

26 April 2016

Standard Chartered PLC - Interim management statement



Standard Chartered today releases its interim management statement for the quarter ending 31 March 2016.

Commenting on these results, Bill Winters, Group Chief Executive, said:

“Although trading conditions in the first quarter remained challenging, we continue to make good progress on our strategic objectives. The management team is in place, we are taking action to improve recent income trends, managing costs tightly, progressing on key investments, making early progress on the exit of the liquidation portfolio, and maintaining strong levels of capital and liquidity.”

Performance summary

	3 months ended 31.03.16 \$million	3 months ended 31.12.15 \$million	3 months ended 31.03.15 \$million	Q1 2016 vs Q4 2015 Better/ (Worse)%	Q1 2016 vs Q1 2015 Better/ (Worse)%
Operating income	3,345	3,262	4,421	3	(24)
Operating expenses	(2,006)	(2,205)	(2,280)	9	12
Regulatory costs	(243)	(316)	(222)	23	(9)
UK bank levy	-	(440)	-	nm	nm
Total operating expenses	(2,249)	(2,961)	(2,502)	24	10
Operating profit before impairment losses and taxation	1,096	301	1,919	264	(43)
Impairment losses on loans and advances and other credit risk provisions	(471)	(1,126)	(476)	58	1
Other impairment	(123)	(64)	2	(92)	nm
Profit from associates and joint ventures	37	13	48	185	(23)
Underlying profit/(loss) before taxation	539	(876)	1,493	162	(64)
Own credit adjustment	89	(130)	(23)	nm	nm
Restructuring	(123)	(1,820)	-	nm	nm
Debt buyback	84	-	-	nm	nm
Other items ¹	-	(1,225)	(26)	nm	nm
Statutory profit/(loss) before taxation	589	(4,051)	1,444	115	(59)

¹ Other items include goodwill impairment (Q4 2015: \$362 million), valuation methodology changes (Q4 2015: \$863 million) and a loss on businesses disposed (Q1 2015: \$26 million)

Trading conditions in the first quarter of 2016 remained similar to the final quarter of 2015, including depressed commodity prices, volatility in Chinese markets, weak emerging market sentiment and concerns around interest rate and other policy actions. Despite the external environment, we have made good progress on our strategic objectives, tightly managing costs, implementing our investment programme, further reducing areas of risk concentration, and maintaining a well capitalised and liquid balance sheet.

First quarter income of \$3.3 billion was down 24 per cent on the first quarter of 2015, and broadly stable compared to the fourth quarter. Currency translation accounted for 3 per cent of the year-on-year income decline and business divestments represented a further 2 per cent. Within the first quarter of 2016 there were no mark-to-market losses on syndicated loans, compared to losses of \$81 million in the fourth quarter of 2015.

Total operating expenses were down 10 per cent year-on-year to \$2.2 billion. Excluding the benefits from currency translation, costs were down 6 per cent year-on-year reflecting restructuring actions taken towards the end of 2015 and business disposals. We remain on track to deliver the planned \$1 billion in gross cost efficiencies in 2016. As previously disclosed, we will increase our investment spend during the remainder of the year in line with our strategic agenda and will expense some of this during the balance of the year.

Regulatory costs of \$243 million in the first quarter were consistent with the run rate during the first three quarters of 2015, and lower than the last quarter of 2015. This is in line with our expectations and reflects the non-repeat of

one-off costs from the previous quarter. We will continue to invest through 2016 to improve our compliance and control infrastructure.

Loan impairment of \$471 million was broadly in line with the first quarter of 2015 and down significantly on the fourth quarter. Loan impairment from Corporate & Institutional and Commercial Clients was lower quarter-on-quarter in line with prior first quarter experiences. Retail Clients loan impairment has continued to benefit from previous risk management actions including tightened underwriting standards and the sale of the Group's consumer finance businesses in Hong Kong, China and Korea. External conditions remain challenging and we continue to actively manage our portfolio.

Other impairment of \$123 million related largely to investments in Principal Finance and was driven by debt and equity market volatility during the first quarter.

As a result, the Group delivered an underlying operating profit before tax of \$539 million.

We remain confident in the estimated total cost of our planned restructuring, as announced in November 2015, of around \$3 billion to be incurred before the end of 2016. In addition to the \$1.8 billion charge taken in 2015, a further \$123 million charge was incurred in the first quarter of 2016, \$107 million of which related to loan impairment provisions in the liquidation portfolio.

These incremental restructuring charges were partly offset by an \$84 million gain following the successfully executed tender offer to repurchase \$2 billion of capital notes, and an own credit adjustment of \$89 million.

As a result, statutory operating profit before tax was \$589 million.

Key balance sheet metrics

	31.03.16	31.12.15	Increase /
	\$million	\$million	(Decrease)
Balance sheet			
Loans and advances to customers	257,763	261,403	(1%)
Customer deposits	365,626	359,127	2%
Capital			
Common equity tier 1 ratio (end point)	13.1%	12.6%	50bps
Total capital ratio (transitional)	19.6%	19.5%	10bps
Total risk-weighted assets	295,310	302,925	(3%)
Leverage			
Tier 1 capital (end point)	40,741	40,149	1%
Total leverage exposure (end point)	745,761	729,220	2%
Leverage ratio	5.5%	5.5%	-
Average exposure measure	738,595		
Average leverage ratio	5.5%		
Countercyclical leverage ratio buffer	175		

The above disclosure includes the liquidation portfolio

Customer loans and advances were down 1 per cent since 31 December 2015 reflecting reduced client asset demand and high levels of liquidity across our markets. Customer deposits were up 2 per cent on the position at the year end.

The Group's Common Equity Tier 1 (CET1) ratio of 13.1 per cent was up 50 basis points since year end, benefitting primarily from the 3 per cent reduction in risk-weighted assets (RWA), profits in the period and a small currency translation gain.

Overall, the Group remains diverse, liquid and well capitalised.

Client segment income

	3 months ended 31.03.16 \$million	3 months ended 31.12.15 \$million	3 months ended 31.03.15 \$million	Q1 2016 vs Q4 2015 Better/ (Worse)%	Q1 2016 vs Q1 2015 Better/ (Worse)%
Corporate & Institutional Clients	1,847	1,794	2,515	3	(27)
Commercial Clients	166	135	259	23	(36)
Private Banking Clients	118	122	152	(3)	(22)
Retail Clients	1,214	1,211	1,495	-	(19)
Total operating income	3,345	3,262	4,421	3	(24)

Excludes own credit adjustment and gains/loss on businesses sold/held for sale

Our divisional performance is presented on a basis consistent with the full year 2015 financial results. We will provide restated financial statements based on the Group's new divisional segmentation, reflecting the transfer of Local Corporates to Commercial Banking, prior to the half year results in August 2016.

Corporate & Institutional Clients income of \$1.8 billion was down 27 per cent year-on-year, and broadly stable on the fourth quarter of 2015. First quarter income has benefitted from gains in Financial Markets resulting from the high levels of volatility early in the year as well as the non-repeat of mark-to-market losses in the fourth quarter. Market conditions remained difficult impacting client activity, asset demand and trade volumes across our markets.

Commercial Clients income of \$166 million was down 36 per cent year-on-year, and was up 23 per cent on the fourth quarter of 2015. Our de-risking actions are now largely complete and our remediation exercise is progressing well.

Income from Private Banking of \$118 million was down 22 per cent year-on-year, or down 3 per cent on the final quarter of 2015. Adverse market conditions have continued to impact investor sentiment, particularly in Wealth Management and equity linked products. The franchise continues to gain underlying momentum net new money of \$0.5 billion added this quarter, building on the \$0.3 billion added in 2015.

Income from Retail Clients of \$1.2 billion was down 19 per cent year-on-year and flat quarter-on-quarter. Excluding business exits and currency translation, income was down 10 per cent year-on-year, primarily due to a lower income contribution from Wealth Management and Credit Cards and Personal Loans. We have continued to focus on building our priority clients business, which now accounts for 37 per cent of total Retail Clients income.

Operating income by product

	3 months ended 31.03.16 \$million	3 months ended 31.12.15 \$million	3 months ended 31. 03.15 \$million	Q1 2016 vs Q4 2015 Better/ (Worse)%	Q1 2016 vs Q1 2015 Better/ (Worse)%
Transaction Banking	729	754	886	(3)	(18)
Trade	318	334	439	(5)	(28)
Cash Management and Custody	411	420	447	(2)	(8)
Financial Markets	733	566	904	30	(19)
Corporate Finance	446	501	561	(11)	(20)
Wealth Management	364	378	456	(4)	(20)
Retail Products	927	939	1,168	(1)	(21)
CCPL and other unsecured lending	409	429	564	(5)	(27)
Deposits	301	282	301	7	-
Mortgage and Auto	197	204	216	(3)	(9)
Other Retail Products	20	24	87	(17)	(77)
Others	276	209	414	32	(33)
Asset & Liability Management	111	55	175	102	(37)
Lending and Portfolio Management	165	154	239	7	(31)
Principal Finance	(130)	(85)	32	(53)	nm
Total operating income	3,345	3,262	4,421	3	(24)

Excludes own credit adjustment and gains/loss on businesses sold/held for sale

Transaction Banking income of \$729 million was down 18 per cent on the same period last year and down 3 per cent on the final quarter of 2015. Trade income was down 5 per cent quarter-on-quarter, reflecting lower global trade finance demand and margins that are broadly stable at recent low levels. Cash Management and Custody income remained resilient, down only 2 per cent quarter-on-quarter. We have won a significant number of multi-market cash management mandates as part of focusing on higher quality customer deposits. Margins in Cash Management improved both on the same period last year and quarter-on-quarter.

Financial Markets income was down 19 per cent year-on-year to \$733 million, and was up 30 per cent compared with the final quarter of 2015. First quarter income has benefitted from the non-recurrence of negative mark-to-market revaluations on syndicated positions in Capital Markets in the final quarter of 2015. Excluding mark-to-market revaluations, Financial Markets income was up 13 per cent quarter-on-quarter reflecting, in particular, Foreign Exchange and Rates income resulting from market volatility at the start of the year.

Corporate Finance income of \$446 million in the first quarter was down 20 per cent on the same period last year and down 11 per cent on the fourth quarter. Ongoing high levels of market liquidity continue to encourage early repayments and tighter pricing on refinancing transactions.

Wealth Management income of \$364 million was down 20 per cent year-on-year and down 4 per cent quarter-on-quarter. Investor sentiment was dampened by ongoing market volatility, in particular relating to Chinese equity markets and the renminbi earlier in the year.

Income from Retail Products of \$927 million in the quarter was down 21 per cent year-on-year and 1 per cent quarter-on-quarter primarily driven by lower income from the unsecured portfolio. Deposit margins saw improvement quarter-on-quarter as we concentrated on lower cost sources of funding, while margins on Mortgage and Auto were broadly flat over the final quarter of 2015.

Asset and Liability Management income of \$111 million was down 37 per cent year-on-year, driven by lower accrual income, and up 102 per cent quarter-on-quarter, benefitting from de-risking opportunities.

Principal Finance reported negative income of \$130 million in the period due to adverse mark-to-market revaluations given debt and equity market volatility in our footprint and the impact from the timing of realisations.

Asset quality

	3 months ended 31.03.16			Year ended 31.12.15		
	Ongoing business \$million	Liquidation Portfolio \$million	Total \$million	Ongoing business \$million	Liquidation Portfolio \$million	Total \$million
Impairment						
Impairment losses on loans and advances	471	-	471	2,381	1,627	4,008
Restructuring impairment charge	-	107	107	-	968	968
Total impairment losses on loans and advances	471	107	578	2,381	2,595	4,976
Loans and advances						
Gross loans and advances to customers	257,030	7,515	264,545	260,143	7,940	268,083
Net loans and advances to customers	253,657	4,106	257,763	257,007	4,396	261,403
Credit quality						
Gross non performing loans	5,672	7,306	12,978	5,247	7,512	12,759
Individual impairment provisions	(2,827)	(3,409)	(6,236)	(2,584)	(3,544)	(6,128)
Net non performing loans ¹	2,845	3,897	6,742	2,663	3,968	6,631
Cover ratio ²	61%	47%	53%	62%	47%	53%
Cover ratio (after collateral) ¹	71%	64%	67%	71%	64%	67%
Risk-weighted assets (in \$billion)	276	19	295	283	20	303

¹ Excluding portfolio impairment provision

² Including portfolio impairment provision

We are negotiating exits in the liquidation portfolio and have taken a further restructuring charge of \$107 million in the period. Negotiations will take time given their complex nature but we remain committed to exiting the exposures within this portfolio over the next 12 to 18 months.

Gross non-performing loans in the ongoing business were up \$425 million since year end, predominantly related to a small number of commodity linked exposures given the continued challenging environment. The commodities portfolio is now approximately \$37 billion, 8 per cent lower than at the year-end.

The Group's cover ratio has remained stable at 53 per cent excluding collateral and at 67 per cent including collateral. The cover ratio in the ongoing portfolio was 61 per cent excluding collateral and 71 per cent including collateral.

Summary and outlook

The Group's performance in the first quarter was in line with our expectations. We are taking action to improve recent income trends, costs remained under tight control, and the balance sheet remained strong, liquid and increasingly diverse.

Given the ongoing challenging market conditions and the early implementation of our strategy, we expect Group performance to remain subdued in 2016. We continue to see opportunities with our clients and we are investing in areas of competitive strength. The fundamental value of the Group remains intact, and we are executing our strategy with discipline to drive the right type of business that will deliver sustainably higher returns over time.

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