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## Rating Action: [Moody's downgrades Standard Chartered's deposit and senior unsecured debt ratings to Aa3; outlook negative](#)

Global Credit Research - 07 Mar 2016

Hong Kong, March 07, 2016 -- Moody's Investors Service has today downgraded Standard Chartered Bank's (SCB) long-term deposits and senior unsecured debt ratings by one notch to Aa3 from Aa2, and Standard Chartered PLC's (SCPLC) senior unsecured debt rating by one notch to A1 from Aa3. Moody's has also downgraded other long-term ratings of SCB and SCPLC by one notch.

At the same time, Moody's has affirmed SCB's P-1 short-term deposit and debt rating and SCPLC's Ba1(hyb) Additional Tier 1 Capital rating.

The outlook on SCPLC's senior unsecured debt and SCB's long-term deposits and senior unsecured debt is negative.

A full list of the ratings affected can be found at the end of this press release.

The rating actions conclude a review for downgrade initiated on 9 November 2015 following SCPLC's announcement of a loss in the third quarter of 2015 and a new strategic plan.

SCPLC is the listed entity of the Standard Chartered Group (the group) and SCB is the group's principal operating subsidiary.

### RATINGS RATIONALE

#### Standalone BCA

Standard Chartered Group's (the group) asset quality and profitability deteriorated significantly in 2015, affected by its commodities and Indian exposures. This led to an increase in the problem loan ratio to 4.8% at end-2015 from 2.7% at end-2014. The group reported a net loss of \$2.2 billion for 2015.

The group is implementing a number of initiatives to reduce its credit risk and restore its profitability, including a reduction in risky exposures and a downsizing of its operations in some of its less profitable markets. However, Moody's expects profitability to remain weak for at least two years, and the operating environment in some of the markets in which Standard Chartered operates has become more challenging.

On the other hand, Moody's does note various positives.

First, the group's capital position had improved, as evidenced by a Common Equity Tier 1 ratio of 12.6% at end-2015, after a recent \$5 billion rights issue. In addition, liquidity and funding remain strong.

Second, the group's risk profile has improved as a result of reduced levels of borrower concentration and commodities exposure, following adjustments to its portfolio in 2015. The group also plans a further \$8 billion in risky asset disposals as soon as possible.

Third, the bank's liquidity profile remains strong. Its advances-to-deposit ratio was 73% at end-2015 and it holds a large portfolio of high quality liquid assets. Moreover, because of its strong focus on trade finance, a substantial portion of its loans are short-term and the natural run-off of its portfolio has facilitated the bank's reduction of the overall size of its balance sheet as well as concentrations.

However, Moody's considers that the extent and pace of improvement in its asset quality could be curbed or delayed by slower economic growth in its key markets, such as Hong Kong and China, continued pressure on commodity prices, and currency volatility. Even though Standard Chartered has thoroughly assessed its loan portfolio and some early warning indicators of future non-performing loans have improved materially, the weakening operating environment could result in a further deterioration in credit quality.

Moody's expects that it will take several years for the group to significantly improve its profitability, due to additional large restructuring charges and some structural weaknesses that will take time to resolve. Although the restructuring is limited in size, when compared to other UK and international banks, Moody's believes the implementation of these actions could absorb significant management time and that it would take some time to grow new businesses and make up for the revenues lost as a result of the planned disposals.

Any substantial charges or regulatory actions from pending litigation would also add pressure to the group's profitability.

#### Instrument Ratings and CRA

Moody's notes that the group's liability structure at end-2015 was broadly unchanged from the previous year. As such, the one-notch fall in SCB's BCA has resulted in a one-notch downgrade in SCB's and SCPLC's long-term CR Assessments and instrument ratings, except for its high-trigger Additional Tier 1 (AT1) capital securities, based on Moody's Advanced Loss Given Failure (LGF) analysis.

The three-notch uplift on SCB's long-term deposit and senior unsecured debt ratings in particular reflects the group's unique corporate profile and liability structure, which features a substantial portion of the group's assets outside the operational resolution regime and a substantial amount of securities that could be bailed-in during a resolution to the benefit of more senior creditors. This situation reduces expected loss for depositors and senior creditors in resolution.

SCPLC's Ba1(hyb) rating for its AT1 capital securities is affirmed, reflecting its common equity Tier 1 capital ratio of 12.6% at end-2015.

Moody's rating on high-trigger capital securities is based on the likelihood of the issuer's capital ratio reaching the conversion trigger, the probability of a bank-wide failure and loss severity, if either one or both these events occur. Moody's scenario analysis concludes that the Ba1(hyb) rating should remain unchanged with SCB's BCA at a3.

#### Negative Outlook

Moody's expects a more difficult operating environment in some of Standard Chartered Group's key markets, such as China and Hong Kong. This would weigh on the group's asset risk and profitability over the next 12-18 months. A further effect is additional downward pressure on its ratings.

#### What Could Change the Ratings Up/Down

SCB's BCA could be downgraded if the group's restructuring did not deliver improvement in asset risk and profitability and/or if the operating environment were to deteriorate beyond Moody's expectations.

A reduction in SCB's BCA would likely affect all the ratings assigned to SCB and SCPLC. In addition, SCB's and SCPLC's deposit and

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senior debt ratings could be downgraded, if the volume of their junior instruments outstanding decreases significantly, thereby reducing their loss cushions.

Ratings upgrades are unlikely, given the negative outlook. However, the rating outlook could be changed to stable if loan impairments fall significantly and profitability were to be restored.

SCB's and SCPLC's instrument ratings could be upgraded if SCB's BCA is raised.

The principal methodology used in these ratings was Banks published in January 2016. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Standard Chartered PLC (SCPLC) is a global bank headquartered in London with total assets of \$640 billion at end-2015.

Standard Chartered Bank (SCB) is the principal operating entity of Standard Chartered PLC.

List of affected ratings:

#### Standard Chartered PLC

- Senior unsecured long-term debt downgraded to A1 with a negative outlook from Aa3
- Senior unsecured long-term MTN program downgraded to (P)A1 with a negative outlook from (P)Aa3
- Subordinated debt downgraded to A3 from A2
- Subordinated MTN program downgraded to (P)A3 from (P)A2
- Junior subordinated debt downgraded to Baa2(hyb) from Baa1(hyb)
- Non-cumulative preference shares downgraded to Baa3(hyb) from Baa2(hyb)
- High-trigger Additional Tier 1 Capital affirmed at Ba1(hyb)

#### Standard Chartered Bank

- BCA and Adjusted BCA downgraded to a3 from a2
- Long-term CR Assessment downgraded to Aa3(cr) from Aa2(cr)
- Long-term deposits downgraded to Aa3 with a negative outlook from Aa2
- Long-term deposit notes/CD program downgraded to Aa3 with a negative outlook from Aa2
- Senior unsecured long-term debt downgraded to Aa3 with a negative outlook from Aa2
- Senior unsecured long-term MTN program downgraded to (P)Aa3 with a negative outlook from (P)Aa2
- Subordinated debt downgraded to A3 from A2
- Subordinated MTN program downgraded to (P)A3 from (P)A2
- Junior subordinated debt downgraded to Baa2(hyb) from Baa1(hyb)
- Cumulative preference shares downgraded to Baa2(hyb) from Baa1(hyb)
- Short-term deposits affirmed at P-1
- Short-term Deposit Note/CD program affirmed at P-1
- Short-term MTN program affirmed at (P)P-1
- Short-term CR Assessment affirmed at P-1(cr)

#### Standard Chartered Bank, New York Branch

- Long-term CR Assessment downgraded to Aa3(cr) from Aa2(cr)
- Short-term CR Assessment affirmed at P-1(cr)
- Commercial paper affirmed at P-1

#### Standard Chartered Bank, Singapore Branch

- Long-term CR Assessment downgraded to Aa3(cr) from Aa2(cr)
- Long-term Deposit Note/CD Program downgraded to (P)Aa3 with a negative outlook from (P)Aa2
- Short-term Deposit Note/CD Program affirmed at P-1
- Short-term CR Assessment affirmed at P-1(cr)
- Commercial paper affirmed at P-1

#### Standard Chartered Bank, Tokyo Branch

- Long-term CR Assessment downgraded to Aa3(cr) from Aa2(cr)
- Short-term CR Assessment affirmed at P-1(cr)
- Commercial paper affirmed at P-1

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