

Research Update:

Several Standard Chartered Entities Upgraded To 'A+', Off UCO, On Revised Criteria; Other Ratings Affirmed

December 14, 2021

Overview

- On Dec. 9, 2021, S&P Global Ratings published its revised methodology for financial institutions and placed its ratings on Standard Chartered Bank (SCB), Standard Chartered Bank AG (SCB AG), and Standard Chartered Bank (Singapore) Ltd. (SCB Singapore) under criteria observation (UCO).
- Under the previous methodology, we effectively adjusted the issuer credit rating on these three operating entities by one notch to reflect the group's weaker profitability than peers. Under the new methodology, this adjustment should instead be made through our comparable rating analysis (CRA) for the stand-alone credit profile (SACP), if appropriate.
- We do not consider a negative adjustment to the CRA to be appropriate for the group's SACP, given its improving financial performance and asset quality over recent years--especially relative to U.K. peers. We therefore maintain the existing group SACP.
- On Dec. 14, 2021, we raised the long-term issuer credit ratings and senior issue ratings to 'A+' from 'A' on SCB, SCB AG, and SCB Singapore. At the same time, we affirmed all other ratings on these banks.
- We also raised the long-term and short-term resolution counterparty ratings on SCB and SCB AG to 'AA-/A-1+' from 'A+/A-1'.
- At the same time, we affirmed all existing ratings on Standard Chartered PLC (SC PLC), Standard Chartered Bank (Hong Kong) Ltd. (SCB HK), Standard Chartered Bank Korea Ltd. (SCB Korea), and Standard Chartered Bank (China) Ltd. (SCB China).
- The outlooks on the ratings on all these Standard Chartered entities are stable.

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Rating Action

On Dec. 15, 2021, S&P Global Ratings took the following rating actions:

- We raised the long-term issuer credit ratings and senior issue ratings on SCB, SCB AG, and SCB Singapore to 'A+' from 'A'.
- At the same time, we raised the long-term and short-term resolution counterparty ratings for SCB and SCB AG to 'AA-/A-1+' from 'A+/A-1'.
- We then removed all the above ratings from UCO, where they were placed on Dec. 9, 2021.
- We affirmed the short-term issuer credit ratings, short-term issue ratings, as well as ratings on hybrid instruments on these banks.
- At the same time, we affirmed all the existing ratings on SC PLC, SCB HK, SCB China, and SCB Korea.
- The outlooks on the ratings on all these Standard Chartered entities are stable.

Rationale

The rating actions follow a revision to our methodologies for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Ratings Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021).

We consider the group's SACP to be appropriate among the peer group. In our view, Standard Chartered group can maintain business stability and improve its profitability over the next two years, thanks to its high exposure to growth markets, resumption of global trade activities, and good momentum at its wealth business. The group's earnings growth momentum is underpinned by adequate risk management, with the group guidance suggesting a normalized loan loss rate of 35-40 basis points.

The group also has strong funding and liquidity, benefiting from a flight to quality in times of market stress in its major markets, such as Hong Kong. We consider the group's 'a-' SACP to be appropriate relative to U.K. peers and global systemically important banks (G-SIBs). Therefore, we do not consider an adjustment of the CRA under the SACP to be appropriate.

Standard Chartered group has shown resilience through COVID-19, thanks to its strengthened risk management. In our opinion, the group has navigated well through a difficult period, managing both the pandemic and very low interest rates. We attribute the success to efforts to derisk the portfolio, overall adequate underwriting, and a greater emphasis on risk-adjusted returns over asset-volume-driven returns since 2015 (which was when the group was loss-making and a new management team arrived). The group has also maintained a strong and stable deposit base throughout the pandemic.

Standard Chartered's additional loss-absorbing capacity (ALAC) buffer has significantly grown.

The group has continued to build up its ALAC buffer over the past few years. Under the new criteria, we estimate the buffer was more than 8.5% as of the end of 2020, stronger than the 6.5% threshold for a two-notch uplift for ALAC support on operating banks. We expect the ALAC to rise by another 1% or so from the 2020 level during the next two years. The group's minimum

requirement for own funds and eligible liabilities of 31.7% as end of June 2021 is the among the highest for U.K. banks.

The ratings on SCB, SCB AG, and SCB Singapore benefit from the parent's ALAC in a resolution scenario. We consider SCB, SCB AG, and SCB Singapore to be core operating subsidiaries of the group. As such the ratings on these entities benefit from a two-notch uplift from the group's ALAC buffer in a resolution scenario.

The ratings on SC PLC, SCB HK, SCB China, and SCB Korea are affirmed. We affirmed the ratings on SC PLC, the non-operating holding company of the group, because we maintain the existing SACP. SCB HK is a core subsidiary of the group. The SACP on this issuer is one notch higher than the group SACP and it also benefits from Hong Kong government support, which is equivalent to the ALAC support ratings. Therefore, we have not upgraded SCB HK or its rated subsidiaries SCB China and SCB Korea in this action.

Outlook

STANDARD CHARTERED PLC

The stable outlook on SC PLC mainly reflects our view that the group will maintain its adequate risk management in the coming two years. The group has made steady progress in cleaning up its balance sheet and strengthening its risk management in the past few years. Its performance has shown resilience despite the difficult operating conditions amid COVID-19 and very low interest rates. We expect the group to maintain asset quality and credit losses that are broadly comparable to its G-SIB peers'. We consider the bank's moderate profitability to be adequately captured in the current SACP. In our view, the profitability will gradually improve, backed by good growth in its major markets, continue strengthening of its wealth management business, and rising interest rates in the coming two years.

We expect the Standard Chartered group to maintain its strong and stable deposit base, which benefits from the flight to quality in times of market stress. We also anticipate the group can maintain its current capitalization and ALAC buffers with moderate growth and a measured risk appetite.

Downside scenario

We could lower the group SACP and therefore the ratings on SC PLC if: (1) the group's earnings weaken, which potentially leads to a period of restructuring; (2) its asset quality weakens significantly relative to that of geographically diverse G-SIB peers; (3) new nonfinancial risks emerge; or (4) the group's funding or liquidity profiles weaken.

Upside scenario

We believe an upgrade is unlikely over the next 24 months. That said, we could raise the ratings on SC PLC if the group's earnings or risk-adjusted capital (RAC) ratio materially outperforms our base-case expectations, with no associated shift in risk appetite.

STANDARD CHARTERED BANK

The stable outlook on SCB reflects the stable outlook on SC PLC. It also reflects our expectation that the group will maintain its ALAC above 6.5% for the next 24 months.

Downside scenario

We could lower the ratings on SCB if we lower the group SACP or if we expect the group's ALAC to fall below our 6.5% threshold.

Upside scenario

We believe an upgrade is highly unlikely over the next 24 months.

STANDARD CHARTERED BANK AG

Our stable outlook reflects our view that SCB AG would likely receive timely support from the group under any foreseeable circumstances, if needed. We expect SCB AG to remain a core subsidiary of the group over the next two years.

Downside scenario

We could downgrade SCB AG if we assign the bank a weaker group status, which could happen as a result of material performance issues, or if we considered SCB AG's strategic importance to the group to have reduced significantly.

Since the ratings on SCB AG are aligned with the group, weaker group creditworthiness would also lead to a downgrade.

In addition, we could lower the rating by one notch from the ALAC-supported group credit profile if we conclude that SCB AG would not benefit from the parent's buffer of ALAC in a resolution scenario.

Upside scenario

We believe an upgrade is highly unlikely over the next 24 months and it could only be triggered by an upgrade of Standard Chartered Bank.

STANDARD CHARTERED BANK (SINGAPORE) LTD.

Our stable outlook reflects our view that SCB Singapore would receive timely support from the group, if needed. We expect SCB Singapore to remain a core subsidiary of the group over the next two years.

Downside scenario

Since the ratings on SCB Singapore are aligned with the group, weaker group creditworthiness

would lead to a downgrade.

Upside scenario

We believe an upgrade is highly unlikely over the next 24 months.

STANDARD CHARTERED BANK (HONG KONG) LTD.

The stable outlook reflects our expectation that SCB HK will maintain its robust business stability, strong capitalization, healthy asset quality, and strong funding and liquidity profile over the next 18-24 months.

We expect SCB HK's sound business and risk profile to help the bank offset any potential headwinds from prevailing economic uncertainties mainly stemming from the COVID-19 pandemic and trade tensions. We also anticipate that SCBHK will maintain its high systemic importance in Hong Kong. In our opinion, the Hong Kong government will be able to provide extraordinary support in case of need. Alternatively, SCBHK would also receive timely support from the group.

Downside scenario

We could downgrade SCB HK if the Standard Chartered's group credit profile deteriorates and if SCB HK's SACP weakens. The SACP could come under downward pressure due to: (1) the bank's weakening capitalization such that RAC ratio sustainably falls below 10%; (2) the bank's asset quality weakens significantly more than the industry average, as indicated by metrics such as a rise in credit costs and the nonperforming loan ratio; or (3) the bank's funding and liquidity profiles weaken.

Upside scenario

We believe an upgrade is unlikely over the next two years.

STANDARD CHARTERED BANK (CHINA) LTD.

The stable outlook on SCB China reflects our outlook on the bank's immediate parent, SCBHK. We expect SCB China to remain a core subsidiary of SCBHK over the next two years. The ratings on SCB China would move in tandem with those on the parent.

Downside scenario

We could downgrade SCB China if we downgrade SCB HK.

Upside scenario

We believe an upgrade is unlikely over the next two years.

STANDARD CHARTERED BANK KOREA LTD.

The stable outlook on SCB Korea reflects the outlook on the bank's parent, SCB HK, which is the regional hub of the Standard Chartered group. We expect SCB Korea to maintain its high strategic importance to SCB HK and the wider group over the next one to two years. We believe SCB HK and the wider group have the capacity and the willingness to provide significant support to SCB Korea, if needed.

Downside scenario

We could downgrade SCB Korea if we lower the rating on SCBHK.

We may also downgrade SCB Korea if the bank's strategic importance to SCBHK and the wider group weakens significantly, such that we believe the parent's commitment of support would be limited. This could happen if SCBK's profitability significantly deteriorates, or if the group revises its strategy in the Korean market.

Upside scenario

We could upgrade SCB Korea if it becomes a core subsidiary of SCBHK. We will revise upward our assessment of SCB Korea's group status if it sustainably improves profitability and makes strong contributions to the parent, such that its strategic importance within the group increases.

We could also raise the ratings on SCBK if we upgrade SCBHK.

Ratings Score Snapshot

Standard Chartered

	To	From
NOHC Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Stable/A-2
Opco Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
Group SACP	a-	a-
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Strong and Strong (+1)	Above Average and Strong (+1)
Comparable Rating Analysis	0	N.A.
Support	+2	+2
ALAC Support	+2	+2
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	-1

ALAC--Additional loss-supporting capacity. GRE--Government-related entity. SACP--Stand-alone credit profile. N.A.--Not applicable.
NOHC--Non-holding company. OPCO--Operating company.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021

Ratings List

Ratings Affirmed

Standard Chartered Bank (China) Ltd.

Standard Chartered Bank (Hong Kong) Ltd.

Issuer Credit Rating	A+/Stable/A-1
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Standard Chartered Bank Korea Ltd.

Issuer Credit Rating	A/Stable/A-1
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Standard Chartered PLC

Issuer Credit Rating	BBB+/Stable/A-2
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Standard Chartered Bank

Subordinated	BBB
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Junior Subordinated	BB+
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Junior Subordinated	BBB-
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Preferred Stock	BB+
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Certificate Of Deposit	A-1
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Commercial Paper	A-1
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Standard Chartered Bank (Hong Kong) Ltd.

Senior Unsecured	A+
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Standard Chartered Bank (Singapore) Ltd.

Certificate Of Deposit	A-1
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Standard Chartered Bank AG

Commercial Paper	A-1
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Standard Chartered PLC

Senior Unsecured	BBB+
Subordinated	BBB-
Junior Subordinated	BB-
Preference Stock	BB

Upgraded

	To	From
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Standard Chartered Bank

Standard Chartered Bank AG

Resolution Counterparty Rating	AA-/--/A-1+	A+/--/A-1
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Standard Chartered Bank

Senior Unsecured	A+	A
Senior Unsecured	A+p	Ap
Certificate Of Deposit	A+	A

Standard Chartered Bank (London Branch)

Senior Unsecured	A+	A
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Standard Chartered Bank (Singapore) Ltd.

Certificate Of Deposit	A+	A
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Upgraded; Ratings Affirmed

	To	From
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Standard Chartered Bank

Standard Chartered Bank AG

Standard Chartered Bank (Singapore) Ltd.

Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
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