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**Research Update:**

## Standard Chartered PLC And Subsidiaries Ratings Affirmed Amid Recovering Profitability; Outlook Stable

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## Research Update:

# Standard Chartered PLC And Subsidiaries Ratings Affirmed Amid Recovering Profitability; Outlook Stable

## Overview

- The Standard Chartered group continues to make sound progress in restoring performance and steadily improving profitability.
- We are affirming the ratings on the group's non-operating holding company Standard Chartered PLC, its operating subsidiaries, and their various debt issuances.
- The stable outlook reflects our expectation that the group will gradually improve its profitability and broadly maintain its capitalization and asset quality over the next 12-24 months.

## Rating Action

On Sept. 19, 2018, S&P Global Ratings affirmed its 'BBB+/A-2' issuer credit ratings on Standard Chartered group's non-operating holding company, Standard Chartered PLC (SC PLC). We also affirmed our 'A/A-1' issuer credit ratings on the group's main operating bank, Standard Chartered Bank (SCB). The outlook on the long-term ratings is stable. We affirmed the long-term issue ratings on senior unsecured and hybrid capital instruments issued by SC PLC and SCB.

At the same time, we affirmed our 'A/A-1' issuer credit ratings on the group's core operating subsidiary Standard Chartered Bank (China) Ltd. (SCB China). We also affirmed our 'A/A-1' preliminary issuer credit ratings on Standard Chartered Bank (Singapore) Ltd. (SCB Singapore) and Germany-based Standard Chartered AG (SCAG). We affirmed our 'A-/A-2' issuer credit ratings on the group's highly strategic subsidiary, Standard Chartered Bank Korea Ltd. (SCBK). The outlook on the long-term ratings on these banks is stable.

We also affirmed 'A+/A-1' resolution counterparty rating (RCR) on SCB and 'A+/A-1' preliminary RCR on SCAG.

## Rationale

We affirmed our ratings on SC PLC and its operating subsidiaries because the group's turnaround strategy is progressing in line with our expectations. We

expect steady improvement in profitability backed by the group's efforts to reinforce its franchise and enhance its operating model. The group's reduced business concentration and controlled risk appetite should also promote greater stability and predictability of business.

In our view, Standard Chartered group's credit profile has improved, backed by the group's increased focus on risk-adjusted returns over business volume, normalized credit costs and asset quality, reduced concentration, and more cautious selection of target markets. These factors largely offset our expectation that the group's capitalization as measured in S&P Global Ratings' risk-adjust capital (RAC) ratios will decline.

Standard Chartered group's exposure to emerging economies where we see increasing volatility, our weaker economic outlook for some key regions the group operates in, and the trade conflict between the U.S. and China could temper sharp improvement in profitability, in our opinion.

We continue to regard the group's capital as strong, although the RAC ratio is likely to decline to the 9.75%-10.25% range over the next two years, nearing our lower threshold for a strong assessment. The ratio was 10.4% at end-2017. Our base-case assumptions include: (1) about US\$1.3 billion negative day-one impact of International Financial Reporting Standards 9 on total adjusted capital (TAC); (2) a moderate pickup in loan growth (to about 6% per year over 2018-2020); (3) a slight improvement in net interest margins; and (4) a resumption of dividends (to 20%-25% over 2018-2020).

Our RAC ratio could also come under pressure if we see higher economic risks in some key markets the group operates in. In particular, we see rising economic imbalances in Hong Kong, given the continuous surge in property prices and a pickup in credit growth in recent years.

We project a return on average assets of 0.4%-0.5% for the Standard Chartered group over the coming two years, compared with about 0.3% in 2017. That said, earnings could also be hit by an ongoing investigation relating to U.S. sanctions, laws, and regulations. The potential penalty, settlement cost, or further reputational damage, if any, is highly uncertain; but we expect the group to be able to absorb it.

The group will continue to proactively manage its credit risk exposure to companies in emerging markets, commercial clients, and global commodities clients, in our view. These were the major sources of impairments since 2015. The group's asset quality and credit costs have stabilized in recent quarters. The impairment losses on loans and advances declined by about 50% year-over-year in the first half of 2018, and we estimate that the annualized impairment loss-to-loan ratio was low at about 20 basis points. Given normalizing credit losses and asset quality, we believe the group's capitalization is well placed to absorb potential unexpected losses.

We expect the Standard Chartered group's funding and liquidity profiles to remain healthy over the next 12-24 months. The group's funding and liquidity

ratios are among the strongest among U.K.-domiciled banks and those in other developed markets.

Our assessment of SCB's funding position reflects the bank's better funding profile than that of other major banks that we rate in the U.K. We also believe that SCB continues to have strong liquidity. We expect the group to survive under stressful conditions, given its deposit franchise in developed Asian markets, including Hong Kong, where its subsidiary is one of the note-issuing banks. The group also has comprehensive contingency plans for adverse conditions. Its liquid assets have been more than double its short-term wholesale funding needs over the past several years.

The Standard Chartered group's operating banks could benefit from the group's healthy bail-in buffers. The group already meets the known 2019 requirement of minimum requirement of own funds and eligible liabilities (MREL). In our view, the group will further accumulate loss-absorbing buffers in terms of S&P Global Ratings' additional loss absorbing capacity (ALAC). We expect ALAC to accrue to the benefit of senior creditors of the group's main operating companies, but not to those of SC PLC--it being a non-operating holding company whose senior obligations are unlikely to receive full and timely payment in a resolution scenario.

Our ALAC estimate is susceptible to our assessment of the group's capital and earnings. This is because the ALAC estimate considers capital amount in excess of that required to bring the projected RAC ratio within the range corresponding to the existing capital and earnings assessment. We calculated the group's 2017 ALAC at 6.4%, compared with the 8.5% threshold for a second notch of ALAC uplift.

We affirmed the ratings on SCB China, SCB Singapore, SCAG, and SCBK because we expect the banks to maintain their group status over the next 12-24 months at least.

The ratings on Standard Chartered Bank (Taiwan) Ltd. (A-/Stable/A-2), a highly strategic subsidiary, are unaffected. The ratings on Standard Chartered Bank (Hong Kong) Ltd. (A+/Stable/A-1) are also unaffected because the rating construction is based on the bank's stand-alone credit profile and the likelihood of extraordinary support from the Hong Kong government.

## **Outlook**

### **Standard Chartered PLC**

The stable outlook on SC PLC reflects our expectation that the company will broadly sustain, rather than substantially improve, its capitalization, credit losses, and asset quality for the coming one to two years.

## **Downside scenario**

We could lower the rating if: (1) SC PLC's capitalization deteriorates, such that the group's RAC ratio moves below 10% along with a sharp decline in asset quality; or (2) the group's funding or liquidity profiles weakens.

## **Upside scenario**

We could raise the rating if: (1) the group's asset quality sharply improves with low credit costs; and (2) its RAC ratio improves substantially beyond our current projection of about 10%, leading us to conclude that the group's capitalization provides a substantial buffer against possible future losses. However, we believe these scenarios are unlikely over the next 12-24 months.

## **Standard Chartered Bank**

The stable outlook on SCB reflects our view that SC PLC will maintain its group credit profile over the next 12-24 months, excluding extraordinary support measures such as bail-in buffers.

The stable outlook also reflects our view that Standard Chartered group is unlikely to accumulate ALAC that warrants a second notch of ALAC support and sustainably improve profitability to make the group's creditworthiness more clearly in line with that of peers we rate 'A+' over the next 12-24 months.

## **Downside scenario**

We would lower the ratings on SCB if downside risks mount of the type envisaged under the downside scenario for SC PLC. That said, potential for a downgrade would be limited if the group accumulates 8.5% ALAC on a sustainable basis at such time.

## **Upside scenario**

We would most likely raise the rating on SCB if the group demonstrates a business model that is diverse and well positioned for the changed regulatory and economic environment, and accumulates over 8.5% ALAC on a sustainable basis. This would likely be exemplified in the Standard Chartered group generating much improved and relatively stable statutory earnings that are much closer to management's medium-term profitability target of 8% return on equity. We believe these factors would lead to much improved comparability of the group's credit strength with that of 'A+' rated peers and increase the probability that management will not need to engage in further meaningful restructuring of the group's operations.

We would likely raise the ratings on SCB China, SCB Singapore, SCAG, and SCBK if we upgrade SCB, as long as we continue to believe that regulators and resolution authorities would seek to ensure that these entities' senior

unsecured creditors are paid on time and in full if the group fails.

## Ratings Score Snapshot

Standard Chartered Bank	
Issuer credit rating	A/Stable/A-1
Unsupported GCP	a-
Anchor	bbb+
Business position	Adequate (0)
Capital and earnings	Strong (+1)
Risk position	Moderate (-1)
Funding and liquidity	Above average and Strong (+1)
Support	
ALAC	+1
GRE	0
Group	0
Sovereign	0
Additional factors	0

## Related Criteria

- 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
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## **Related Research**

- Germany-Based Standard Chartered AG Assigned Preliminary 'A/A-1' Ratings; Outlook Stable, Aug. 29, 2018
- U.K. Banks Keep Calm And Carry On Amid Brexit Uncertainty, Aug. 13, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.K. Completed, April 30, 2018
- Largest U.K. Banking Groups Boast Higher Statutory Pre-Tax Profits But Returns Disappoint, March 8, 2018
- Higher Profits Would Lift Standard Chartered's Credit Quality Amid Steady Improvement; Ratings Unaffected By 2017 Result, Feb. 28, 2018
- Standard Chartered Bank (Singapore) Assigned Preliminary 'A/A-1' Ratings; Outlook Stable, Feb. 22, 2018
- The Adoption Of IFRS 9 And Bank Ratings, Feb. 19, 2018
- U.K. Banks: What's On The Cards For 2018, Jan. 9, 2018
- Standard Chartered PLC (Holding Co.); Standard Chartered Bank (Lead Bank), Dec. 11, 2017
- Everyone Passed: Stress Test Results Reflect Strengthening U.K. Bank Balance Sheets, Nov. 29, 2017
- Ratings On Standard Chartered PLC And Subsidiaries Affirmed On Stabilizing Financial Performance; Outlook Stable, Nov. 28, 2017
- Standard Chartered Bank (Hong Kong) Ltd. 'A+/A-1' Ratings Affirmed On Resilient Financial Performance; Outlook Stable, Nov. 28, 2017
- Various U.K. Bank Ratings Affirmed; Outlooks Revised To Stable Or Positive On Balance Sheet Strengths, But Risks Remain, Nov. 15, 2017

## **Ratings List**

Ratings Affirmed

Standard Chartered Bank (China) Ltd.

Issuer Credit Rating

A/Stable/A-1

Standard Chartered Bank (Singapore) Limited	
Issuer Credit Rating	A (prelim)/Stable/A-1 (prelim)
Standard Chartered Bank	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Standard Chartered AG	
Issuer Credit Rating	A (prelim)/Stable/A-1 (prelim)
Resolution Counterparty Rating	A+ (prelim)/--/A-1 (prelim)
Standard Chartered PLC	
Issuer Credit Rating	BBB+/Stable/A-2
Standard Chartered Bank Korea Ltd.	
Issuer Credit Rating	A-/Stable/A-2
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 PLC	
Senior Unsecured	BBB+
Subordinated	BBB-
Junior Subordinated	BB-
Preference Stock	BB

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