Research Update:

# Standard Chartered PLC, Standard Chartered Bank Ratings Affirmed On Improved Risk Management; Outlook Stable

July 22, 2021

## Overview

- Standard Chartered PLC (SC PLC) has shown resilience over the past year amid COVID-19 and very low interest rates. The bank has managed its asset quality and credit costs reasonably well, in our view.
- We believe an improvement in SC PLC's risk management offsets a slight deterioration in its S&P Global Ratings risk adjusted capital (RAC) ratio and the possibility of increased shareholder distributions.
- We affirmed our 'BBB+/A-2' issuer credit ratings on SC PLC, the holding company, and the 'A/A-1' rating on the group's core subsidiaries Standard Chartered Bank (SCB) and Germany-based Standard Chartered Bank AG (SCB AG).
- The stable outlook on SC PLC mainly reflects our view that the bank will maintain its adequate risk management over the next two years.

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## Rating Action

On July 22, 2021, S&P Global Ratings affirmed its 'BBB+' long-term and 'A-2' short-term issuer credit ratings on U.K.-based bank holding company SC PLC. The outlook on the long-term issuer credit rating is stable.

At the same time, we affirmed our 'A/A-1' issuer credit ratings on the SC group's core subsidiaries SCB and SCB AG. The outlook on the long-term issuer credit ratings is stable. We also affirmed the 'A+/A-1' resolution counterparty rating on SCB and SCB AG.

We also affirmed all outstanding issue and program ratings on SC PLC, SCB, and SCB AG.

## Rationale

**SC PLC has shown resilience through COVID-19 thanks to its stronger risk management culture.** In our opinion, the bank has navigated well through a very difficult period with the pandemic and very low interest rates. We attribute the success to efforts to derisk the portfolio, tightened 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).

**SC PLC's financial performance is likely to recover in 2021 buoyed by strong fee income and lower credit costs.** The bank showed signs of a rebound in the first quarter of 2021. While income was down 3% on a constant currency basis, the strong fee income helped to offset some of the headwinds from lower net interest margin. SC PLC's credit impairment was exceptionally low in the quarter, at US$20 million, with management maintaining its overlay post model adjustment. Management expects 2021 credit costs to be in line with or below the bank's medium-term guidance range of 35-40 basis points.

We expect the SC PLC management to maintain cautious business growth plans and not make any material relaxation in its risk appetite. The bank's 2021 earnings should benefit from very low impairment charges, but low interest rates will curb income growth. We assume SC PLC's shareholder payouts will increase now that the Bank of England has lifted its temporary guardrails on such distributions. SC PLC's profitability is likely to gradually improve until 2023 backed by increased revenue, partly stemming from modest expansion in net interest margin, good growth in fee income, and cost control. We estimate the return on average assets (ROAA) will be 0.30%-0.35% in 2023, compared with about 0.15% in 2020.

**SC PLC's intrinsic creditworthiness remains unchanged.** We continue to assess the group's stand-alone credit profile (SACP) at 'a-'. We view its strengthening risk management as sufficient to offset a slightly lower capital assessment based on our RAC ratio. So, the revision in the capital and earnings (to adequate from strong) and risk position (to adequate from moderate) assessments have a net neutral rating impact.

SC PLC's RAC ratio has declined to below our 10% threshold for a strong assessment. It was 9.25% as of end-2020 compared with 9.8% at the end of 2019. The decline in the RAC ratio was mainly due to the exclusion of two legacy preference share issuances totaling US$1.5 billion because they no longer qualify to be included in our capital calculations. We also considered net redemption of US$1 billion of additional Tier-1 (AT1) instruments. SC PLC issued US$1.25 billion AT1 in January 2021.

We project our RAC ratio for SC PLC will be 9.0%-9.5% over the next 18-24 months. This appears to be broadly consistent with the management's stated regulatory common equity Tier-1 ratio target of 13%-14% in the medium term (the ratio was a reported at 14.0% on March 31, 2021).

**The group's weaker profitability than higher rated peers offsets additional loss-absorbing capital (ALAC) gains.** Along with a significant minimum requirement for own funds and eligible liabilities buffer built up in 2020, the revision in our assessment of the capital and earnings of the group results in higher excess total adjusted capital being allocated to our ALAC calculation than before. The group credit profile now incorporates two notches of uplift for ALAC because we expect the ALAC to remain above our 8.5% threshold (this ratio was 9.9% at Dec. 31, 2020).

However, a one-notch negative peer adjustment offsets the ALAC benefit. This adjustment reflects our view that the group's profitability metrics are not yet consistent with that of peer banks rated 'A+'. For us to consider removing this adjustment and raising the rating, we will look for indications that the group will deliver on its refreshed priorities while delivering stronger and steadier earnings that are comparable to its higher rated peers'. SC PLC's new priorities include its wholesale network, affluent clients, mass retail, and sustainability objectives. We equalize the ratings on SCB and SCB AG, core group members, with the 'a' ALAC-supported group credit profile.

**Ratings on the Hong Kong, China, Taiwan, Korea, Nigeria, and Singapore subsidiaries are unaffected.** We rate the SC group's Hong Kong resolution group subsidiary Standard Chartered Bank (Hong Kong) Ltd. (SCBHK) one notch above SCB. This reflects SCBHK's strong credit characteristics (SCBHK's sub-group SACP is 'a') and the potential for extraordinary government support from Hong Kong. This support also benefits SCBHK's rated subsidiaries, following a restructuring that put the group's Korea, Taiwan, and China subsidiaries under SCBHK in 2019.

The rating on Standard Chartered Bank (Singapore) Ltd. benefits from its core group status and extraordinary support from the Singapore government based on the bank's SACP.

Our rating on Standard Chartered Bank Nigeria Ltd is capped by the foreign currency sovereign ratings on Nigeria owing to the effects--direct and indirect--that sovereign stress would have on the bank's operations and creditworthiness.

## Outlook

STANDARD CHARTERED PLC

The stable outlook on SC PLC mainly reflects our view that the bank will maintain its adequate risk management in the coming two years. The group has made significant progress in cleaning up its balance sheet and strengthening its risk management in the past few years. It has also demonstrated resilience in performance despite 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 peers that are global systematically important banks (G-SIBs).

We expect the SC group to keep up with its strong and stable deposit base, which benefits from flight to quality in times of market stress. We also expect the group to 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 leads to a period of restructuring; (2) its asset quality weakens significantly relative to that of geographically diverse G-SIB peers; (3) new non-financial 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 RAC ratio materially outperforms our base-case expectations, with no associated shift in risk appetite.

STANDARD CHARTERED BANK

The stable outlook on SCB reflects: (1) the stable outlook on SC PLC; and (2) our view that the group's profitability would not likely improve materially to a level comparable to 'A+' rated peers over the next two years.

### Downside scenario

We could lower the ratings on SCB if we lower the group SACP and if we expect the bank's ALAC to fall below our 8.5% threshold. We believe this scenario is rather unlikely over the next two years.

### Upside scenario

Although an improvement in the group SACP is unlikely, we could raise the rating on SCB by removing the negative comparable notch of adjustment relative to peers we rate 'A+'. This could happen if the group: (1) maintains a business model that is diverse and well positioned for the changed regulatory and economic environment; (2) it improves its earnings to be more comparable to that of 'A+' rated peers; and (3) the group maintains over 8.5% ALAC on a sustainable basis.

STANDARD CHARTERED BANK AG

Our stable outlook reflects our view that SCB AG would receive timely support from the group, if needed. We expect the group to be willing and able to support the bank to a level commensurate with the 'A/A-1' ratings.

### 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 parents buffer of ALAC in a resolution scenario.

### Upside scenario

We would only raise our rating on SCB AG if the parent's creditworthiness improves.

## Ratings Score Snapshot

### Ratings Score Snapshot - Standard Chartered

| | To | From |
|---|---|---|
| Nonoperating Holding Company Issuer Credit Rating | BBB+/Stable/A-2 | BBB+/Stable/A-2 |
| Operating Company 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) | Strong (+1) |

### Ratings Score Snapshot - Standard Chartered (cont.)

| | To | From |
|---|---|---|
| Risk Position | Adequate (0) | Moderate (-1) |
| Funding and Liquidity | Above Average and Strong (+1) | Above Average and Strong (+1) |
| Support | +2 | +1 |
| ALAC Support | +2 | +1 |
| GRE Support | 0 | 0 |
| Group Support | 0 | 0 |
| Sovereign Support | 0 | 0 |
| Additional Factors | -1 | 0 |

ALAC-Additional loss-supporting capacity. GRE-Government-related entity. SACP-Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Ratings Components Scores For The Top 200 Banks Globally, July 13, 2021
- U.K. Banks Are Freed To Increase Shareholder Distributions: July 13, 2021
- Various Rating Actions Taken On U.K. Banks On Recovering Economy, June 24, 2021
- U.K. Banks Poor Earnings Mask A Hint Of Optimism For Future Creditworthiness, March 9, 2021
- Cost Control, Economic Rebound Put Standard Chartered On Recovery Path, Feb. 25, 2021

- Banking Industry Country Risk Assessment: United Kingdom, Nov. 17, 2020

## Ratings List

| Ratings Affirmed | |
|---|---|
| **Standard Chartered PLC** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| **Standard Chartered Bank** | |
| **Standard Chartered Bank AG** | |
| Issuer Credit Rating | A/Stable/A-1 |
| Resolution Counterparty Rating | A+/--/A-1 |
| **Standard Chartered Bank** | |
| Analytical Factors | |
| Local Currency | a- |
| **Standard Chartered PLC** | |
| Senior Unsecured | BBB+ |
| Subordinated | BBB- |
| Junior Subordinated | BB- |
| Preference Stock | BB |
| **Standard Chartered Bank** | |
| Senior Unsecured | A |
| Senior Unsecured | Ap |
| Subordinated | BBB |
| Junior Subordinated | BB+ |
| Junior Subordinated | BBB- |
| Preferred Stock | BB+ |
| Certificate Of Deposit | A |
| Certificate Of Deposit | A-1 |
| Commercial Paper | A-1 |
| **Standard Chartered Bank (London Branch)** | |
| Senior Unsecured | A |
| **Standard Chartered Bank AG** | |
| Commercial Paper | A-1 |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.