FitchRatings

Banks
Universal Commercial Banks
United Kingdom

Standard Chartered PLC

Key Rating Drivers

Limited Ratings Headroom: The pandemic has heightened risks to Standard Chartered PLC's (SC) ratings, which is underlined in the Negative Outlook, and ratings headroom is limited. Fitch Ratings believes the group's asset quality and earnings will deteriorate, and the path to pre-pandemic targets will be delayed. But the group maintains solid capitalisation, stable funding and ample liquidity.

Credit Losses Affect Earnings: The group's operating profit/risk-weighted assets (RWAs) ratio fell to 1.4% in 1H20, driven by larger expected credit losses (ECLs), while the bank maintained positive jaws even amid declining income in 2Q20. We expect 2H20 pre-provision earnings to moderate given seasonally weaker financial markets, lower interest rates feeding through and lagged recovery in markets still under lockdown.

Asset Quality at Risk: We expect high ECLs to persist into 2021 given the potential for further adverse credit migrations, and defaults, especially as loan moratoriums end in the coming quarters. A proportion of lower-rated and early-alert loans will require additional impairments should they become non-performing. Stage 3 loans increased to 3.2% in 1H20 from 2.7% in 2019.

Targets more Challenging: We believe SC's previous earnings target of a 10% return on tangible equity will be unattainable in 2021 and more difficult to achieve even with one to two years of delay despite targeted cost reductions. The prospects in the group's turnaround markets are mixed. Improvements are evident in India, Indonesia and Korea, but the economic outlook (in particular in India) is tough. UAE was loss-making in 1H20 and remains under pressure because of a combination of the pandemic's impact and oil price slump.

Capital Still Solid: SC's CET1 ratio increased 50bp in 1H20 to 14.3% as net profitability, dividend cancellation and the disposal of Permata Bank offset risk-weighted assets (RWA) growth related to COVID-19. The bank targets a 13%-14% CET1 ratio, which we expect to be maintained in the absence of deterioration in the economic outlook beyond our base case.

Deposit Funded, Ample Liquidity: SC's strong funding and liquidity profile underpins the group's Short-Term IDR and short-term debt ratings of 'F1'. The liquidity coverage ratio (LCR) was stable at 149% at end-June 2020, and well in excess of requirements on a consolidated level and at the main subsidiaries. The provision of liquidity by central banks around the world meant that wholesale funding market disruptions in 1Q20 were brief.

Rating Sensitivities

Main Sensitivities: The group's ratings are mainly sensitive to the economic and financial market fall-out from the pandemic; to a meaningful increase in the group's risk appetite as a response to medium-term pressures on profitability; and to potential negative implications from unfolding geopolitical tension between China and the US.

Pandemic Risk: The economic fallout of the pandemic represents a risk to the group's operating environment, earnings, asset quality, capitalisation, and ability to achieve the group's strategic objectives. Ratings could be downgraded if the group's asset quality deteriorates sharply, if an improvement in earnings in 2021 and beyond, towards 10% return on tangible equity, becomes unlikely, or if the group's CET1 ratio falls below 13%-14% without a plan to restore it swiftly. A downward revision to economic forecasts would increase the likelihood of a downgrade.

The Outlook could be revised to Stable if the economic downturn is not prolonged and pressure on asset quality and earnings proves to be shorter and less that we currently expect.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
United Kingdom Long-Term Foreign-Currency IDR	AA-
Hong Kong Long-Term Foreign-Currency IDR	AA-
Singapore Long-Term Foreign-Currency IDR	AAA
China Long-Term Foreign-Currency IDR	A+

Outlooks

Standard Chartered Long-Term IDR	Negative
United Kingdom Long-Term IDR	Negative
Hong Kong Long-Term IDR	Stable
Singapore IDR	Stable
China Long-Term IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Standard Chartered PLC at A; Outlook Negative (August 2020)

Large European Banks Quarterly Tracker - 2Q20 (September 2020)

Global Economic Outlook (September 2020)

Financial Data

Standard Chartered PLC

	30 Jun 20	31 Dec 19
Total assets (USDm)	741,585	720,398
Total equity (USDm)	43,885	43,654

Source: Fitch Ratings

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Issuer and Debt Ratings

Rating Level	Standard Chartered PLC	Standard Chartered Bank
Long-Term Foreign-Currency IDR	A	A+
Outlook	Negative	Negative
Short-Term Foreign-Currency IDR	F1	F1
Viability rating	a	a
Support rating	5	5
Support rating floor	NF	NF
Senior unsecured debt	A/F1	A+/F1
Subordinated/Tier 2 debt	BBB+	BBB+
Upper Tier 2 debt	-	BBB
Additional Tier 1, preference shares	BBB-	-

Source: Fitch Ratings

Subordinated Debt Ratings Changed Following New Bank Rating Criteria

Fitch's publication of new bank rating criteria in February 2020 has led to rating changes to SC and Standard Chartered Bank's (SCB's) subordinated and hybrid debt. The subordinated Tier 2 debt has been downgraded to 'BBB+', from 'A-', two notches below the issuers' VRs, driven by the change in Fitch's baseline notching for loss severity to two notches (from one) for this type of debt and our expectations of poor recoveries. High-trigger contingent capital Tier 1 instruments and preference shares with no constraints on coupon omission have been upgraded to 'BBB-' from 'BB+'. This was due to a change in baseline notching to four (from five) below the VR, and an expectation that the group will maintain at least a 100bp buffer over minimum capital requirements which would trigger coupon omission on the bonds.

Subsidiaries' IDR Uplift Due to Fitch's View on Resolution Buffers

The Long-Term IDRs of several subsidiaries - Standard Chartered Bank Korea Limited (SCBK), Standard Chartered Bank (China) Limited (SCBC), and Standard Chartered Bank AG (SCB AG) are one notch higher than the group's. Standard Chartered Bank (Singapore) Limited (SCBS) IDR is one notch above its standalone VR.

This reflects our view that these subsidiaries' senior creditors would benefit from the group's large buffer of junior debt and bail-in-able senior debt in a group resolution scenario. For SCBS, SCBK, SCBC this is underpinned by their classification as material operating subsidiaries. In the case of SCB AG, it is underpinned by its high balance sheet and business integration with SCB, and similar resolution regimes in the UK and EU.

The group is required to pre-place internal loss absorbing instruments with five material subsidiaries (SCB, Standard Chartered Bank (Hong Kong), SCBS, SCBK, SCBC, which are subject to 75%-90% scalars. To date it has done so in various formats including senior non-preferred debt and more junior forms of debt in UK and Hong Kong, AT1/Tier 2 in Korea, Singapore, and only common equity for now in China.

Hub Structure Increases Focus on Asia

SC implemented several legal entity changes in 2019 which should allow the group to manage funding costs more efficiently by making better use of the strong deposit bases it has in Hong Kong and Singapore. Standard Chartered Bank (Hong Kong) has become the parent bank of a North Asia hub encompassing the subsidiaries in Hong Kong, China, Korea and Taiwan. The group also consolidated its Singapore operations, previously held in a subsidiary and a branch of SCB, into the subsidiary SCBS.

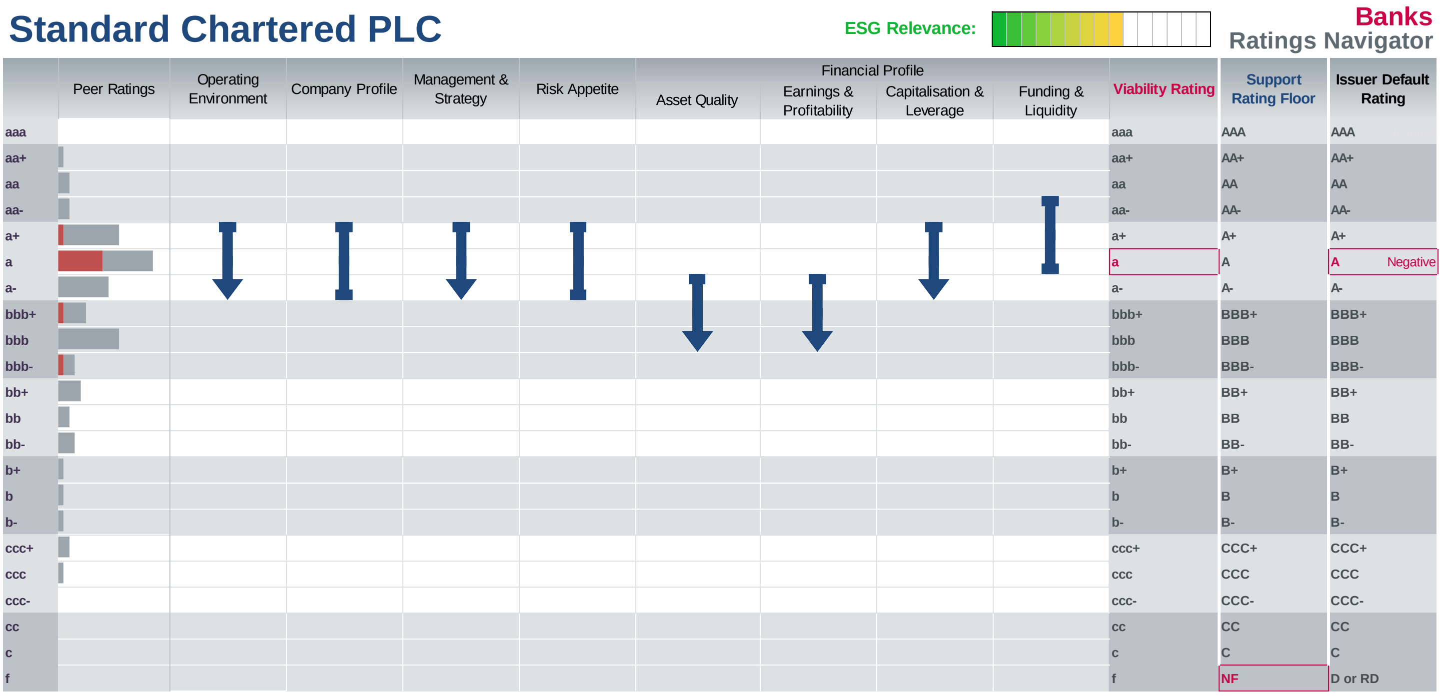
The legal entity changes have had no impact on our ratings of the group entities. We continue to reflect the group's consolidated profile in SCB's ratings as well as in SC's, as we believe that their risk profiles are highly correlated.

Rated Subsidiaries

Subsidiary	Long-Term IDR	VR
Standard Chartered Bank (Singapore) Limited	A+/Stable	a
Standard Chartered Bank Korea Limited	A+/Negative	bbb
Standard Chartered Bank (China) Limited	A+/Negative	n.a.
Standard Chartered Bank (Taiwan) Limited	A/Negative	bbb
Standard Chartered Bank (Thai) Public Company Limited	A-/Negative	bbb
Standard Chartered Bank AG	A+/Negative	n.a.

Source: Fitch Ratings

Ratings Navigator



Significant Changes

Coronavirus Crisis Adds Pressure on Ratings

Fitch revised the Outlooks on SC and SCB's Long-Term IDRs to Negative from Stable in April 2020 and affirmed the ratings, on Negative Outlook, in August 2020. The rating actions reflect our expectation that the economic disruption caused by the pandemic will pose significant challenges, in particular to SC's earnings, asset quality, capitalisation and ability to execute on its strategy. This is mitigated by strong funding and liquidity, measures to protect capitalisation, and a more cautious risk management approach over the past few years.

A negative trend on the Operating Environment is driven by anticipated economic headwinds across SC's global footprint. Fitch expects a sharp contraction in global economic activity of minus 4.4% in 2020, and a long route back to pre-crisis levels of economic activity. As the duration of the health crisis is still unknown, we see downside risks to current economic forecasts, which would increase the prospects of the group's ratings being downgraded.

The severity of the crisis varies across SC's main markets. Some Asian markets are showing signs of recovery with relatively less pronounced effects from the pandemic (China, Korea, Taiwan), while SC's main markets (Hong Kong, Singapore, UK), and two of the four larger turnaround markets (UAE, India) are facing deeper economic shocks than the global average.

We continue to see relative strength in SC's exposure in North Asia, where the Hong Kong portfolio has been relatively resilient through prolonged economic disruptions. China is on an earlier recovery path and, although projected growth for 2020 has fallen sharply, it remains positive. In Korea and Taiwan swift containment measures so far have led to more limited economic contraction, which should support asset quality.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

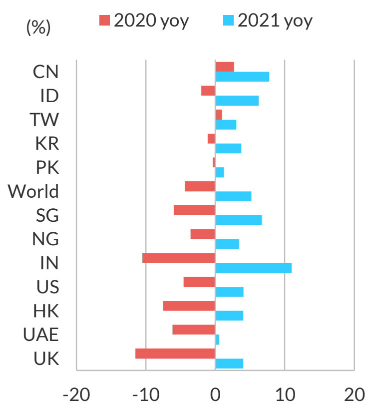
Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Real GDP Change



Note: Abu Dhabi shown as proxy for UAE; arranged by cumulative 2020-2021 GDP growth
Source: Fitch Ratings' Global Economic Outlook (Sep 2020), Sovereign Data Comparator (Sep 2020)

Company Summary and Key Qualitative Factors

Network is Main Franchise Strength

Providing international corporates and institutions access to its extensive global network gives SC opportunity to compete with larger global banks. This is complemented by some strong local franchises, despite most of them being in small markets. SC's on-shore presence in the key Asia-Pacific markets of Hong Kong, Singapore, India, South Korea is significant but these domestic franchises compare less favourably with those of leading local or international peers.

Extracting value from its network is particularly important for the Corporate and Institutional Banking (CIB) business, which is the largest segment. The CIB generates the majority of its income from financial markets activities (mainly foreign exchange, rates, credit, commodities, securities services), transaction banking (trade, cash management) and corporate finance and lending. Its more profitable clients are the ones that interact with the bank across products and jurisdictions. The bank's strategy to improve the CIB's return on tangible equity is to drive a larger proportion of higher-returning network business.

Banking for local corporates is provided by the Commercial Bank (CB), whose management is now integrated with the CIB. This division is focused on growth in top markets such as Hong Kong, China, India and Singapore, including through new client acquisition.

In retail banking, SC typically targets wealthier clients (which make up over half of its income) although the group maintains an appetite for mass market personal banking in some markets. Digitalisation is a priority, and recently the group rolled out digital banks in Hong Kong and nine countries in Africa. In some markets the group looks to increase its customer penetration through partnerships (e.g. in Indonesia, Hong Kong), but execution will be challenging in an increasingly competitive landscape.

The relatively small private bank (with a pre-tax profit of less than USD100 million, and around USD60 billion assets under management in 2019) focuses on high-net-worth and ultra-high-net-worth clients from service centres in Hong Kong, Singapore, London, Jersey, Dubai and India.

Strategy Focused on Profitability Improvement

The group's strategy for 2019-2021 mainly aims to improve the bank's returns after several years of de-risking, carried out by the current management team since 2015. The headline profitability target set for 2021 is to achieve a return on tangible equity above 10%. In 2019 there was some progress towards this target but the coronavirus crisis has caused disruption and, we believe, added at least one-two years' delay to meeting the target.

US/China trade tensions could present some opportunities to SC's business because of its limited direct exposure to US-China trade flows and a geographical footprint that allows it to capitalise on businesses relocating to other markets in Asia, in particular Southeast Asia. China's economic prospects remain among the best within SC's countries of operation, and generating business following initiatives to open up China's markets remains a key strategy for the group.

The Hong Kong business showed resilience to extended unrest in 2019, and then to coronavirus disruptions and heightened geopolitical and trade tensions. However, any loss of attractiveness of Hong Kong as a business location, with a longer-lasting economic impact on the territory, would affect the group and potentially its ratings negatively.

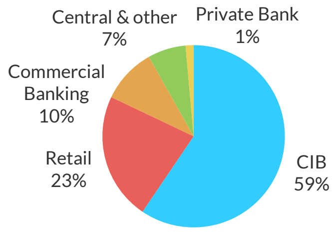
Longer-term profitability trends should continue to benefit from measures implemented over the last years, such as more focused customer targeting, increased digitalisation and reducing risk on the balance sheet. The group has exited two businesses to reduce its RWAs (the sale of Bank Permata) and risk (the disposal of a ship-leasing business) ahead of the COVID19 crisis, and has implemented legal entity changes which will allow it to optimise liquidity management.

Mixed Prospects for Turnaround Markets

The weakest performing businesses are being restructured, and under the 2019-2021 strategy around 150bp of return on tangible equity uplift was expected from four larger turnaround markets: India, Indonesia, UAE, Korea. By end-1H20 the group had shown improvements in some of these markets, but challenges have also increased given the economic outlook.

Pre-Tax Income Split by Client Business

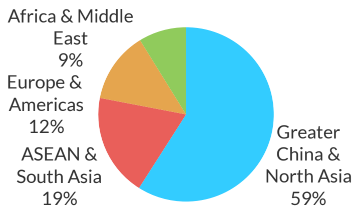
(Last 12 months to end-June 2020)



Source: Fitch Ratings, SC

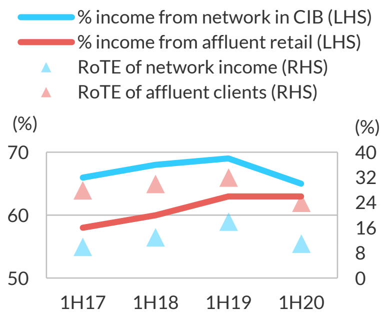
Pre-Tax Income Split by Geography

(Last 12 months to end-June 2020)



Note: excluding USD273m loss in Central and other items.
Source: Fitch Ratings, SC

Business Targets



Source: Fitch Ratings, SC

In India pre-tax profit improved sharply (+80% yoy) in 1H20, following strategic initiatives such as banking with subsidiaries of multinationals, reducing sub-optimally returning RWAs, and higher digital adoption. However, in the near term the country is facing a tough economic outlook, due to very stringent national lockdowns and continued virus spread.

Profitability also improved in Indonesia, driven by CIB. The group is testing new digital strategies in retail banking, which will likely take time to show meaningful success or scale. In Korea the group reported headcount and branch reductions, and a lower cost/income ratio of 62% in 1H20 (2019: 79%). Business growth is aimed at priority, wealth and network clients, and priority banking income increased by 17% yoy in 1H20.

UAE is under considerable pressure because of a combination of COVID-19 disruptions and the oil price crash. Income decreased marginally yoy, and the branch was loss-making in 1H20.

Established Risk Controls, Stable Underwriting Standards

The group's risk management framework is well developed, and has been strengthened over the last years. Recent enhancements to the risk appetite statement included to elevate model risk to a principal risk, develop a climate risk appetite statement, enhancements to how non-financial risks are measured and embedded in decision-making.

Stable Underwriting Standards

Reported metrics tracking underwriting quality on a high level have remained stable in recent years. Top 20 corporate concentrations fluctuate slightly around 60% of Tier 1 capital. The quality of corporate exposures has also been stable at around a 60% proportion of investment-grade counterparties. Exposures in CIB and CB are predominantly short-term, which helps exit exposures relatively quickly.

In retail lending, the proportion of unsecured lending has been kept stable since 2015 (1H20: 14%). The group seems willing to marginally increase unsecured lending to lower-income borrowers especially in partnerships.

Mortgage lending is carried out at conservative loan-to-value (LTV) ratios as evidenced by an average LTV of 45% (2019:45%) and a lower 41% in Hong Kong, which represents 39% of the mortgage book. Higher LTVs are more prevalent in Africa and Middle East (in a relatively small portfolio of USD2 billion). Low LTVs also reflects stringent LTV rules in some jurisdictions (e.g. LTV caps are in place in Hong Kong and Singapore) and rising house prices pre-2020.

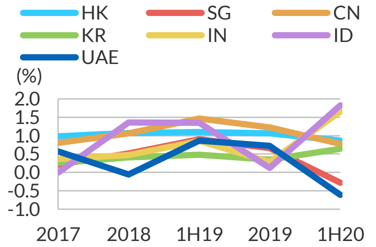
Moderate Market Risk

The group reports higher income sensitivity to interest rates after a fall in global interest rates in 1H20. Interest rate cuts to date are estimated to lower SC's net interest income for 2020 by USD800 million (about 10% of 2019 net interest income). A further 50bp parallel decrease in yield curves across all currencies would remove a further USD335 million of income.

Total trading and non-trading value at risk (VaR) spiked in 1H20, driven by extreme market volatility and the fall in oil prices, which affected credit spreads, particularly in the non-trading book. VaR will likely remain high at least until March 2021 due to historical data being used in the calculation. 1H20 average VaR of USD82.4 million was 157% higher than 2H19. The spot VaR was 262% higher. The trading book VaR is a relatively small proportion of total VaR (USD13.0 million average VaR in 1H20, +19% yoy) and related to client volumes.

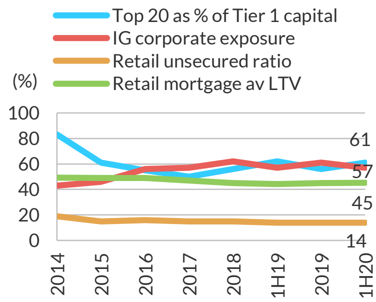
SC disclosed that it had three back-testing exceptions at a time of heightened volatility, and five overall in the last 250 business days to end-June 2020, but benefited from a RWA offset though 'risks not in VaR'. Risks not in VaR of USD3.1 billion RWA also include RWA from a potential de-pegging of certain currencies, and basis risk.

Underlying Pre-tax RoA in Key Markets



Note: As reported by the bank, excluding restructuring
Source: Fitch Rating, SC

Underwriting Indicators



Source: Fitch Ratings, SC

Key Financial Metrics – Latest Developments

Asset Quality Deterioration Expected

SC's asset quality score of 'bbb+'/negative anticipates a deterioration in metrics over the next few quarters. To a certain extent, this has started playing out but ongoing borrower support measures are still masking some of the pressure.

SC's Stage 3 loans ticked up to 3.2% (2019: 2.7%) in 1H20. The increase was largely attributed to three single name defaults in healthcare and in commodity trading, while large-scale effects from COVID-19 are not yet visible. Stage 3 inflows in commercial banking and private banking were stable, and in retail banking increased as COVID-19 hindered collection activities, particularly in ASEAN/South Asia. At the same time total coverage of Stage 3 loans decreased to 60% (from 68%) due to write-offs and the existence of collateral and guarantees on the new Stage 3 exposures.

Stage 2 loans increased by less than 1% in 1H20 to 8.5%, despite an increase in early alerts. Higher risk wholesale exposure (early alerts and the lowest performing credit grade) increased by USD3 billion to around USD16 billion (6% of customer loans) in 2Q20. It includes large parts of the aviation sector exposure, as well as some other corporate exposure more immediately affected by the lockdowns.

Expected credit losses (ECLs) amounted to USD1.6 billion in 1H20 (annualised 113bp of loans), of which USD0.9 billion was for Stage 3. They also included the modelled impact of worsening economic expectations on Stage 1 and Stage 2 exposures, as well as a management overlay (USD316 million) to account for further deterioration and risks not captured by the models.

We expect ECLs to decline in 2H20, as guided by management and intended by IFRS9. ECLs may remain historically elevated in 2021 amid the risk of further downside revisions to the economic outlook, and the potential for further migrations and defaults. A proportion of early alerts will require additional impairments should they become non-performing.

The bank's modelled ECL provisions on currently performing exposures would be USD740 million higher in a moderately negative scenario, and USD2.4 billion higher in a very severe scenario. We expect the existing USD316 million overlay to cover part of the higher ECLs under these scenarios.

Vulnerable Exposure Mainly in CIB&CB

We see SC's corporate, commercial and institutional banking business as most vulnerable in this crisis. This business has sizeable exposures to sectors under immediate pressure such as oil and gas (USD20 billion net on-and-off balance sheet exposure) and commodity trading (USD15 billion). The quality of these exposures has improved over time as evidenced by a higher proportion of investment-grade customers and shorter-dated exposures in oil & gas, commodity traders, metals and mining and aviation in 1Q20, compared to 2Q15.

The group sees about 12% of the oil & gas exposure as higher risk at end-2Q20. An additional 20% (as of end-1Q20) could become high-risk under a stress scenario assuming oil prices of below USD20 a barrel for an extended time. About 10% of exposure to commodity traders is high-risk. Exposures are typically collateralised or benefit from some insurance, but collateral may be worthless in cases of fraud. Loans to commercial real estate counterparties were USD18.3 billion, and the LTV has ticked up to a still conservative 47% in 1H20. The aviation book appears most acutely affected with about half of the book classified as Stage 2, and 64% as high risk.

The retail exposure mostly consists of mortgages which should have limited loss content because of generally conservative collateralisation, although this will also partly be dependent on unemployment. Unsecured loans were 14% of total retail loans, and a limited 6.5% of gross loans at end-2019. Business banking exposure, of which 80% is secured on property or government guarantees, is less than 3% of the group's loan book.

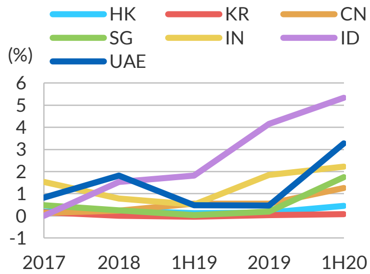
A moderate 8% of the group's retail banking portfolio was subject to payment relief measures at end-1H20. Delinquency levels in China and Hong Kong, where moratoriums have ended, are encouraging, but retail relief measures are more concentrated in ASEAN/South Asia where in a number of countries these are mandated or offered on an opt-out basis.

Vulnerable Sector Exposure

1H20, (USDbn)	Gross balance sheet exposure	% of group exposure
Aviation	4.6	1.4
Commodity traders	10.2	3.1
Metals & mining	5.4	1.6
CRE	18.5	5.5
Hotels, tourism	2.9	0.9
Oil & gas	9.1	2.7
Unsecured retail	16.1	4.8
Mortgages > 90LTV	1.0	0.3
Total	**73.1**	**22**
Memo: Retail payment relief	8.9	2.7
Memo: Wholesale payment relief	5.6	1.7
Total payment relief	**14.5**	**4.3**

Source: Fitch Ratings, SC

Cost of Risk in Key Markets



Note: Credit and other impairments /net customer loans
Source: Fitch Ratings, SC

Non-loan exposure is of better quality than the loans: investment securities (USD143 billion at end-2019) were 93% investment-grade, while trade and other contingents include a higher share of lower-rated counterparties. Reverse repurchase agreements are collateralised, and typically short term and with high quality collateral.

Earnings Improvement Disrupted

Operating profit/RWAs remained a reasonable 1.4% in 1H20, but we expect pressure on this metric for the rest of the year as income growth potentially turns negative, in part compensated for by lower operating expenses, and impairments remain high.

Revenue was helped by a strong performance in financial markets products, underpinned by higher customer activity and higher spreads in 1H20. Transaction banking revenues declined due to both industry volumes declining, but were also affected by lower interest rates. Retail and wealth products income decreased slightly due to interest rate pressure and reduced branch walk-ins but to an extent this was compensated for by lending volumes and asset margins in mortgages and auto, and by digital sales and sales in wealth management.

2H20 revenue will likely be lower than 1H20 including further interest rate headwinds (USD800 million expected during 2Q20-4Q20), seasonally weaker financial markets revenue and continued income pressure in retail and wealth products in markets still under lockdown. SC's presence in markets which maintain positive or shallow negative growth potential this year, where economic activity started recovering in 2Q20, and its regional presence in Asia in countries that may benefit from US-China trade tensions, should be beneficial for income generation. The group showed income improvements in its underperforming markets India and Indonesia in 1H20, but these markets face setbacks due to the pandemic amid lower GDP outlooks and rising credit costs.

Over the longer term the group is planning for 5%-7% income growth which we see as unlikely to materialise if interest rates remain low, if Hong Kong remains subject to geopolitical tensions, and if some smaller markets experience a deeper or longer-lasting downturn. However, a rebound in global growth in 2021 (Fitch expects 5.2%) and the group's footprint in more strongly growing economies should support positive income growth.

Cost efficiency measures (positive jaws, cost growth below the rate of inflation) were on track in 2019 and 1H20. Management plans to offset upcoming earnings weakness at least to an extent by lowering expenses, and has guided that these will be reduced to under USD10 billion, slightly below the level of 2019, in 2020 and 2021. This is credible in 2020 due to the savings potential in relation to travel costs, marketing and variable compensation, although it remains to be seen how the reductions will be implemented in a more sustainable way. A higher degree of digitalisation, which has been a strategic priority over the past few years, should continue to support cost efficiency beyond 2020.

Credit losses should subside in 2H20 according to management guidance, but there is downside risk given that several business areas are on the watch-list, and the challenging economic outlook in some of the group's markets.

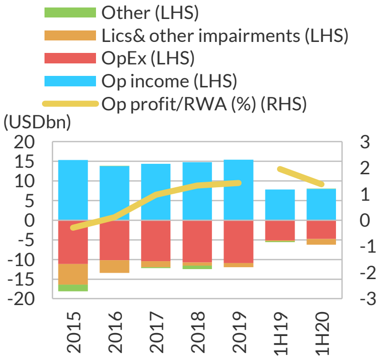
Capitalisation Above Target Given Distribution Restrictions

The group will likely meet its CET1 target in 2020, but capitalisation could soften from unexpected RWA inflation, credit or market risk losses, or higher encumbrance by unreserved non-performing loans, in a weaker-than-expected economic scenario.

SC’s CET1 ratio increased by 50bp in 1H20 to 14.3% as net profitability, the dividend cancellation (+24bps) and the disposal of Permata Bank (+40bps) offset RWA growth. The CET1 ratio also benefitted from altogether 15bp relief from regulatory changes including IFRS 9 transitional relief, market risk back-testing exemptions and prudential valuation adjustment calculation changes.

The bank targets 13%-14% CET1 ratio and it is plausible that they will keep to this target, absent a significant deterioration of the economic outlook. The group has ample headroom over consolidated CET1 requirements of 10%, which declined modestly (20bp) mainly due to lower UK and HK countercyclical capital requirements.

Profitability Drivers



Source: Fitch Ratings, SC

Capital vs. Requirements

RWA-based, in (%)	1H20	MDA headroom
CET (fully loaded)	14.3	4.3
Tier 1	16.47	4.3
Total capital	21.5	6.5
Capital requirements		
CET1 capital	4.5	
Pillar 2A	1.9	
CCB	2.5	
CCyB	0.1	
G-SIB buffer	1.0	
Total CET1 requirements	10.0	
AT1 (including pillar 2A)	2.1	
Tier 2	2.8	
Total capital	15.0	

Source: Fitch Ratings, SC

Mainly Deposit Funded

SC is primarily funded by customer deposits, which made up 68% of funding at end-1H20. Deposits are mainly sourced from corporate and institutional banking and commercial banking clients (together 64% of deposits), as well as retail (31%) and private banking (4%) clients. They appear reasonably stable as about 64% of overall deposits are current and savings accounts and this proportion has increased in 1H20 with the effect of depositors preferring more liquid placements, and lower interest rates making term deposits less attractive. Deposits are sourced across the globe with major depositor pools in Hong Kong (27%), UK (17%) and Singapore (13%).

The bank's consolidated gross loans-to-deposits ratio remains below 70%, which compares favourably with peers, reflecting a preference for deposit funding, a robust deposit franchise in key markets and a low proportion of loans on balance sheet. Loans in disclosed key markets are more than covered by customer deposits.

The creation of the Greater China and North Asia hub should over time help the group manage funding and liquidity more efficiently by replacing expensive funding (e.g. in Korea) with cheaper Hong Kong deposits. The benefits are unlikely to have been substantial to date, as the HK disruptions have likely impeded the group from increasing deposits there as much as they would have liked. US/Sino tensions do not seem to have led to significant deposit outflows, nor do we expect them to. In 2019 the group also combined its Singapore branch and subsidiary, helping with funding efficiency as they can now use retail deposits to fund CIB assets.

SC has regular market access through instruments such as senior debt and subordinated debt issued by the holding company. Secured structure issuance is not significant overall. Non-deposit funding adds funding diversification and addresses upcoming minimum requirements for own funds and eligible liabilities (MREL). The group met 2022 MREL of 26.3% with 30.7% eligible instruments at end-2Q20.

Issuance needs for the refinancing of maturities of up to USD7 billion a year over the next three years are manageable, and the group intends to re-shape the composition to a higher weight of senior holding company debt. SC had already issued over USD7.4 billion MREL by August 2020, including USD1 billion AT1 and EUR1 billion Tier 2 (compared to USD2 billion and USD2.1 billion of maturities in 2020).

Liquidity Well Managed

SC's high-quality liquid assets ticked up to USD153 billion at end-1H20 (2019: USD152 billion). The group's consolidated liquidity coverage ratio of 142% was well above requirements. Average weighted high-quality liquid assets at end-2019 were made up of Level 1 securities (57%), cash and reserves (32%) and Level 2A and B liquid assets (11%). SC's subsidiaries adhere to local liquidity requirements, which results in a moderate loss in liquidity fungibility.

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 20
	6 months - interim	Year end	Year end	Year end	Year end
	(USDm)	(USDm)	(USDm)	(USDm)	(USDm)
	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	3,528.0	7,684.0	7,820.0	8,227.0	7,846.0
Net fees and commissions	1,558.0	3,522.0	3,492.0	3,512.0	3,231.0
Other operating income	2,937.0	4,511.0	3,709.0	2,926.0	2,662.0
Total operating income	8,023.0	15,717.0	15,021.0	14,665.0	13,739.0
Operating costs	4,748.0	10,948.0	10,774.0	10,412.0	10,212.0
Pre-impairment operating profit	3,275.0	4,769.0	4,247.0	4,253.0	3,527.0
Loan and other impairment charges	1,488.0	1,029.0	808.0	1,546.0	3,236.0
Operating profit	1,787.0	3,740.0	3,439.0	2,707.0	291.0
Other non-operating items (net)	-160.0	-27.0	-891.0	-292.0	118.0
Tax	561.0	1,373.0	1,439.0	1,147.0	600.0
Net income	1,066.0	2,340.0	1,109.0	1,268.0	-191.0
Other comprehensive income	-338.0	-400.0	-807.0	1,294.0	-1,413.0
Fitch comprehensive income	728.0	1,940.0	302.0	2,562.0	-1,604.0
Summary balance sheet					
Assets					
Gross loans	278,443.0	272,837.0	259,834.0	254,409.0	233,047.0
- Of which impaired	8,809.0	7,398.0	8,454.0	8,877.0	9,680.0
Loan loss allowances	6,513.0	5,783.0	6,428.0	5,702.0	6,354.0
Net loans	271,930.0	267,054.0	253,406.0	248,707.0	226,693.0
Interbank	50,942.0	52,208.0	57,599.0	60,066.0	54,538.0
Derivatives	52,227.0	47,212.0	45,621.0	47,031.0	65,509.0
Other securities and earning assets	250,033.0	285,989.0	260,212.0	234,396.0	214,253.0
Total earning assets	625,132.0	652,463.0	616,838.0	590,200.0	560,993.0
Cash and due from banks	52,925.0	52,728.0	57,511.0	58,864.0	70,706.0
Other assets	63,528.0	15,207.0	14,413.0	14,437.0	14,993.0
Total assets	741,585.0	720,398.0	688,762.0	663,501.0	646,692.0
Liabilities					
Customer deposits	421,153.0	405,357.0	391,013.0	370,509.0	344,632.0
Interbank and other short-term funding	78,329.0	100,103.0	95,383.0	91,925.0	102,365.0
Other long-term funding	73,640.0	54,753.0	47,171.0	49,319.0	40,351.0
Trading liabilities and derivatives	62,949.0	59,584.0	57,186.0	56,974.0	69,475.0
Total funding	636,071.0	619,797.0	590,753.0	568,727.0	556,823.0
Other liabilities	55,617.0	49,193.0	46,917.0	42,168.0	40,752.0
Preference shares and hybrid capital	6,012.0	7,754.0	7,195.0	7,254.0	5,922.0
Total equity	43,885.0	43,654.0	43,897.0	45,352.0	43,195.0
Total liabilities and equity	741,585.0	720,398.0	688,762.0	663,501.0	646,692.0
Exchange rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

Source: Fitch Ratings, Fitch Solutions, SC

Summary Financials and Key Ratios (Cont.)

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 20
	6 months - interim	Year end	Year end	Year end	Year end
	(USDm)	(USDm)	(USDm)	(USDm)	(USDm)
	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.4	1.4	1.3	1.0	0.1
Net interest income/average earning assets	1.1	1.5	1.5	1.5	1.4
Non-interest expense/gross revenue	59.7	71.0	72.9	72.6	74.1
Net income/average equity	4.9	5.3	2.5	2.9	-0.4
Asset quality					
Impaired loans ratio	3.2	2.7	3.3	3.5	4.2
Growth in gross loans	2.1	5.0	2.1	9.2	-6.3
Loan loss allowances/impaired loans	73.9	78.2	76.0	64.2	65.6
Loan impairment charges/average gross loans	1.1	0.3	0.2	0.5	1.0
Capitalisation					
Common equity Tier 1 ratio	14.3	13.8	14.2	13.6	13.6
Fully loaded common equity Tier 1 ratio	n.a.	13.7	14.1	13.6	13.6
Tangible common equity/tangible assets	5.3	5.3	5.6	6.1	5.9
Basel leverage ratio	n.a.	5.0	5.2	5.7	5.7
Net impaired loans/common equity Tier 1	6.1	4.4	5.5	8.3	9.1
Funding and liquidity					
Loans/customer deposits	66.1	67.3	66.5	68.7	67.6
Liquidity coverage ratio	149.0	144.0	154.0	146.0	133.0
Customer deposits/funding	71.2	70.0	71.0	70.2	69.3
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, SC

No Sovereign Support Assumed in Ratings

Standard Chartered's and SCB's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's opinion that senior creditors cannot rely on extraordinary support from the UK government if the group becomes non-viable.

Environmental, Social and Governance Considerations

ESG issues are credit neutral or have only a minimal credit impact on SC and SCB, either due to their nature or the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings **Standard Chartered PLC**

Banks
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Credit-Relevant ESG Derivation

Standard Chartered PLC has 5 ESG potential rating drivers

- Standard Chartered PLC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.