality	**30.09.16**			30.06.16		
	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	**265,837**	**7,070**	**272,907**	265,293	7,266	272,559
Net loans and advances to customers	**262,036**	**3,991**	**266,027**	261,670	4,204	265,874
Credit quality						
Gross non-performing loans	**6,151**	**6,640**	**12,791**	6,005	6,806	12,811
Individual impairment provisions	**(3,141)**	**(3,079)**	**(6,220)**	(3,045)	(3,062)	(6,107)
Net non-performing loans	**3,010**	**3,561**	**6,571**	2,960	3,744	6,704
Credit grade 12 accounts	**1,529**	**50**	**1,579**	1,247	82	1,329
Cover ratio[1]	**63%**	**46%**	**55%**	62%	45%	53%
Cover ratio (after collateral)[2]	**74%**	**62%**	**68%**	73%	61%	67%
Risk-weighted assets (in $billion)	**273**	**19**	**292**	273	20	293

[1] Including portfolio impairment provision

[2] Excluding portfolio impairment provision

Credit quality was broadly stable in the third quarter with gross non-performing loans (NPLs) remaining at $12.8 billion. Gross NPLs in the ongoing business of $6.2 billion represent around half of the total and 2.3 per cent of gross loans and advances.

The increases in gross NPLs of $146 million and in credit grade 12 (CG12) accounts of $282 million in the ongoing business largely related to a relatively small number of Corporate & Institutional Banking clients and reflected continued challenging conditions.

The Group's cover ratio, before taking into account the benefit of collateral, improved from 53 per cent to 55 per cent in the third quarter, with the ratio for the ongoing business improving slightly to 63 per cent.

Progress on the liquidation portfolio since the end of the third quarter is expected to reduce gross NPLs by $2.6 billion and risk-weighted assets by $13.2 billion. This will improve the cover ratio on the liquidation portfolio to above 60 per cent.

Key balance sheet metrics	**30.09.16 $million**	30.06.16 $million	31.03.16 $million	31.12.15 $million
Balance sheet				
Loans and advances to customers	**266,027**	265,874	257,763	261,403
Customer deposits	**382,421**	371,698	365,626	359,127
Capital				
CET1 ratio (end point)	**13.0%**	13.1%	13.1%	12.6%
Total capital ratio (transitional)	**20.5%**	19.5%	19.6%	19.5%
Total risk-weighted assets	**292,055**	293,226	295,310	302,925
Leverage				
Tier 1 capital (end point)	**41,999**	40,315	40,741	40,149
Total leverage exposure (end point)	**744,721**	731,131	745,761	729,220
Leverage ratio	**5.6%**	5.5%	5.5%	5.5%
Quarterly average exposure measure	**739,937**	729,426	738,595	N/A
Average leverage ratio	**5.6%**	5.5%	5.5%	N/A
Countercyclical leverage ratio buffer	**-**	-	175	N/A

As a result of deliberate management actions, the Group's balance sheet is strong, liquid and increasingly diverse. The Group established a dedicated portfolio management unit in Corporate & Institutional Banking during the period to further enhance balance sheet productivity and each of the client segments continued to focus on enhancing the quality of liabilities.

Customer loans and advances of $266 billion have been broadly stable since 30 June 2016. Customer deposits of $382 billion were up $11 billion in the period, or 3 per cent, as investment continued into areas that generate better quality liquidity including in Cash Management and Custody and in Retail Banking. As a result the Group's advances-to-deposits ratio was 69.6 per cent compared to 71.5 per cent on 30 June 2016.

The Group's Common Equity Tier 1 (CET1) ratio of 13.0 per cent was 5 basis points lower than the first half and remains at the top of the Group's 12-13 per cent target range. The reduction in the liquidation portfolio and other restructuring actions are expected to add around 50 basis points in the fourth quarter. However there remain a number of capital headwinds including the eventual outcome of regulatory reforms to finalise banks' capital requirements.

The Pillar 2A requirement for all banks is reviewed regularly by the Prudential Regulation Authority. The Group was advised during the period that its requirement has increased, raising the Group's known minimum CET1 requirement in 2019 to 9.8 per cent from 9.2 per cent. The Group continues to operate well in excess of this known minimum and its 12-13 per cent target range remains unchanged.

The Group remains active in debt capital markets having issued $2 billion of Additional Tier 1 and $1.25 billion of Tier 2 capital and $2.2 billion of senior unsecured debt. Consistent with its focus on improving financial returns, the Group does not plan to exercise its option in January 2017 to redeem the $750 million 6.409 per cent non-cumulative redeemable preference shares that were issued in 2006.

Summary

Since announcing the refreshed strategy one year ago, we have made good progress repositioning the Group. These collective actions and the strength of our client relationships resulted in a third successive quarter of stable underlying profit and income.

We expect the market environment to remain challenging. The strategy we set out a year ago remains the right one for these conditions, and we are focused on making sustainable improvements in productivity, efficiency and our ability to generate better returns.

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ADDITIONAL INFORMATION

Quarterly income for the last seven quarters

Underlying operating income by client segment	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
	$million	$million	$million	$million	$million	$million	$million
Corporate & Institutional Banking	**1,596**	1,563	1,584	1,513	1,725	1,939	2,004
Commercial Banking	**323**	349	318	309	377	386	533
Private Banking	**125**	146	115	117	127	148	142
Retail Banking	**1,186**	1,165	1,151	1,166	1,199	1,340	1,402
Central & other items	**235**	242	177	157	254	261	340
Total operating income	**3,465**	3,465	3,345	3,262	3,682	4,074	4,421

Underlying operating income by product	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
	$million	$million	$million	$million	$million	$million	$million
Transaction Banking	**722**	702	716	733	800	859	858
Trade	**300**	299	305	314	363	392	412
Cash Management and Custody	**422**	403	411	419	437	467	446
Financial Markets	**714**	642	697	582	622	746	971
Foreign Exchange	**249**	264	365	281	361	311	448
Rates	**187**	174	169	106	180	200	272
Commodities	**59**	34	44	50	61	49	99
Credit and Capital Markets	**112**	80	75	81	72	121	91
Other Financial Markets	**107**	90	44	64	(52)	65	61
Corporate Finance	**421**	474	470	459	517	392	469
Wealth Management	**387**	370	349	364	375	467	427
Retail Products	**925**	918	915	915	952	1,022	1,081
CCPL and other unsecured lending	**394**	390	403	417	443	497	552
Deposits	**333**	327	301	283	291	310	301
Mortgage and Auto	**178**	183	193	197	199	195	207
Other Retail Products	**20**	18	18	18	19	20	21
Asset and Liability Management	**63**	112	105	45	78	87	161
Lending and Portfolio Management	**93**	130	150	134	180	199	207
Principal Finance	**(30)**	(37)	(130)	(88)	(17)	129	30
Other	**170**	154	73	118	175	173	217
Total operating income	**3,465**	3,465	3,345	3,262	3,682	4,074	4,421

Legal and regulatory matter

The Group has been informed by the Hong Kong Securities and Futures Commission that it intends to take action against Standard Chartered Securities (Hong Kong) Limited ("SCSHK") in relation to its role as a joint sponsor of an initial public offering listed on the Hong Kong Stock Exchange in 2009. If it does take action there may be financial consequences for SCSHK.

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 nine months ended 30 September 2016. The Group uses a number of alternative performance measures including underlying profit/(loss) before taxation, cover ratio and credit grade 12 in the discussion of its business performance and financial position.

These are defined as follows:

Underlying profit/(loss) before taxation

Underlying profit/(loss) before taxation has been adjusted for certain items listed on page 2 to allow a comparison of the Group's underlying performance.

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.

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.

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