

Standard Chartered PLC

Update

Key Rating Drivers

Challenging Earnings, Strong Funding: Standard Chartered PLC's ratings are driven by its Viability Rating (VR), which balances strong funding and liquidity, resilient capitalisation, and fairly conservative risk appetite, against its weaker earnings and asset quality relative to most similarly rated peers. Challenges to its business model, management and strategy linked to generating adequate profitability on a sustained basis all contribute to the Negative Outlook.

Operating Environment Risks Subside: Fitch Ratings sees pandemic-related economic risks subsiding across much of Standard Chartered's footprint. This is because economies have been more resilient than we initially expected owing to pandemic-containment measures (particularly in Asia) and effective support measures from the authorities.

Asset Quality Risks Stabilised: The improved economic backdrop, as well as the group's risk appetite and risk-provisioning policies mean pressure has also subsided for Standard Chartered's asset quality. We still expect the impaired loans ratio to increase from 2.7% at end-3Q21 considering the significant exposure to vulnerable sectors and remaining economic uncertainties, but associated loans impairment charges (LICs) should decline sharply.

Earnings the Main Ratings Weakness: Rising interest rates and a fall in LICs are likely to support an improvement in operating return on risk-weighted assets (RWAs) to a Fitch-estimated 1.2%-1.4% over 2022. Even so, profitability is a rating weakness, and should this persist, for example due to weaker than-expected revenue or high LICs, it could have negative rating implications.

Resilient Capitalisation: Capitalisation has been resilient since the onset of the pandemic, with the common equity Tier 1 (CET1) ratio at 14.6% at end-3Q21. This is due to a combination of controlled RWAs expansion, positive profitability and pay-out restrictions. We believe the targeted 13%-14% CET1 ratio will be adhered to under our baseline expectation of sufficient profit retention and moderate RWAs growth.

Strong Funding and Liquidity: Fitch's funding and liquidity assessment is underpinned by Standard Chartered's deposit-led funding profile, its low loans/deposits ratio, strong liquidity, and manageable refinancing needs. The group is mainly funded by customer deposits, which grew by 12% from end-2019 to end-3Q21 driven by operating account balances in cash management and retail current and savings accounts. The liquidity coverage ratio was a strong 146% at end-3Q21.

Rating Sensitivities

Sensitive to Earnings Path: The ratings are most sensitive to the group's progress with its strategy aimed at improving profitability, and Fitch's assessment of the group's business model and company profile strength linked to this progress. We would likely downgrade the VR if the expected trajectory of operating profitability fell significantly below 1.2% of RWAs and the prospects of achieving the group's returns targets were disrupted again.

The Outlook could be revised to Stable if our view of the company profile and associated pressures improves, which could happen in conjunction with a better-than-expected earnings trajectory, and once risks to the revenue and LICs guidance subside.

Risk Appetite, Balance Sheet Strength: Our assessment could also be negatively affected by a significant increase in the group's risk appetite in response to medium-term pressures on profitability, or if the group's asset quality deteriorated beyond an assumed four-year average impaired loans ratio of 3%-4%. A decline in capitalisation below the 13%-14% targeted range, without a credible plan to restore it, is also a negative sensitivity.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1

Viability Rating	a
Support Rating	5
Support Rating Floor	NF

Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[Fitch Affirms Standard Chartered PLC's 'A' IDR; Negative Outlook \(July 2021\)](#)
[Large European Bank Earnings, Capital Above Pre-Pandemic Levels \(December 2021\)](#)
[Large European Banks Quarterly Credit Tracker - December 2021 \(December 2021\)](#)

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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

The ratings of Standard Chartered reflect its consolidated risk profile, which mainly consists of UK-based Standard Chartered Bank (SCB) and Hong Kong-based Standard Chartered Bank (Hong Kong) Limited. We reflect the group's consolidated profile in SCB's ratings as well, as we believe that its risk profile is highly correlated with the group's, reflecting its deep integration.

The Issuer Default Rating (IDR) of SCB is one notch above its and the group's VRs. This is because we believe its senior creditors are protected by internal minimum requirement for own funds and eligible liabilities (MREL) buffers given its role as a material legal entity in the group's resolution planning.

Standard Chartered's VR also considers moderate common equity double leverage (109% at end-2020) at the holding company level.

Senior debt is rated in line with the issuers' respective IDRs.

Subordinated Tier 2 debt is rated two notches below the respective issuers' VRs, which is Fitch's baseline notching for loss severity for this type of debt given our expectations of poor recoveries. Upper Tier 2 debt is rated three notches below SCB's VR, including one notch for non-performance given cumulative coupon deferral features.

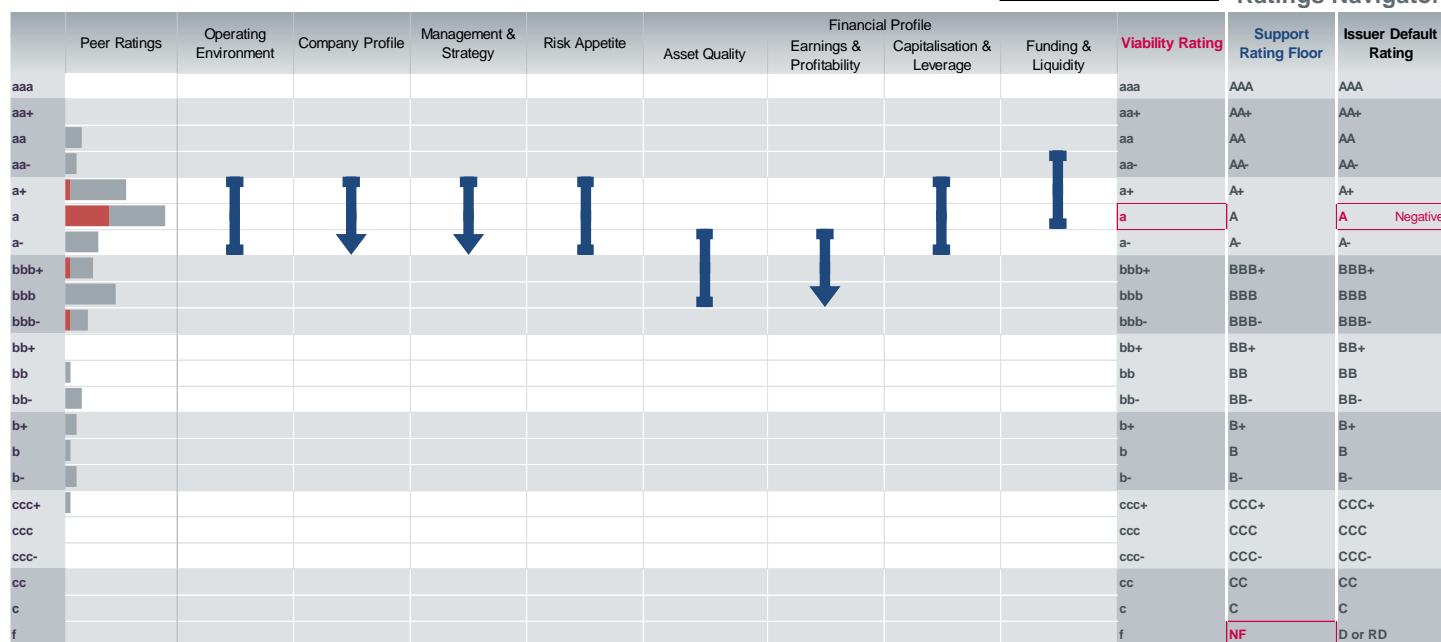
Additional Tier 1 (AT1) instruments and preference shares are rated four notches below the VR because we expect the group will maintain a buffer over capital requirements of at least 100bp of RWAs.

Ratings Navigator

Standard Chartered PLC

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red.

Higher influence Moderate influence

Government Support Government

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.

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A or A-		
Actual country D-SIB SRF	NF		
Support Rating Floor:	NF		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	

Bar Chart Legend

Vertical bars – VR range of Rating Factor
 Bar Colours – Influence on final VR
 Higher influence
 Moderate influence
 Lower influence
 Bar Arrows – Rating Factor Outlook
 ↑ Positive ↓ Negative
 ⇕ Evolving □ Stable

Summary Financials and Key Ratios

	30 Sep 2021 9 Months - 3rd Quarter USDm Unaudited	31 Dec 2020 Year End USDm Audited - Unqualified	31 Dec 2019 Year End USDm Audited - Unqualified	31 Dec 2018 Year End USDm Audited - Unqualified
Summary Income Statement				
Net interest and dividend income	5,103.0	6,879.0	7,684.0	7,820.0
Net fees and commissions	2,849.0	3,160.0	3,522.0	3,492.0
Other operating income	3,627.0	4,904.0	4,511.0	3,709.0
Total operating income	11,579.0	14,943.0	15,717.0	15,021.0
Operating costs	7,967.0	10,478.0	10,948.0	10,774.0
Pre-impairment operating profit	3,612.0	4,465.0	4,769.0	4,247.0
Loan and other impairment charges	57.0	2,325.0	1,029.0	808.0
Operating profit	3,555.0	2,140.0	3,740.0	3,439.0
Other non-operating items (net)	n.a.	-527.0	-27.0	-891.0
Tax	860.0	862.0	1,373.0	1,439.0
Net income	2,695.0	751.0	2,340.0	1,109.0
Other comprehensive income	-669.0	913.0	-400.0	-807.0
Fitch comprehensive income	2,026.0	1,664.0	1,940.0	302.0
Summary Balance Sheet				
Assets				
Gross loans	299,247.0	285,393.0	272,837.0	259,834.0
- of which impaired	8,184.0	9,214.0	7,398.0	8,454.0
Loan loss allowances	5,590.0	6,613.0	5,783.0	6,428.0
Net loans	293,657.0	278,780.0	267,054.0	253,406.0
Interbank	45,754.0	46,977.0	52,208.0	57,599.0
Derivatives	52,668.0	69,467.0	47,212.0	45,621.0
Other securities and earning assets	336,169.0	313,363.0	285,989.0	260,212.0
Total earning assets	728,248.0	708,587.0	652,463.0	616,838.0
Cash and due from banks	75,617.0	66,712.0	52,728.0	57,511.0
Other assets	13,237.0	13,751.0	15,207.0	14,413.0
Total assets	817,102.0	789,050.0	720,398.0	688,762.0
Liabilities				
Customer deposits	453,260.0	448,236.0	405,357.0	391,013.0
Interbank and other short-term funding	46,049.0	103,089.0	100,103.0	95,383.0
Other long-term funding	146,495.0	56,818.0	54,753.0	47,171.0
Trading liabilities and derivatives	52,130.0	75,287.0	59,584.0	57,186.0
Total funding and derivatives	697,934.0	683,430.0	619,797.0	590,753.0
Other liabilities	65,833.0	54,714.0	49,193.0	46,917.0
Preference shares and hybrid capital	7,748.0	6,189.0	7,754.0	7,195.0
Total equity	45,587.0	44,717.0	43,654.0	43,897.0
Total liabilities and equity	817,102.0	789,050.0	720,398.0	688,762.0
Exchange rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

Source: Fitch Ratings, Fitch Solutions, Standard Chartered

Summary Financials and Key Ratios

	30 Sep 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.8	0.8	1.4	1.3
Net interest income/average earning assets	1.0	1.1	1.5	1.5
Non-interest expense/gross revenue	69.9	70.8	71.0	72.9
Net income/average equity	8.0	1.7	5.3	2.5
Asset quality				
Impaired loans ratio	2.7	3.2	2.7	3.3
Growth in gross loans	4.9	4.6	5.0	2.1
Loan loss allowances/impaired loans	68.3	71.8	78.2	76.0
Loan impairment charges/average gross loans	0.0	0.8	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	14.6	14.4	13.8	14.2
Tangible common equity/tangible assets	5.0	5.0	5.3	5.6
Basel leverage ratio	4.7	4.8	5.0	5.2
Net impaired loans/common equity Tier 1	6.6	6.7	4.4	5.5
Funding and liquidity				
Gross loans/customer deposits	66.0	63.7	67.3	66.5
Liquidity coverage ratio	146.3	145.5	144.0	156.0
Customer deposits / total non-equity funding	69.4	72.5	70.0	71.0

Source: Fitch Ratings, Fitch Solutions, Standard Chartered

Environmental, Social and Governance Considerations

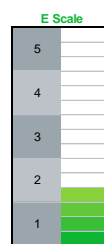
FitchRatings Standard Chartered PLC

Credit-Relevant ESG Derivation

Standard Chartered PLC has 5 ESG potential rating drivers			Overall ESG Scale	
<ul style="list-style-type: none"> 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. 	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



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.

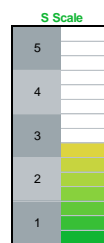
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

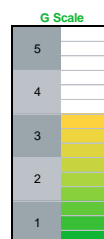
Social (S)

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



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



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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.

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