

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Standard Chartered's ratings; changes outlook to positive

09 Sep 2024

Singapore, September 09, 2024 -- Moody's Ratings (Moody's) has today affirmed all ratings and assessments of Standard Chartered PLC (SCPLC), Standard Chartered Bank (SCB) and its branches, and Standard Chartered Bank AG (SCB AG).

We have changed the rating outlooks to positive from stable on these entities where applicable, to reflect improving profitability while we expect the group to maintain stable asset quality, capitalization and liquidity.

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL495276 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The rating affirmation and outlook change to positive from stable reflects our expectation that further improvements in SCPLC's and SCB's profitability will help improve the group's solvency over the next 12-18 months. Profitability has been improving, driven by recurring income growth from Global Markets and Wealth and Retail Banking, and these income sources will likely continue to drive income growth. SCPLC's return on tangible assets (ROTA) improved to 0.59% in the first six months of 2024 from 0.37% for full-year 2023, while SCB's ROTA improved to 0.66% from 0.55% over the same period. SCPLC's consistent earnings improvement along with its strong capital and liquidity may bring its credit profile closer to its global peers with an a3 Baseline Credit Assessment (BCA).

On the expense side, SCPLC's ongoing cost optimization will result in low single-digit expense growth until 2026, providing a boost to pre-provision income.

A key risk to our positive outlook is the changing interest rate environment, which could negatively pressure SCPLC's net interest income in case of rapid interest rate cuts in the group's main functional currencies.

Alongside improving profitability, we expect SCPLC and SCB to maintain good solvency and high liquidity metrics. While the group's focus on its Global Markets business has increased its market risk exposure in recent years, its nonperforming loan (NPL) ratios continued to improve in 2024, particularly at SCB, due to upgrades of problem assets and recoveries. We expect both entities to maintain elevated exposures to market risk, mainly related to derivative transactions in line with the group's focus on growing its cross-border network business and financial institutions segment.

The capital ratios of the two entities, based on tangible common equity to adjusted risk-weighted assets (TCE ratio), will likely remain solid at around 14.5% for SCPLC and 13.5% for SCB.

SCPLC's and SCB's liquidity will remain strong. The group holds a large amount of high-quality liquid assets, with its liquid banking assets ratio at 51% of its tangible banking assets (TBA) as of 30 June 2024. The group's funding position is strong, with customer deposits accounting for 60% of its total liabilities as of the same date, while its market funds ratio stood at 27% of TBA, a level that is broadly in line with similarly rated universal banks. Meanwhile, SCB's funding is modest compared to SCPLC, given that a smaller portion of its deposits are retail deposits. The bank's market funds ratio is also higher than the group's at 37% because it carries out most of the market funding activities.

SCPLC's ratings reflect our Advanced Loss Given Failure (LGF) forward-looking analysis of the group's balance sheet structure and capital and funding plans. SCPLC's A3 senior unsecured ratings are positioned one notch above its baa1 Adjusted BCA because this instrument class benefits from the volume of subordinated debt instruments and from the volume of senior unsecured debt, which reduce the expected loss for senior unsecured creditors.

SCB's A1 deposit and senior unsecured debt ratings include four notches of uplift from the bank's baa2 BCA. One of these four notches is driven by a very high probability of affiliate support from SCPLC, while the other three are related to our Advanced LGF analysis.

The ratings and assessments of SCB AG, a bank incorporated in Germany, mirror those of its immediate parent SCB because we consider SCB AG a highly integrated entity of SCB. There are very close operational and financial linkages between the two entities and substantial risk sharing from the German bank to its parent. We have changed the outlook on SCB AG to positive from stable, reflecting the change in the outlook on SCB's ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

SCPLC

We will upgrade SCPLC's long-term ratings if its BCA is upgraded. An upgrade of the group's BCA is likely if its ROTA exceeds 0.7% on a sustainable basis, with earnings quality being a key driver, while its other key credit metrics remain at stable levels.

We would return the outlook to stable from positive if ROTA improvements fail to materialize or if earnings quality deteriorates, for example indicated by a greater share of episodic income from Global Markets.

We could downgrade the BCA if the group's problem loans exceed 4%, TCE ratio decreases to below 13% and ROTA declines to below 0.3%. A substantial growth in the Global Markets business may eventually lead to a degree of opacity and complexity that would be negative for the group's creditworthiness.

Moreover, the volume and subordination of junior and senior debt instruments as a percentage of the group's TBA is above 10%, a level at which the senior unsecured debt ratings receive a one-notch uplift from the BCA, as part of our Advanced LGF analysis. If this ratio falls below 10% on a sustained basis, it will lead to a downgrade of the senior debt ratings by one notch.

SCB

We would upgrade SCB's BCA if its profitability continues to improve to a level that is similar to SCPLC's while its other key credit metrics remain at stable levels. An upgrade of SCB's BCA will lead to an upgrade of its debt and deposit ratings.

We would return SCB's rating outlook to stable from positive if its asset quality or profitability decreases substantially without the prospect of a swift recovery.

SCB AG

SCB AG's ratings and assessments mirror those of SCB and will move in tandem with SCB's ratings and assessments.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Standard Chartered PLC (SCPLC) is a global bank headquartered in London. It reported total assets of USD835.4 billion as of 30 June 2024.

Standard Chartered Bank (SCB), one of the principal operating entities of Standard Chartered PLC, is headquartered in London and reported total assets of USD544.0 billion as of 30 June 2024.

Standard Chartered Bank AG, the wholly-owned German subsidiary of SCB, is headquartered in Frankfurt.

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The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL495276 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation
- Issuer Participation
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- Endorsement
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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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