# Standard Chartered PLC

## Company Profile

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# COMPANY OVERVIEW

Standard Chartered is a financial services provider. The group is active in retail and wholesale banking. The group operates in the Asia Pacific Region, South Asia, the Middle East, Africa, the UK, and the Americas. It is headquartered in London, the UK and employs 85,231 people.

The group recorded revenues of $16,062 million during the financial year ended December 2010 (FY2010), an increase of 5.8% over FY2009. The operating profit of the group was $6,122 million in FY2010, an increase of 18.9% over FY2009. The net profit was $4,332 million in FY2010, an increase of 28.2% over FY2009.

# KEY FACTS

| | |
|---|---|
| **Head Office** | Standard Chartered PLC<br>1 Aldermanbury Square<br>London, EC2V 7SB<br>GBR |
| **Phone** | 44 20 78858888 |
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| **Web Address** | http://www.standardchartered.com |
| **Revenue / turnover (USD Mn)** | 16,062.0 |
| **Financial Year End** | December |
| **Employees** | 85,231 |
| **London Stock Exchange Ticker** | STAN |
| **National Stock Exchange Ticker** | STAN |
| **Hong Kong Stock Exchange Ticker** | 02888 |

# SWOT ANALYSIS

Standard Chartered is a financial services provider. The group is active in consumer and wholesale banking. The operations of Standard Chartered are spread across 70 countries. Though the group is based in UK, its operations are primarily focused in Asia, the Middle East, and Africa. Standard Chartered's revenues are spread over different geographic markets. The group's diversified revenues protect it, partially, from changing economic cycles in different parts of the world. However, the group is threatened by inconsistent global regulatory reform and general conditions in the banking industry which may impact its profitability.

| **Strengths** | **Weaknesses** |
|---|---|
| Diversified revenues with a strong base in Asia<br>Strong capital and liquidity position<br>Strong cost management sustaining operating margins<br>Inorganic growth helping in geographic expansion | Shift towards wholesale banking could affect its growth prospects<br>Weak asset liability management<br>Exposure to Lehman Brothers has tarnished image and caused financial damage |
| **Opportunities** | **Threats** |
| Acquisition of GE Money in Singapore increases market share in auto-loans<br>Growth in Islamic banking to help in improving revenue from Middle East and South Asia region<br>Investments in technology could help in increasing customer reach and efficiency<br>Partnership with Chinese firms helping increase penetration in China | Likely rise in wholesale funding costs could affect margins<br>Inconsistent global regulatory reform likely to increase compliance cost<br>Inability to deal with financial crime could result in huge financial liability<br>Political turmoil in some Middle Eastern and African markets likely to result in contraction of geographic footprint |

## Strengths

Diversified revenues with a strong base in Asia

The operations of Standard Chartered are spread across 70 countries. It has a network of over 1,700 branches and outlets and 5,600 ATMs in more than 70 countries and territories across the globe. Though the group is based in UK, its operations are primarily focused in Asia, the Middle East, and Africa. Standard Chartered's revenues are spread over different geographic markets. Asia provided more than 80% of the group's income and its operating profit in FY2009 and FY2010. In 2009, for the first time, income from the group's biggest markets - Other Asia Pacific exceeded $3 billion in revenues. Additionally, income from its other big Asian markets like Hong Kong, India, and Middle East and Other South Asia - exceeded $2 billion in revenues, each, reflecting Standard Chartered's increasing diversity. The group's diversified revenues protect it, partially, from economic cycles.

Strong capital and liquidity position

Standard Chartered's capital position remained strong in FY2010. The group's Tier 1 ratio was 14% (11.5% in 2009), well above regulatory target range. The group's Core Tier 1 ratio at December 31, 2010 was 11.8%, compared to 8.9% at the end of 2009. It was strengthened by strong organic equity generated through $5.2 billion rights issue. Additionally, the group’s capital was strengthened by retained profits of $4.4 billion and the issue of Indian Depository Receipts in June 2010 of $503 million. Further, Standard Chartered remains highly liquid. The group remains a net lender into the interbank market and had an advance to deposit (AD) ratio of 77.9% at December 31, 2010. The group's strong capital and liquidity position helps it to deal with future changes in an uncertain economic and regulatory environment.

Strong cost management sustaining operating margins

Standard Chartered maintained tight control over its expenses in FY2009 and FY2010. In FY2010, revenues registered an annual growth of 5.8% while operating income rose by 18.9%. Consequently, operating margin improved from 33.9% in FY2009 to 38.2% in FY2010. The group's cost management effectiveness is also evident from flat cost to income ratio. The normalized cost to income ratio improved from 56.1% in 2008 to 55.9% in 2010. Strong cost management is sustaining the group's profit margins even in a difficult international banking environment.

Inorganic growth helping in geographic expansion

Standard Chartered has history of growing aggressively through both organic and inorganic route. The group has been very active in scouting for inorganic targets since 2000. It has acquired more than 15 financial services firm during last decade (2001–10). Additionally, during this time, it also made strategic investments in financial services companies located throughout the world. For instance, in June 2010, it invested in Agricultural bank of China, one of the top commercial banks in China. Earlier in 2008, Standard Chartered increased its investment in UTI Securities to 74.9%. Inorganic growth has helped it to expand its geographic footprint from 50 countries in 2001 to 70 countries in 2010.

## Weaknesses

Shift towards wholesale banking could affect its growth prospects

In the last three to four years, Standard Chartered has shifted its focus to wholesale banking led growth. Income from wholesale banking registered a year-on-year growth of 24.1% in FY2009 while in 2010 the growth was 7.4%. During the same time, consumer banking division grew by -5.4% in FY2009 and 7.9% in FY2010. The wholesale banking strategy seems to be working well. However, unlike in consumer banking, banks find it hard to squeeze margins in wholesale banking. Moreover, there seems to be a shift towards consumer banking and growth prospects in wholesale banking look limited.

Weak asset liability management

Standard Chartered’s asset and liability management was adversely impacted in FY2010. This happened primarily because the group re-invested its maturing investments at lower yields in the early part of 2010. As a result, accrual income was lower, largely because of flatter money market yields, especially in markets such as the US and Hong Kong. Additionally, the group’s cash balances increased $14.6 billion compared with 2009, because of $5.2 billion collected from rights issue and strong growth in deposit. As the alternate deployment of this surplus cash is pending, it has parked surplus fund at central banks. This will further affect the earning capability of the company as deposits and cash will outgrow loan book accounts. Weak asset liability management would affect the earnings of the group.

Exposure to Lehman Brothers has tarnished image and caused financial damage

Standard Chartered has some exposure to Lehman Brothers that was declared bankrupt in 2008. The group has sold a Lehman Brothers-linked structured derivatives product to its Hong Kong customers. Bankruptcy of Lehman Brothers triggered the Securities and Futures Commission and Hong Kong Monetary Authority to seek damages from Standard Chartered. In its 2010 annual report, the group mentioned that it settled the suit relating to Lehman’s structured notes by agreeing to pay $192 million. Though, the group has settled the suit, it is still to emerge from the reputation damage suffered due to the sale of Lehman Brothers-linked structured derivatives product. The group’s sales of structured products are likely to see a dip in the months to come.

## Opportunities

Acquisition of GE Money in Singapore increases market share in auto-loans

Standard Chartered has entered into an agreement to acquire GE Money Pte., Ltd., a Singapore-based provider of consumer financial services and a wholly-owned unit of US-based industrial conglomerate General Electric Company. As of December 31, 2009, GE Money (Singapore) had gross assets of S$2,350 million ($1,672.48 million). The assets to be acquired are modest relative to Standard Chartered's overall balance sheet of $516.5 billion at the end of December 2010. Yet the purchase will give Standard Chartered a double-digit share of the Singapore auto-loan market, where it has not been active for a decade. Standard Chartered already earns about 15% of its profit before tax in Singapore, and the deal will increase the size of its consumer business there, in line with the group's stated strategy. Owing to high car prices in Singapore, a car loan can be a significant financial liability for many households, and therefore a material addition to Standard

Chartered's product suite. Standard Chartered has been restructuring its consumer bank, with an emphasis on improving cross-selling, similar to what it has achieved with its wholesale bank. The addition of auto finance capability should support this goal in Singapore and bolster Standard Chartered's broader efforts to return its consumer bank's earnings contribution to historical levels after several years of wholesale bank earnings dominance.

Growth in Islamic banking to help in improving revenue from Middle East and South Asia region

Islamic finance has become a major global industry, with hundreds of institutions currently involved in both Muslim countries and international markets. Assets of financial institutions offering Islamic products and services are estimated to have reached to approximately $300 billion, registering a growth of 25% year-on-year over the past decade. Islamic banking assets are expected to grow at a faster rate than non-Islamic banking assets. By 2013, Islamic banking assets are expected to touch $1 trillion. Since, Standard Chartered has strong presence in Middle East and South Asia, the group is expected to benefit from the growth in the industry.

Investments in technology could help in increasing customer reach and efficiency

Standard Chartered has been deploying significant resources (though it doesn’t disclose R&D spend) to transform its banking infrastructure. For instance, recently, the bank has standardized its platforms, re-engineered its processes and directed its activities towards its principal shared service centers in Chennai, Kuala Lumpur, and Tianjin. These initiatives has helped it to drive down technology and operating running costs as a percentage of income from just over 12% six years ago, to less than 8% currently, even during a period of substantial volume growth. Additionally, the bank is also registering reducing unit transaction costs and has markedly reduced service failures, down by 70% in three years.

The company has also been investing in technology in order to increase its customer reach. For example, in Africa, it partners with telecommunication providers in several markets to enable people to use their mobile phones for payments and transfers, whether or not they hold a bank account. Additionally, in Singapore and Malaysia, it launched Breeze, an iPhone banking application that enables customers to pay bills, transfer money, and find ATMs though their Apple phone. Investments in technology could help the group in increasing customer reach and efficiency.

Partnership with Chinese firms helping increase penetration in China

Standard Chartered has been operating actively in the Chinese securitization market. The group assisted many organizations in China in this market. Standard Chartered assisted Industrial and Commercial Bank of China (ICBC) in the issuance of assets-backed securities. The bank provided the whole-process securitization value-added service including professional experience and the high-efficiency trading system and securitization products for the Chinese lender. Standard Chartered also assisted ICBC on its internal preparation work of securitization business and also in the product promotion. The bank also offered its services to many Chinese banks including China Construction Bank, China Development Bank, China Merchants Bank, China CITIC Bank, and Fujian-based Industrial Bank in the assets-backed securitization pilot. In 2010, the group invested $500 million in

Agricultural Bank of China Limited's H-Share in Hong Kong. The two firms signed an agreement to develop new business opportunities together. Standard Chartered can leverage its partnerships with Chinese firms to increase its penetration in China.

## Threats

Likely rise in wholesale funding costs could affect margins

The Independent Commission on Banking (ICB), which has been given the task of structural and related non-structural reforms to the UK banking sector, released its Interim Report on April 11, 2011. Under the proposals set out in the ICB interim report, UK bank's retail arms will be ring-fenced, holding their own capital. This means that investment banking arms will not have to fund on a standalone basis, as they will be allowed to move capital about within the group once a level of 10% core tier one capital is achieved in the retail subsidiary. However, with these retail operations ring-fenced, costs of funding are likely to rise. According to the ICB report, the proposals if implemented could result in a cost of $20 billion to $24.6 billion for UK banks. Since, the group is registered and listed in the UK; the likely rise in wholesale funding could affect its margins.

Inconsistent global regulatory reform likely to increase compliance cost

Inconsistent global regulatory reform remains one of the biggest concerns for Standard Chartered bank. Rather than seeing increasing global co-ordination and consistency of regulation, Standard Chartered is seeing increased fragmentation and unilateral action. For example, the UK’s recent announcement that the bank levy will be implemented in full during 2011 means that the levy will cost it around $180 million post-tax this year. Whilst it is broadly supportive of much of the regulatory reform agenda, the sheer scale of actual and potential changes, when applied across all the markets it operates in, represents a very considerable challenge. The directions of banking regulatory reforms suggest that cost of compliance is likely to increase in 2011 and beyond. Moreover management's time spent on regulatory issues is likely to be higher than it had been so far. As a result, profit margins for banks are likely to be suppressed.

Inability to deal with financial crime could result in huge financial liability

Standard Chartered, being an international bank, has to deal with money laundering, terrorist financing, fraud, bribery, and market abuse issues. Although it is investing significantly in tools to identify market abuse and to tackle fraud, particularly e-crime, any slip-up from the bank’s side could make it liable for huge financial liability or may also result in reputation loss.

Political turmoil in some Middle Eastern and African markets likely to result in contraction of geographic footprint

Standard Chartered faces challenges in some Middle Eastern and African markets from political turmoil. For instance, rapid political changes in Egypt, Tunisia, and Libya can be disruptive for the bank's business activity in the short-to-medium term. Although, currently these markets represent small portion of its overall business, any further deterioration in their political scenario or unrest in any of the existing or new Middle Eastern or African markets could lead to contraction in the bank's geographic footprint.