2 May 2018

Standard Chartered PLC - Interim Management Statement

Standard Chartered PLC (the Group) today releases its Interim Management Statement for the quarter ended 31 March 2018. All figures are presented on an underlying basis and comparisons are made to the equivalent period in 2017 unless otherwise stated.

Commenting on the first quarter performance, Bill Winters, Group Chief Executive, said:
"This encouraging start to the year shows that we are firmly on the path laid out in February that will take us above an 8 per cent return on equity in the medium term. We are determined to pass that milestone as soon as we can in a safe and sustainable manner, while continuing to improve our service to our new and existing clients."

Strategic execution and outlook

- Broad-based income growth at the top of the targeted 5-7 per cent medium term range
- Strong Wealth Management and Transaction Banking momentum where investment is reinforcing differentiation
- Positive operating leverage of over 3 per cent after funding investments
- Greater resilience with a 13.9 per cent Common Equity Tier 1 (CET1) ratio and improved credit quality
- Macroeconomic conditions remain favourable although geopolitical risks persist

First quarter financial performance highlights

- Underlying profit before tax of $1.3bn was up 20 per cent reflecting focus on improving returns
  - Statutory profit before tax of $1.2bn included restructuring charges of $70m relating primarily to Principal Finance
  - The impact of US dollar depreciation was broadly neutral on underlying and statutory profit
  - Annualised underlying return on equity of 7.6 per cent compared to 6.3 per cent in the first quarter of 2017
- Operating income of $3.9bn was up 7 per cent or 5 per cent on a constant currency basis
  - Income was up 10 per cent excluding Treasury gains made in favourable market conditions in Q1 2017
  - Financial Markets income was 2 per cent higher after a strong start to the year moderated in March
- Other operating expenses of $2.2bn increased 5 per cent or 1 per cent on a constant currency basis
  - The Group has achieved 95 per cent of the four-year $2.9bn cost efficiency target with nine months to go
  - Additional efficiencies will fund investment into growth opportunities and to further enhance controls
- Regulatory costs were 2 per cent lower following the implementation of several large programmes in 2017
- Asset quality for the Group overall has improved year-on-year and remained stable in the first quarter
  - Loan impairment now on an IFRS 9 basis of $191m was at a similar level to the same period in 2017

Balance sheet and capital

- Broad-based balance sheet growth
  - Net loans and advances to customers were up 3 per cent in the quarter to $295bn
  - Customer accounts were up 1 per cent in the quarter to $418bn
- CET1 ratio of 13.9 per cent was up 26 basis points since the end of 2017 due mainly to profit accretion
  - Applying LGD floors to certain corporate exposures is not expected to materially impact the CET1 ratio

Performance summary

	3 months ended 31.03.18 $million	3 months ended 31.12.17 $million	3 months ended 31.03.17 $million	Q1 18 vs Q4 17 Better/ (Worse) %	Q1 18 vs Q1 17 Better/ (Worse) %
Operating income	**3,873**	3,478	3,608	11	7
Other operating expenses	**(2,166)**	(2,283)	(2,069)	5	(5)
Regulatory costs	**(303)**	(366)	(309)	17	2
UK Bank levy	**-**	(220)	-	n.m.	-
Operating profit before impairment and tax	**1,404**	609	1,230	131	14
Net impairment on financial assets	**(191)**	(269)[1]	(198)[1]	29	4
Other impairment	**(24)**	(66)	(53)	64	55
Profit/(loss) from associates and joint ventures	**68**	3	66	n.m.	3
Underlying profit/(loss) before taxation	**1,257**	277	1,045	354	20
Restructuring	**(70)**	(120)	(55)	42	(27)
Other items	**-**	(270)	-	n.m.	n.m.
Statistory profit/(loss) before taxation	**1,187**	(113)	990	n.m.	20

[1] Prepared and disclosed on an IAS 39 basis. See basis of presentation on page 7

Operating income was 7 per cent higher year-on-year or 5 per cent on a constant currency basis. Income from areas where the Group has been focusing attention on reinforcing differentiation since 2015, including Transaction Banking, Mortgages, Wealth Management and Deposits, has grown strongly, up 18 per cent in aggregate. Income from Credit Cards and Personal Loans and Corporate Finance where the Group continues to take action to improve returns was stable, rising 2 per cent. Financial Markets income was 2 per cent higher after favourable market conditions at the start of the year moderated in March, and Treasury income was impacted by the non-repeat of gains in the first quarter of 2017.

Other operating expenses were up 5 per cent or 1 per cent on a constant currency basis demonstrating continued tight control of expenses. Regulatory costs were 2 per cent lower and 17 per cent lower quarter-on-quarter after several regulatory programmes were implemented at the end of 2017. The Group has delivered 95 per cent of its four-year $2.9 billion gross cost efficiencies target set in November 2015 and is on track to exceed it by the end of 2018. These additional efficiencies will fund investments to capture growth opportunities and further enhance resilience.

Net impairment on financial assets was at a similar level to loan impairment in the same period last year and 29 per cent lower than in the fourth quarter, which included a one-off provision in Retail Banking following a change in regulation in Korea. Improvement was broad-based and resulted from a higher proportion of investment grade exposures as well as an improvement in macroeconomic indicators in Hong Kong, China and Singapore.

Other impairment related primarily to transport leasing assets.

Profit from associates and joint ventures was 3 per cent higher driven by continued improvement in performance from the Group’s joint venture in Indonesia and associate investment in China.

As a result, underlying profit before tax was 20 per cent higher year-on-year. Statutory profit before tax includes restructuring charges relating primarily to Principal Finance that are expected to reduce over the balance of the year.

Client segment income

	3 months ended 31.03.18 $million	3 months ended 31.12.17 $million	3 months ended 31.03.17 $million	Q1 18 vs Q4 17 Better/ (Worse) %	Q1 18 vs Q1 17 Better/ (Worse) %
Corporate & Institutional Banking	**1,742**	1,649	1,623	6	7
Retail Banking	**1,339**	1,186	1,174	13	14
Commercial Banking	**351**	335	327	5	7
Private Banking	**144**	130	117	11	23
Central & other items	**297**	178	367	67	(19)
Total operating income	**3,873**	3,478	3,608	11	7

Growth in Corporate & Institutional Banking income reflected continued momentum in Transaction Banking, following a more than 20 per cent increase in client operating account average balances, and a slightly better performance in Financial Markets.

Factors driving the 14 per cent improvement in Retail Banking included higher income from Wealth Management and Deposits, particularly in Hong Kong, resulting from an increase in income from Priority clients, and early signs of an increase in income from Personal clients.

The 7 per cent growth in Commercial Banking income to $351 million was broad-based, with improvement in Transaction Banking and Corporate Finance offsetting slightly lower income in Financial Markets.

Good momentum in Wealth Management drove Private Banking income 23 per cent higher. The business continues to attract new senior relationship managers and gathered over $700 million net new money in the first quarter.

Income from Central & other items was 19 per cent lower year-on-year. Excluding realisation gains of around $100 million made in favourable market conditions in the first quarter of 2017, Treasury income was 11 per cent higher and benefited from rises in interest rates during 2017.

Geographic region income

	3 months ended 31.03.18 $million	3 months ended 31.12.17 $million	3 months ended 31.03.17 $million	Q1 18 vs Q4 17 Better/ (Worse) %	Q1 18 vs Q1 17 Better/ (Worse) %
Greater China & North Asia	**1,564**	1,411	1,381	11	13
ASEAN & South Asia	**1,075**	932	1,006	15	7
Africa & Middle East	**684**	677	686	1	(0)
Europe & Americas	**441**	414	435	7	1
Central & other items	**109**	44	100	148	9
Total operating income	**3,873**	3,478	3,608	11	7

The 13 per cent increase in income from Greater China & North Asia was driven by broad-based growth particularly in Hong Kong and in Retail Banking that has continued to benefit from momentum in Wealth Management and Deposits.

The improvement in income from ASEAN & South Asia was driven by double-digit growth across Wealth Management, Transaction Banking and Retail Products.

Income from Africa & Middle East was stable with stronger performances in Transaction Banking and Wealth Management offset by a reduction in income from Financial Markets.

Europe & Americas income was up 1 per cent impacted by lower income from Financial Markets where the region’s status as a hub for this business meant it was particularly affected by industry-wide swings in volatility.

Income from Central & other items was stable year-on-year and quarter-on-quarter after excluding the one-off hedge accounting adjustment in the fourth quarter of 2017.

Group credit quality and liquidation portfolio

	31.03.18 (IFRS 9)			01.01.18 (IFRS 9)		
	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	**299,111**	**1,709**	**300,820**	288,859	2,248	291,107
Net impairment provisions	**(4,899)**	**(1,178)**	**(6,077)**	(4,854)	(1,626)	(6,480)
Net loans and advances to customers	**294,212**	**531**	**294,743**	284,005	622	284,627
Credit quality						
Gross credit-impaired (stage 3) loans	**6,743**	**1,688**	**8,431**	6,615	2,226	8,841
Credit impairment (stage 3) provisions	**(3,629)**	**(1,178)**	**(4,807)**	(3,662)	(1,626)	(5,288)
Net credit-impaired loans	**3,114**	**510**	**3,624**	2,953	600	3,553
Cover ratio before / after collateral (%)	**54 / 76**	**70 / 88**	**57 / 78**	55 / 78	73 / 88	60 / 80
Credit grade 12 accounts	**1,336**	**21**	**1,357**	1,483	22	1,505
Risk-weighted assets	**279,461**	**744**	**280,205**	278,933	815	279,748

Credit quality for the Group overall has improved year-on-year and remained stable in the first quarter as the Group continues to focus on high quality origination within a more granular risk appetite. The Group remains watchful in view of continued geopolitical uncertainty but no new areas of stress have emerged.

Ongoing business

Gross credit-impaired (stage 3) loans in the ongoing business were $128 million higher than 1 January 2018 and credit grade 12 accounts were $147 million lower. The cover ratios both before and after collateral remained broadly stable.

Liquidation portfolio

Gross credit-impaired loans were lower by $538 million or almost a quarter compared to 1 January 2018 as the Group continued to make progress exiting exposures in this portfolio. The cover ratio after collateral remained unchanged at 88 per cent and credit grade 12 accounts remained stable.

Balance sheet, capital and leverage

	31.03.18 $million	31.12.17 $million	31.03.17 $million
Balance sheet			
Net loans and advances to customers[1]	**294,743**	285,553	269,740
Of which: reverse repurchase agreements and other similar lending	***36,980***	*33,928*	*28,354*
Customer accounts[1]	**417,796**	411,724	397,564
Of which: repurchase agreements and other similar borrowing	***39,265***	*35,979*	*33,578*
Advances-to-deposits ratio (%)	**70.5**	69.4	67.8
Capital			
Common equity tier 1 ratio (%)	**13.9**	13.6	13.8
Risk-weighted assets	**280,205**	279,748	273,303
Leverage			
UK leverage ratio (%)	**5.9**	6.0	5.9

[1] Includes balances held at fair value through profit or loss

The Group's balance sheet remains strong, liquid and well diversified.

Net loans and advances to customers were up 3 per cent since 31 December 2017 with around one-third of this growth driven by reverse repurchase agreements and the remainder by Corporate Finance and other Lending. Customer accounts were up 1 per cent since 31 December 2017 reflecting growth in repurchase agreements as well as high-quality Retail

Banking current and savings accounts. As a result, the Group's advances-to-deposits ratio increased to 70.5 per cent at the end of the first quarter from 69.4 per cent as at 31 December 2017.

The Group's CET1 ratio of 13.9 per cent was 26 basis points higher than 31 December 2017 as the Group generated profits in the quarter while risk-weighted assets were broadly unchanged. As disclosed previously, based on feedback received from the Prudential Regulation Authority, the Group is expecting to make changes to loss given default floors in its internal ratings-based models. Though the timing and exact impact of these changes relating to certain corporate exposures is uncertain they are not expected to materially impact the CET1 ratio.

Summary and outlook

Strong underlying income momentum, stable credit quality and a continuing focus on cost control delivered significant year-on-year improvement in profitability in the first quarter. This encouraging performance is the result of management actions to improve returns, in a macroeconomic environment that remains conducive to profitable growth.

We are alert to continued geopolitical risks but we are now more resilient, and remain focused on improving our service to our clients while becoming more competitive.

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ADDITIONAL INFORMATION - Quarterly underlying operating income

By client segment	Q1 2018 $million	Q4 2017 $million	Q3 2017 $million	Q2 2017 $million	Q1 2017 $million	Q4 2016 $million	Q3 2016 $million
Corporate & Institutional Banking	**1,742**	1,649	1,629	1,595	1,623	1,729	1,596
Retail Banking	**1,339**	1,186	1,252	1,222	1,174	1,167	1,186
Commercial Banking	**351**	335	338	333	327	305	323
Private Banking	**144**	130	128	125	117	110	125
Central & other items	**297**	178	242	339	367	222	235
Total operating income	**3,873**	3,478	3,589	3,614	3,608	3,533	3,465

By geographic region	Q1 2018 $million	Q4 2017 $million	Q3 2017 $million	Q2 2017 $million	Q1 2017 $million	Q4 2016 $million	Q3 2016 $million
Greater China & North Asia	**1,564**	1,411	1,414	1,410	1,381	1,329	1,310
ASEAN & South Asia	**1,075**	932	937	958	1,006	993	1,005
Africa & Middle East	**684**	677	700	701	686	653	669
Europe & Americas	**441**	414	378	374	435	464	383
Central & other items	**109**	44	160	171	100	94	98
Total operating income	**3,873**	3,478	3,589	3,614	3,608	3,533	3,465

By product	O1 2018 $million	O4 2017 $million	O3 2017 $million	O2 2017 $million	O1 2017 $million	O4 2016 $million	O3 2016 $million
Transaction Banking	**916**	876	856	812	785	744	722
Trade	**304**	298	306	296	297	295	300
Cash Management and Custody	**612**	578	550	516	488	449	422
Financial Markets	**724**	536	663	637	708	780	727
Foreign Exchange	**250**	208	238	272	225	272	249
Rates	**177**	74	172	127	162	147	187
Commodities	**51**	35	42	32	48	53	59
Credit and Capital Markets	**106**	85	90	82	119	97	112
Capital Structuring and Distribution	**55**	51	72	74	82	104	13
Other Financial Markets	**85**	83	49	50	72	107	107
Corporate Finance	**331**	466	325	360	325	401	378
Lending and Portfolio Management	**137**	111	128	122	135	130	123
Principal Finance[1]	**-**	-	-	-	-	(20)	(30)
Wealth Management	**539**	397	488	435	421	377	387
Retail Products	**943**	916	891	905	871	900	925
CCPL and other unsecured lending	**351**	334	349	340	344	370	394
Deposits	**394**	366	344	363	346	326	333
Mortgage and Auto	**176**	196	179	185	164	185	178
Other Retail Products	**22**	20	19	17	17	19	20
Treasury	**290**	200	255	339	349	198	233
Others[2]	**(7)**	(24)	(17)	4	14	23	0
Total operating income	**3,873**	3,478	3,589	3,614	3,608	3,533	3,465

[1]In 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
[2]Others includes group special asset management from 2018 onwards. Prior periods have not 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 months ended 31 March 2018.

IFRS 9 became effective from 1 January 2018 and the Group has not restated comparative information. Accordingly, amounts prior to 1 January 2018 have been prepared and disclosed on an IAS 39 basis. This primarily impacts credit risk provisions, which are determined using an expected credit loss approach under IFRS 9 compared to an incurred loss approach under IAS 39.

Regulatory investigations

As described in detail on page 259 in the 2017 Annual Report, the Group continues to cooperate with authorities in the US and the UK in their investigations of past conduct and is engaged in ongoing discussions to resolve them. Concluding these historical matters, which could have a substantial financial impact, remains a focus of the Group.

Restructuring and other items

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 31.03.18		3 months ended 31.12.17		3 months ended 31.03.17	
	Restructuring $million	**Other items $million**	Restructuring $million	Other items $million	Restructuring $million	Other items $million
Operating income	**(73)**	**-**	52	50	(28)	-
Operating expenses	**(27)**	**-**	(156)	-	(40)	-
Impairment on financial assets	**29**	**-**	(61)	-	(5)	-
Other impairment	**1**	**-**	5	(320)	0	-
Profit from associates and joint ventures	**-**	**-**	40	-	18	-
Loss before taxation	**(70)**	**-**	(120)	(270)	(55)	-

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:

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 126 to 127 and a credit quality mapping table is provided on page 125 of the 2017 Annual Report.

Cover ratio

The cover ratio under IFRS 9 represents the extent to which stage 3 loans are covered by stage 3 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.

This information will be available on the Group's website at www.sc.com.