FitchRatings

Fitch Affirms Standard Chartered at 'A'; Outlook Stable

Fitch Ratings - Hong Kong - 02 September 2019:

Fitch Ratings has affirmed Standard Chartered PLC's (Standard Chartered) Long-Term Issuer Default Rating (IDR) at 'A' and Standard Chartered Bank's (SCB) Long-Term IDR at 'A+'. The Outlooks are Stable. Standard Chartered and SCB's Short-Term IDRs have been affirmed at 'F1' and their Viability Ratings (VR) at 'a'. A full list of rating actions is at the end of this commentary.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Standard Chartered Bank	LT IDR A+ ● Affirmed	A+ ●
	ST IDR F1 Affirmed	F1
	Viability a Affirmed	a
	Support 5 Affirmed	5
	Support Floor NF Affirmed	NF
senior unsecured	LT A+ Affirmed	A+
subordinated	LT A- Affirmed	A-
subordinated	LT BBB Affirmed	BBB
senior unsecured	ST F1 Affirmed	F1
Standard Chartered PLC	LT IDR A ● Affirmed	A ●
	ST IDR F1 Affirmed	F1
	Viability a	a

	Affirmed		
	Support 5 Affirmed		5
	Support Floor NF Affirmed		NF
subordinated	LT A- Affirmed		A-
subordinated	LT BB+ Affirmed		BB+
preferred	LT BB+ Affirmed		BB+
senior unsecured	LT A Affirmed		A
senior unsecured	ST F1 Affirmed		F1

Key Rating Drivers

IDRS, VR AND SENIOR DEBT

Standard Chartered's ratings reflect its consolidated risk profile, which mainly draws from the principal operating subsidiaries, UK based SCB and the Hong Kong based subsidiary Standard Chartered Bank (Hong Kong) Limited (SCBHK). SCB consolidates most of the group's subsidiaries and branches, but ownership of SCBHK was transferred from SCB to SC in 1H19. SCBHK owns the Chinese subsidiary as of 1H19, and pending regulatory approvals will in future also consolidate the operations in Korea and Taiwan.

Although ownership of the North Asia subsidiaries are or will no longer be by SCB, we expect continued strong business, strategy, management and operational integration between businesses booked in the UK and the Hong Kong groups. We therefore continue to reflect the group's consolidated profile in SCB's ratings as well as in Standard Chartered's, as we believe that their risk profiles are highly correlated. Standard Chartered's VR also considers moderate common equity double leverage (112% at end-2018) at the holding company level.

The group's VRs are underpinned by Standard Chartered's strong global network and cross-border franchise, solid funding and liquidity, as well as sound capitalisation. These strengths are weighed against moderate asset quality and subdued profitability, albeit both showed improvement in 1H19, which we believe should continue.

The group's updated strategic priorities over the next three years aim to improve profitability towards a return on tangible equity (RoTE) target above 10% by 2021, while maintaining adequate capitalisation. Earnings should benefit from volume growth (including asset-light growth), cost control and continued focus on strategic clients and products. Recent and planned legal structure changes should also 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.

However, we see a sustainable improvement in earnings as being challenged by competition and low interest rates, with execution risks also coming from macroeconomic headwinds from lower global growth, trade tensions around China, and unrest in Hong Kong. Four underperforming markets - India, Korea, UAE and Indonesia - are also being restructured and will likely play a role in the momentum of profitability. Some progress was shown in 1H19, but the competitive landscapes, economic outlooks and Standard Chartered's starting point in these markets pose challenges.

We expect the CET1 ratio to remain in the targeted 13%-14% range as risk-weighted assets (RWA) optimisation, along with Standard Chartered's ongoing profitability, create capacity for higher dividend payments and other shareholder returns. The CET1 ratio reduced to 13.5% in 1H19, due to the impact of share buy-backs (39bp, entirely accounted for in 2Q19), restructuring and regulatory costs and RWA growth. The ratio and targeted range are commensurate with Standard Chartered's risk profile and we believe that these levels are sufficient to accommodate capital inefficiencies arising from local capital requirements.

Standard Chartered's asset quality continued to improve, as indicated by Stage 3 loans falling to 2.3% of loans at amortised cost at end-1H19 and given more stringent underwriting implemented over the past years. Standard Chartered's asset quality also benefits from significant holdings of highly rated securities, reverse repurchase agreements and cash. However, exposure to emerging markets and a degree of volatility remains inherent in the group's country footprint and operations. A weakening economic outlook across Standard Chartered's region increases the potential for loan impairment charges, which have recently been very low (20 bp of gross loans in 1H19), to increase over the medium term.

We have reassessed Standard Chartered's and SCB's funding and liquidity score to 'a+' from 'aa-', which better reflects their solid core deposit profile, the predominantly long-term wholesale funding structure and modest confidence sensitivity. We view Standard Chartered's funding profile as marginally weaker than higher rated global peers that have stronger deposit market shares - particularly retail - in the large deposit gathering markets Hong Kong, Singapore and UK.

The group is mainly deposit funded and its loans-to-deposits ratio (67% at end-1H19) is low, which also reflects a relatively low share of loans on Standard Chartered's balance sheet. Deposits are mainly sourced from corporate and institutional clients but their stability is supported by a reasonable share of operational deposits.

Standard Chartered has regular wholesale market access through instruments such as senior debt and subordinated debt issued by the holding company, which addresses upcoming MREL requirements. Holdings of high-quality liquid assets comfortably exceed regulatory requirements (139% liquidity coverage ratio at end-1H19, 153% based on trailing average of 12 month-end observations to end-1H19), but are not exceptional in the context of complex cross-jurisdictional liquidity management needs.

In line with our assessment of funding and liquidity, Fitch has affirmed the Short-Term IDRs and short-term debt ratings at the level of 'F1'. These ratings have been removed from Under Criteria Observation.

Fitch rates SCB's Long-Term IDR one notch above its VR to reflect the presence of a significant buffer of qualifying junior debt. We estimate that the junior debt buffer at SCB will be above 10% of SCB's RWA after the legal entity restructuring, which will reduce its consolidated RWAs. The subordination of internal senior debt extended to SCB from the holding company, in order to comply with internal MREL requirements, will further increase this buffer.

SUPPORT RATING AND SUPPORT RATING FLOOR

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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid regulatory capital securities issued by Standard Chartered and SCB are notched down from their VRs. Subordinated debt is notched down once from the respective entity's VR. SCB's legacy upper Tier 2 securities are notched down three times, of which one notch is for loss severity and two notches for non-performance due to cumulative coupon deferral risk. The ratings on Standard Chartered's hybrid capital securities are notched down five times, reflecting two notches for loss severity due to their deep subordination and three notches for non-performance risk reflecting full coupon flexibility.

RATING SENSITIVITIES

IDRS, VR AND SENIOR DEBT

Standard Chartered and SCB's IDRs are mainly sensitive to the factors driving their VRs. The ratings would come under pressure if credit or earnings deterioration undermine capital strength. They could also be downgraded if in our view the group meaningfully increases its appetite for lending growth in riskier operating environments or segments, or for higher concentrations which are not adequately mitigated by higher loss-absorption buffers. The ratings could be upgraded if earnings improve significantly and sustainably without an increase in risk appetite.

SCB's Long-Term IDR and senior debt ratings are also sensitive to the amount of junior debt relative to RWAs and to our assumptions about its long-term sustainability. Fitch's QJD buffer uplift is sensitive to changes in assumptions on the resolution intervention point, post resolution capital needs and the development of resolution planning more generally.

Standard Chartered's VR is also sensitive to adverse changes to factors that affect the holding company's notching, including high double leverage of above 120% or less prudent liquidity management, which we do not expect.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating is sensitive to changes in assumptions around the propensity or ability of the UK sovereign to provide timely support. An upgrade of the banks' Support Ratings and upward revision of their Support Rating Floors would be contingent on a positive change in the sovereign's propensity to support the banks, which we see as highly improbable.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The securities' ratings are primarily sensitive to changes in the VRs. Standard Chartered's additional Tier 1 securities are also sensitive to changes in Fitch's assessment of the probability of non-performance relative to the risk captured in Standard Chartered's VR. This could arise due to a change in Fitch's assessment of the group's approach to capital management, reducing its flexibility to service the securities, or an unexpected shift in regulatory buffer requirements.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on Standard Chartered and SCB, either due to their nature or the way in which they are being managed by them. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Jonathan Cornish
Managing Director
+852 2263 9901
Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central
Hong Kong

Secondary Rating Analyst
Ioana Sima
Director
+44 20 3530 1736

Committee Chairperson
James Watson
Managing Director
+7 495 956 6657

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

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