Standard Chartered Plc (HK)

Taking the Long View on Rates & Re-Domicile: Upgrade to OW

▲ **Overweight**
Previous: Neutral

2888.HK, 2888 HK

Price: HK$119.40

▲ **Price Target: HK$145.00**
Previous: HK$115.00

Hong Kong
Asia Financials

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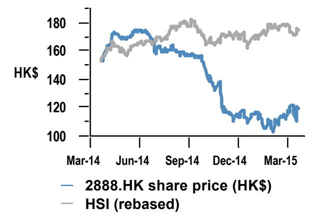
While shares have seen a recent bounce on mgmt change & de-risking, we think now is the time to take a longer-term view on StanChart. We increase clean pre-tax earnings for FY15E by +8%, and FY16E by +11%, as we factor in higher rates (NII +2%, +4%) as well as cost saves from RWA run-off (-1%, -1%). That said, we think there are 3 moving parts which could release far more value. **First is the potential to re-domicile**, which is likely to gain importance after last week's UK budget, which further increased the levy to 0.21%. Re-domiciling would lift earnings by ~8%, and increase ROE by +125bps (incl. a one-time $2.5bn charge). Second is gearing to rates; we factor in only half the Fed's dot plot, but including the full forecast would boost earnings by another ~8%, increasing ROE by another +75bps. Third is the potential for normalizing credit costs, which at ~60bps (10yr avg) would boost earnings by ~3%. Taken together, these 3 areas represent the LT potential for ROE to increase some ~290bps, from 9.1% to 12.0% on FY17E (ROTE: 10.5% to 13.5%). **Even before factoring in these areas, we increase our PT to HK$145, which is ~1x book and 18% potential upside.**

- **UK Levy:** Following last week's increase in the UK bank levy (to 0.21%), we think pressure will build on StanChart to re-domicile the business. This would likely have large up-front costs (JPMe: $2.5bn), but save ~$550mm post-tax annually. Furthermore, it would reduce pressure on rising UK capital demands, which is forcing more acute deleveraging of domestic UK banks.
- **Rate Sensitivity:** Given that LDRs improved from 78% to 70% H/H, we think it's worth revisiting StanChart's rate sensitivity. We currently see $1.4bn in NII benefit from 200bps of rate increases; we only factor in half this amount, but could see another 12% of earnings upside if the dot plot is fully-realized.
- **Derisking:** We still factor in elevated credit costs for FY15 (111bps) and FY16 (82bps), but this could be conservative given the speed of run-off. As provisions normalize, we could see a further ~6% upside to earnings.
- **Ultimately these are options for long-term earnings expansion**, and take the longer-term view that current returns still offer an attractive entry point. Upgrade to OW, with a new PT of HK$145.

Price Performance



	YTD	1m	3m	12m
Abs	2.8%	5.8%	6.6%	-21.5%
Rel	-0.5%	7.6%	1.2%	-36.6%

Standard Chartered Plc (HK) (Reuters: 2888.HK, Bloomberg: 2888 HK)

$ in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Operating Profit ($ mn)	8,478	7,670	7,622	7,975	8,214
Net Profit ($ mn)	3,989	2,693	2,901	4,196	4,626
Cash EPS ($)	1.63	1.09	1.16	1.66	1.80
DPS ($)	0.86	0.86	0.86	0.86	0.86
EPS growth (%)	(17.5%)	(33.2%)	6.5%	42.8%	8.9%
ROE	8.7%	5.8%	6.2%	8.7%	9.1%
P/E (x)	9.4	14.1	13.3	9.3	8.5
BVPS ($)	19.05	18.78	18.91	19.54	20.31
P/BV (x)	0.8	0.8	0.8	0.8	0.8
Dividend Yield	5.6%	5.6%	5.6%	5.6%	5.6%
Fully Diluted EPS ($)	2.01	1.35	1.26	1.60	1.75

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
52-week Range (HK$)	175.70-102.60
Market Cap ($ mn)	38,062
Market Cap ($ mn)	38,062
Shares O/S (mn)	2,473
Fiscal Year End	Dec
Price (HK$)	119.40
Date Of Price	20 Mar 15
3M - Avg daily val (HK$ mn)	250.14
3M - Avg daily val ($ mn)	32.2
3M - Avg daily vol (mn)	2.21
HSI	24,375.24
Exchange Rate	7.76
Price Target (HK$)	145.00
Price Target End Date	31-Dec-16

See page 25 for analyst certification and important disclosures, including non-US analyst disclosures.

Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
• Strategic Re-organization to focus on efficiencies • Several parts of the business are under pressure or ex-growth (Korea, India, Taiwan) • Cheap Valuation	• Higher-than-expected loan & fee growth • Less NIM compression • Better macro economic environment	• Rising credit costs across the franchise • Weaker markets revenue • Regulatory impact on capital

Key financial metrics	FY13	FY14	FY15E	FY16E
NII (LC)	11,156	11,003	10,869	11,117
Total revenue (LC)	18,671	18,234	17,995	18,330
Revenue growth (%)	-1%	-2%	-1%	2%
Costs (LC)	-10,193	-10,564	-10,374	-10,355
PPOP (LC)	8,478	7,670	7,622	7,975
LLP (LC)	-1,617	-2,141	-3,158	-2,262
Net income (LC)	3,989	2,693	2,901	4,196
NIMs (%)	1.70%	1.57%	1.45%	1.44%
Non-II/Revenue (%)	40%	40%	40%	39%
CIR (%)	55%	58%	58%	56%
Costs/Assets (%)	1.56%	1.51%	1.39%	1.34%
PPOP/Assets (%)	1.29%	2.11%	1.98%	1.10%
LLP/Loans (%)	0.55%	0.73%	1.12%	0.82%
ROA (%)	0.75%	0.48%	0.42%	0.53%
ROE (%)	8.7%	5.8%	6.2%	8.7%
Tier 1 capital (%)	13.0%	10.7%	11.3%	11.9%
NPL ratio (%)	2.1%	2.4%	2.7%	3.0%
NPL coverage (%)	55.1%	52.9%	52.3%	52.6%
Key model assumptions	**FY13**	**FY14**	**FY15E**	**FY16E**
Net interest margin	8.79%	3.19%	1.07%	2.57%
Asset growth	4%	-17%	-14%	0%
Credit cost	53.73%	52.18%	52.46%	52.71%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	PPOP		EPS	
Sensitivity to	FY15E	FY16E	FY15E	FY16E
10bps increase in NIM	7%	6%	21%	15%
5% chg in asset growth	7%	7%	22%	16%
5% chg in non-NII growth	5%	5%	15%	11%
10bps increase in credit cost	-	-	12%	8%

Source: J.P. Morgan estimates.

Valuation and price target basis

Our December 2016 PT of HK$145 is derived from a combination of (i) group valuation at 10x FY17E P/E plus the excess capital in FY17E above 12%, which we think is in-line with how European investors look at the stock (implied value of HK$145); and (ii) a DDM analysis, where we forecast normalized ROEs of 9% and a cost of capital of 9.9%, in-line with how we think Asia investors will look at the stock (implied value of HK$149).

PT Derivation

SOTP-based Valuation	Earnings	Value	Per share
Group Earnings ex Δ in levy	36,095	359,142	142
Δ in levy	-1,167	0	0
Capital Excess/ (Shortfall) above 12%	0	8,496	3
Price Target (Dec-16)	**34,928**	**367,639**	**HK$145**
P/BV-based Valuation			
Cost of capital			9.9%
Long-term growth			3.0%
Fair P/BV			0.87
Normalised ROE			9.0%
PV of Terminal Value			HK$129
PV of Dividends			HK$20
Fair value			**HK$149**

Source: J.P. Morgan estimates.

JPMe vs. consensus, change in estimates		
EPS	**FY15E**	**FY16E**
JPMe old	1.04	1.47
JPMe new	1.26	1.60
% chg	*21%*	*9%*
Consensus	1.50	1.68

Source: Bloomberg, J.P. Morgan estimates.

Comparative metrics

	Price	Mkt Cap	P/E		P/BV		ROE		YTD
	LC	$Mn	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	Stock perf.
HSBC	67.3	195,081	11.2	10.2	0.9	0.9	8%	9%	-2.7%
Standard Chartered	119.4	38,252	16.0	10.5	0.8	0.8	5%	8%	-27.8%

Source: Bloomberg, J.P. Morgan estimates. Prices are as of March 23

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Investment Conclusion

We downgraded StanChart to Neutral in May 2013, and in hindsight, this was a mistake. Shares would go on to lose 33% over the next two years, underperforming HSI by -46% & MSCI UK by -47%. Shares derated as the stock struggled with (i) decelerating growth (PBT FY11: +11%; FY14: -23%); (ii) AML issues ($1bn of charges); (iii) management change (exit of CFO, Head of Consumer); and more recently, (iv) fears over the energy portfolio (~150% of tangible book). **These issues are now being addressed**, with the announcement in late February (the note) of the forthcoming departure of 1/3 of the Board (6 members), as well as the appointment of Bill Winters to CEO. Second half results also demonstrated a commitment to reducing risk-weighted assets, which fell -6% H/H, and building capital, with endpoint CET1 at 10.7%. The runoff was particularly sharp in the commodities portfolio, which fell 10% H/H, to $55bn. Finally, the Group announced a more comprehensive plan to save $1.8bn in costs (17% of the total cost base) and reduce RWAs by another $25-30bn, with a goal for CET1 of 11-12% (the note).

While the recent +19% bounce from the lows certainly prices in some of these changes, we think there are a couple of other key moving parts that could release far more value. **First is the potential to re-domicile**, which is likely to gain importance after last week's UK budget, which further increased the levy to 0.21%. *The UK levy now costs StanChart some $550mm (post-tax) to be domiciled in the UK, or 13% of total earnings*. **Second is the sensitivity to interest rates**, given the likelihood of Fed rate hikes later this year. This follows a significant build-up in deposits, particularly in the USA (+$16bn H/H), which took Group LDRs down from 78% to 70% over the past 6 months alone, giving STAN significant leverage to rising short-term rates. **Finally, we do think de-risking will help lower impairments over time**, particularly in the South Asia & ASEAN book, where NPLs are now 7.96% & 1.82%, respectively, but also in Korea, where PDRS claims are now at half the level of 6 months ago, and the lowest since early 2012.

In today's note, we increase FY15E diluted EPS estimates by +11% and FY16E by +13%, and clean pre-tax by +8% and +11%, respectively -- mostly due to higher US rates, as well as the benefit of lower costs as STAN trims RWAs. However, as we discuss in the following paragraphs, we think **(i) re-domiciling** adds another +8% to earnings, or +125bps to ROE (including a one-time $2.5bn charge); **(ii) rising rates** also adds +8% to earnings, or another +75bps to ROE; and **(iii) normalizing provisions** adds +3% to earnings, or another +25bps to ROE. In total, these changes have the potential to boost our base case ROE from 9.1% to 12.0%, and our base case ROTE from 10.5% to 13.5%. **Ultimately, we think shares at 0.8x book have material room for re-rating as markets start to price in these factors.** Based on our revisions + potential upside on *domicile/rates/provisions*, we boost our PT to HK$145, for +18% upside.

Table 1: StanChart: Key Sensitivities on Provisions, Rate Sensitivity, and Re-Domiciling

In US$m	2017 JPM Est.	Step 1 Normalise Provisions --> 10 year avg 60bps	Step 2 NII Sensitivity to Rates --> Include Remaining 50% of Fed Dot Plot	Step 3 Redomicile Scenario --> No Levy, $2.5bn One-off Cost
Total Provisions (bps)	73	60	60	60
B3 CT1 ratio	12.3%	12.4%	12.5%	12.0%
TNAV (HKD)	133.4	133.8	135.3	129.3
ROE	9.1%	9.4%	10.4%	12.0%
RoTE	10.5%	10.8%	11.8%	13.5%
EPS ($)	1.80	1.86	2.06	2.25
P/E	8.5x	8.3x	7.5x	6.8x
P/TNAV	0.90x	0.89x	0.88x	0.92x
Fair value (10x PE) (HKD)	139.8	143.9	159.3	174.7

Source: J.P. Morgan estimates.

As discussed on the previous page, a **re-domiciling alone would lift earnings by ~8%, and increase ROE by +125bps, from 9.1% to 10.4%, and ROTE by +140bps, from 10.5% to 11.9%.** But perhaps more importantly, we think relocating to HK or Singapore would take pressure off capital requirements, given the increased demands under PRA. Indeed, STAN's 10.7% end-point CET1 today is already comparable to regional Asia banks, and given the assumptions for RWA run-off, we see that ratio rising to 11.3% by the end of 2015E, and 11.9% by the end of 2016E.

We also think earnings are understated for StanChart (and HSBC) in the current rate environment. With this note, we are now building in 50% of the implied rate benefit based on the trajectory of forward US rates outlined in the latest US Federal Reserve Dot Plot. That change alone boosts 2017E earnings by 8%, excluding the rise in the UK levy, which we also factor in. **Including the remaining 50% of the Fed's dot plot forecasts would raise earnings by another 8%, boosting returns by 75bps, with ROE rising from 9.1% to 9.8%, and ROTE rising from 10.5% to 11.2%.**

Finally, there's the potential to improve asset quality, as the Group runs off RWAs. **If provisions normalize back down to +60bps, or the average of the past 10 years, that would increase earnings by +3%, boosting returns by +25bps, with ROE rising from 9.1% to 9.4%, and ROTE from 10.5% to 10.8%**. Note that provision in South Asia and ASEAN increased by +86bps and +68bps H/H respectively to 1.74% and 1.20%, driving group's provision from 57bps to 88bps.

Ultimately all three factors came to fruition, we would need to raise estimates by ~25%, and overall **ROEs at StanChart would rise from 9.1% to 12.0%**. This is a level more commensurate with returns found at Singapore banks, and one that reflects less onerous regulations in UK (levy, capital).

In terms of the biggest risk to our call (capital), we think there may be downside to the dividend, which could be paid in Scrip form for a few years or may be cut. That said, we also think that the market has already priced in downside on DPS along with uncertainty in share-count and capital.

Implications of the UK Bank Levy

The UK government introduced the UK bank levy in 2011, which aimed to raise £2.5bn from the UK bank sector. The levy is based on a percentage of bank liabilities and equity after deducting certain items, the most material of which are those related to insured deposit balances, tier 1 capital, insurance liabilities, high quality liquid assets and items subject to a legally enforceable net settlement agreement. Note that in 2014, the implied UK levy was 0.156% on short-term "chargeable" liabilities.

Over the last 4 years, the government has been increasing the levy applied to balance sheets from an initial 0.07% to 0.21%. This reflects greater budget needs, combined with the fact that domestic UK banks have shrunk their balance sheets. In the recent UK budget announced last week (March 18), **the government indicated that the levy would further increase from 0.156% to 0.21%, so that over the next 5 years, the sector would contribute an additional £685m in 2015/16 followed by £925m for the subsequent two years (2016-2017) and £920m thereafter**. Based on our estimates, we model the impact for the UK banks in the table below.

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Table 2: UK Bank Levy Projections

£millions	Net Profit 17E	Levy (FY14)	New levy	New levy as % of adj. 2017E	Δ in levy	Δ in levy as % of adj. 2017E
HSBC	£11,938	£706	£968	8%	£261	2%
STAN	**2,762**	**270**	**370**	**13%**	**100**	**4%**
BARC	5,225	462	517	10%	55	1%
LLOY	6,778	254	348	5%	94	1%
RBS	3,364	250	167	5%	-83	-2%
Total	**30,122**	**1,942**	**2,369**	**8%**	**427**	**1%**

Source: J.P. Morgan estimates, Company data.

What is clear is that the bank levy is likely to have a material impact on sector profitability over the next 5 years. While we don't disagree with the rationale for the levy, **given that we expect RBS to shrink its balance sheet by over 50% in the next 5 years, and Barclays to shrink by 25%, the rate required for the levy will have to continue to rise to meet the projected absolute amounts.** This implies that banks with rising balance sheet assets will be penalized, whereas deleveraging banks will be able to pay relatively lower amounts.

Because Standard Chartered must pay the levy on its Global balance sheet, this outcome is likely to create a significant headwind to already weakened profitability, and disincentivizes growth across its footprint, which has far greater exposure to EMs than domestic UK banks. On our estimates, the rise in the levy would put the overall cost at 13% of 2017 EPS for StanChart (higher for 2015/2016 given lower profitability near term).

For HSBC, the levy comes to ~8% of 2017 EPS. Although the Group may modestly shrink its balance sheet over this period, it is much less likely to re-domicile given its balance sheet assets at $2.6 trillion (vs. StanChart at one-third that amount), and would be too significant for most countries other than China and the US. Given the levy impacts global balance sheets of UK Banks, it falls hardest on STAN and HSBC, with more domestic-focused Lloyds and RBS least impacted.

Re-domicile: Scenario analysis for Normalized ROE

In order to evaluate the impact on StanChart's earnings and returns from a re-domicile, we start with our 2017 estimates and model normalised earnings based on that starting point.

Given the arrival of a new CEO in May 2015, the Group is unlikely to announce any major strategic changes before the end of 2015. Hence, its more realistic to assume any major changes to strategy are only likely to be implemented in 2016 -- hence our using 2017E as a base. *In practice, a re-domicile process may take longer than 2 years to implement, with regulatory requirements in the new jurisdiction likely to dictate the time scale*. We do not assume a particular country for domicile as it is not clear which local regulators would be willing to accept a large bank with ~$800bn in leverage exposure (albeit with a strong 4.5% end point leverage ratio) to be head-quartered locally. However, we believe that Singapore & HK would likely be the first choices for StanChart given its large domestic presence and systemic importance to both economies, as well as their gearing to regional trade flows (No. 2 in market share of Trade Finance after HSBC globally).

In the table below, we show how StanChart's CT1 ratio compares to local domestic peers on a fully phased in basis.

Table 3: Asian Banks: Fully-Loaded CET1 ratios (last reported)

Hong Kong	BOCHK	10.2%
	HSB	10.5%
Singapore	DBS	11.9%
	OCBC	10.6%
Japan *	Mizuho	8.1%
	MUFG	9.5%
	SMFG	9.1%
China	ABC	8.9%
	ICBC	11.8%
	BOC	10.5%
	CCB	11.7%
	BoCom	11.1%
UK Asians	HSBC	11.1%
	STAN	10.7%

Source: J.P. Morgan estimates, Company data. *Japan ex OCI

Along with the re-domiciling of StanChart, we think there are two other areas where the Group has material upside on returns. Those include the following:

- **Normalize impairment**: If provisions normalize back down to 60bps, or the avg of the past 10 years, that would **increase earnings by +3%, boosting returns by +25bps,** with ROE rising from 9.1% to 9.4%, and ROTE from 10.5% to 10.8%.
- **Normalize NII for Projected US Rates**: We increase NII to assume the full benefit of higher interest rates as implied by the US Federal Reserve's Dot Plot. This would **raise earnings by another 8%, boosting returns by 75bps**, with ROE rising from 9.1% to 9.8%, and ROTE rising from 10.5% to 11.2%.
- **Re-domicile Scenario**: Removing the UK bank levy would be a $550m benefit post-tax, **lifting earnings by ~8%, and increasing returns by +125bps, with ROE rising from 9.1% to 10.4%, and ROTE from 10.5% to 11.9%.** Perhaps Perhaps more importantly, we think relocating to HK or Singapore would take pressure off capital requirements, given the increased demands under PRA.

Ultimately if all three factors came to fruition, **the net impact would be a 25% boost to earnings, and a +290bps improvement to returns, with overall ROEs at StanChart rising from 9.1% to 12.0% (and ROTE from 10.5% to 13.5%)**. This is a level more commensurate with returns found at Singapore banks, and one that reflects less onerous regulations in UK (levy, capital). There are some complications with re-domiciling – and certainly the bank could lose some business, which would lower returns – but for now we leave those out of the end calculation. <u>Our Year 1 estimates would imply a fair value of over HKD171 (or 40% above today's price), assuming a Cost of Equity of 10%, and a growth rate of 3%.</u>

Table 4: StanChart: Normalised RoTE in Various Scenarios

In US$m	2017 JPM Est.	Step 1 Normalise Provisions --> 10 year avg 60bps	Step 2 NII Sensitivity to Rates --> Include Remaining 50% of Fed Dot Plot	Step 3 Redomicile Scenario --> No Levy, $2.5bn One-off Cost
NII	11,503	11,503	12,203	12,203
Non NII	7,406	7,406	7,406	7,406
Total Income	**18,909**	**18,909**	**19,609**	**19,609**
Costs	-10,695	-10,695	-10,695	-10,145
Provisions	-2,043	-1,671	-1,671	-1,671
Op. Profit	6,172	6,543	7,243	7,793
Associates	258	258	258	258
Underlying Pre-tax	**6,430**	**6,801**	**7,501**	**8,051**
Tax	-1,601	-1,836	-2,025	-2,064
Minorities & Prefs	-202	-202	-202	-202
Net Attributable	**4,626**	**4,762**	**5,273**	**5,785**
Loans ($bn)	278.6	278.6	278.6	278.6
Deposits ($bn)	396.9	396.9	396.9	396.9
Total Provisions (bps)	73	60	60	60
Equity ($m)	50,833	50,833	50,833	48,333
Tangible Equity ($m)	44,149	44,285	44,796	42,807
Shares (m)	2,566	2,566	2,566	2,566
RWAs ($bn)	344	344	344	344
CT1 capital ($m)	42,504	42,640	43,151	41,162
B3 CT1 ratio	**12.3%**	**12.4%**	**12.5%**	**12.0%**
BVPS (HKD)	**153.6**	**153.6**	**153.6**	**146.0**
TNAV (HKD)	**133.4**	**133.8**	**135.3**	**129.3**
ROE	**9.1%**	**9.4%**	**10.4%**	**12.0%**
RoTE	**10.5%**	**10.8%**	**11.8%**	**13.5%**
EPS ($)	1.80	1.86	2.06	2.25
P/E	8.5x	8.3x	7.5x	6.8x
P/Book	0.78x	0.78x	0.78x	0.82x
P/TNAV	0.90x	0.89x	0.88x	0.92x
Fair value (10x PE) (HKD)	139.8	143.9	159.3	174.7
Price (HKD)	119.4	119.4	119.4	119.4
Upside		20%	33%	46%

Source: J.P. Morgan estimates.

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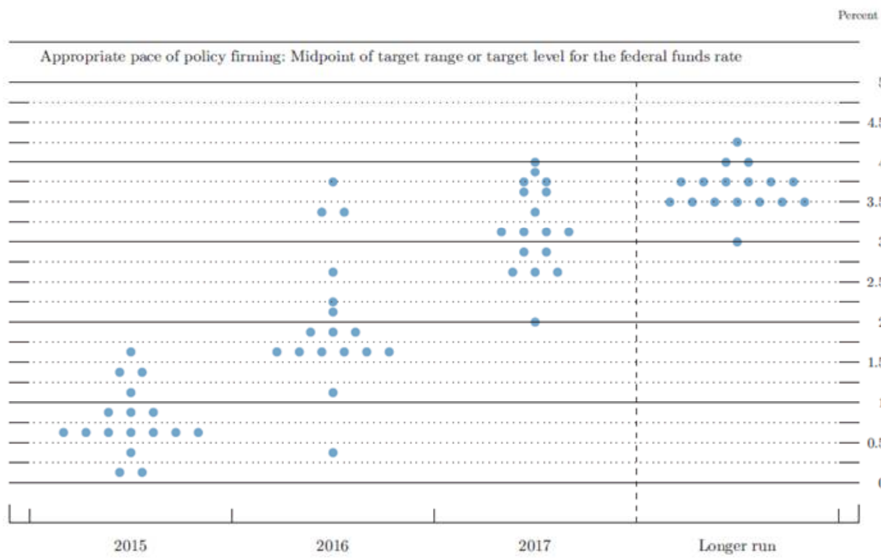
Impact of Interest Rates on NII & RoTE

With a rise in US interest rates likely in 2015 based on the JPM House view and the US Federal Reserve's latest dots plot, we analyze the impact of rising interest rates on STAN and HSBC given they are more geared to US rates. While most UK banks publish interest rate sensitivity to a parallel shift in yield curves, *this is net of hedges and does not include behavioral mix-shifts in deposits in our view.* **Management comments have implied that beyond the first few rate hikes, banks are more geared to higher interest rates than disclosed.**

Figure 1: Target Federal Funds Rate at Year-End



Source: Federal Reserve Board.

Using a first principles approach excluding the impact of hedges but assuming behavioral shift in the deposits profile, we estimate that for a 200bps rise in UK and US interest rates, STAN's and HSBC's RoTE will improve by +2.6% and +1.4% respectively. However, the full benefit may only materialize in 2017/18 if rates rise slower than the Fed projects and once hedges roll off and balance sheets are repositioned.

Table 5: UK Banks: Sensitivity to 200bps rise in UK and US base rates

USD in billions

	HSBC	StanChart
Estimated structural NII sensitivity to 200bps rise in US and UK interest rates	**$3.03**	**$1.43**
% of FY15 clean EPS	14%	37%
Boost to Return on Tangible Equity	**1.4%**	**2.6%**

Source: J.P. Morgan estimates, Company data.

We think there are significant limitations to the currently disclosed treasury NII sensitivities for UK banks due to the static balance sheet assumptions made and also due to hedges already in place which may expire or be repositioned over the next 3 years. Further we see two key uncertainties while modeling actual rate sensitivity – deposit mix shift and asset spread compression.

Deposits may undergo behavioral mix shifts once rates start to rise

In our view, behavioral shifts in deposit types are likely once rates start to rise as customers move funds from interest free current/demand accounts to higher interest

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time deposits. **This is usually not captured in management forecasts**. We also believe that the recent regulation (LCR) and technology (rapid transfer/online shopping) could magnify this effect. In the tables below, we compare the current deposit split for HSBC and Standard Chartered vs. 2006-2007 levels and highlight that the funds in interest free or low interest demand deposits have substantially increased due to lower interest rates.

Table 6: HSBC and STAN: Deposits split by product

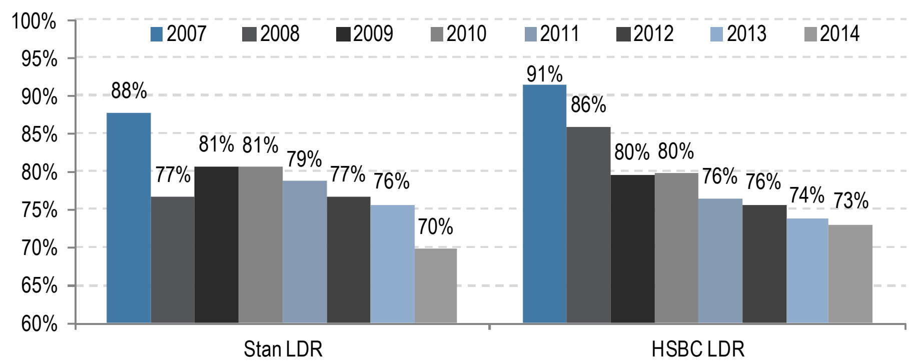
	HSBC - UK, NA, HK and SG deposits split (2007)	HSBC - UK, NA, HK and SG deposits split (2014)	Stan - HK, SG and GHO deposits split (2007)	Stan – Greater China, ASEAN, Americas and Europe deposits split (2014)
Interest free demand deposits	9%	14%	7%	8%
Interest bearing demand deposits	44%	60%	38%	43%
Savings time deposits	30%	20%	53%	45%
Other time deposits	17%	6%	2%	4%
Total customer and interbank	**100%**	**100%**	**100%**	**100%**

Source: J.P. Morgan estimates, Company data.

Declining LDR Helpful for Rates Sensitivity

We also believe that the banks with lower loan to deposit ratios are well positioned in a rising rates environment given the benefit of higher rates on the deposit side is only partly offset on the asset side. In the chart below, we show LDR evolution for HSBC and Standard Chartered. We note that STAN LDR has declined substantially in 2014 which has resulted in higher rates sensitivity compared to our earlier analysis.

Figure 2: HSBC and STAN: Group loan to deposit ratio



Source: J.P. Morgan estimates, Company data.

Our interest rate sensitivity analysis

In our interest rate sensitivity analysis we calculate the impact of rising interest rates in UK and US based on a first principles approach on margins, while also taking into account behavioral mix shifts on deposits and asset spread compression. We assume a scenario where both US and UK interest rates increase by 200bps and the banks benefit from the rise in liability margins partly offset by a decline in asset margins. We apply mix shift assumptions to UK, US, HK and SG denominated deposits. We assume

- Profile mix of Retail deposits similar to pre crisis levels and profile mix of Corporate deposits more geared towards savings and time. For corporate deposits, we estimate 30% lower current and demand deposits than what is implied by the pre crisis mix.

- **Interest bearing current and demand deposits:** Banks pass on 100bps to the customers and liability margins increase by 100bps

- **Savings and time deposits:** Banks pass on 150bps to the customers and liability margins increase by 50bps

- **Mortgage margins**: reduce by 25bps. Credit card and unsecured loan margins reduce by 200bps

Table 7: Standard Chartered: JPMe assumptions on behavioral mix shift and deposit margins

$ million

	Current deposit split			Assumed deposit split after behavioral shift		
	Greater China	**ASEAN**	**Americas + Europe**	**Greater China**	**ASEAN**	**Americas + Europe**
Interest free current and demand deposits	12,250	9,817	3,702	9,578	8,143	2,621
Interest bearing current and savings deposits	83,253	36,252	25,119	57,328	28,420	17,040
Time deposits	55,820	44,154	50,227	67,802	47,995	57,624
Other deposits	213	3,564	8,494	16,827	9,229	10,256
Total customer deposits	**151,535**	**93,787**	**87,541**	**151,535**	**93,787**	**87,541**

	Current Margin Assumption			Margin assumption if rates go up by 200bps		
	Greater China	**ASEAN**	**Americas + Europe**	**Greater China**	**ASEAN**	**Americas + Europe**
Interest free current and demand deposits	LIBOR	LIBOR	LIBOR	LIBOR	LIBOR	LIBOR
Interest bearing current and savings deposits	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%
Time deposits	-1.00%	-1.00%	-1.00%	-0.50%	-0.50%	-0.50%
Other deposits	-1.00%	-1.00%	-1.00%	-0.50%	-0.50%	-0.50%

Source: J.P. Morgan estimates, Company data.

Table 8: UK Banks: Sensitivity to 200bps rise in UK and US base rates

USD in billion

	HSBC	**StanChart**
Estimated structural NII sensitivity to 200bps rise in US and UK interest rates	**3.03**	**1.43**
% of FY15 clean EPS	14%	37%
% of FY15 tangible equity	**1.4%**	**2.6%**

Source: J.P. Morgan estimates, Company data.

Organic CET1 build is a key focus for 2015

We think that capital will remain a focus through to end 2015 for StanChart given the outstanding litigation issues and the potential inclusion of global/ EM stresses in the 2015 PRA stress tests. However, with all the UK banks operating around or above their disclosed minimum capital stacks, we believe that the pressure to increase capital ratios is likely to be managed organically through RWA reductions.

All the UK Banks have now disclosed the Pillar 2A requirements to the market which allows us to calculate the illustrative minimum capital stack after assuming a D-SIB (Domestic-SIFI) buffer requirement which in our view could run parallel to G-SIB. On top of the minimum capital stack, we assume management buffers of 1.5%, which in our view are necessary given time varying elements of the capital framework (i.e. sectoral capital requirements, countercyclical buffers etc).

Standard Chartered has significant room above its capital stack: As we show in the table below, the Group's known minimum is 8.7% which we would expect to rise to 9% with known regulatory change. While there may be unknown changes that could take the minimum higher, the group has a 170bp buffer over 9% with its current CT1 of 10.7% (including 20bps of AFS gains). In terms of risks, we acknowledge there may be downside risk to the dividend which could be paid in Scrip form for a few years or may be cut. We believe that the market has already priced in downside on DPS along with uncertainty in share-count and capital.

Table 9: UK Banks: JPMe Minimum capital stack and illustrative capital stack after management buffers

	Barclays*	HSBC	STAN	RBS	Lloyds
Pillar 1 CT1	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	2.5%
max (G-SIB, D-SIB (JPMe))	2.0%	2.5%	1.0%	2.0%	3.0%
Pillar 2A	1.6%	1.1%	0.7%	2.0%	2.1%
Total minimum capital stack (JPMe)	**10.6%**	**10.6%**	**8.7%**	**11.0%**	**12.1%**
Change in Pillar 2A methodology	0.1%	0.1%	0.2%	0.1%	0.1%
Countercyclical buffer		0.1%	0.1%		
Assumed management buffer (JPMe)	1.5%	1.5%	1.5%	1.5%	1.5%
Illustrative capital stack (JPMe)	**12.2%**	**12.3%**	**10.5%**	**12.6%**	**13.7%**
Target capital ratios outlined	**11.5-12%**	**12-13%**	**11-12%**	**13.0%**	**12.0%**
Headroom above minimum capital stack	**-0.1%**	**0.5%**	**2.0%**	**0.2%**	**0.7%**
FY14 B3CET1 ratio	**10.5%**	**11.1%**	**10.7%**	**11.2%**	**12.8%**
FY15E B3CET1 ratio	**10.8%**	**11.7%**	**11.2%**	**13.5%**	**14.2%**
FY16E B3CET1 ratio	**11.4%**	**12.3%**	**11.7%**	**16.6%**	**15.2%**
FY17E B3CET1 ratio	**12.2%**	**13.0%**	**12.2%**	**18.3%**	**16.2%**

Source: J.P. Morgan estimates, Company data. * Barclays FY14 CT1 proforma for Spain sale

Short Duration Balance Sheet to Help Capital Build

In our view, the Group continues to proactively manage asset quality risk within CB where it has de-risked its unsecured businesses and disposed of consumer finance in Korea and HK. Within WB, with the portfolio duration relatively short at 65% less than 1 year, we believe that the group continues to have options to shrink assets and RWAs in response to capital pressures.

While the market was positively surprised by the $6bn reduction in the group's Commodities book from $61bn to $55bn in H2'14, **we believe that there is further scope to shrink low tenor exposures in Commodities, Trade and other**

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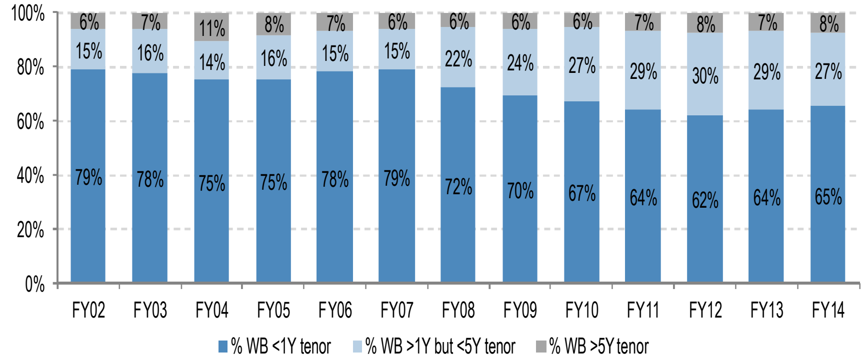
Wholesale areas. We highlight that in the PRA stress test, the group outlined RWA reduction of $51bn (100bps)

Figure 3: Standard Chartered: Duration split of WB (CIC + Commercial) loans



Source: J.P. Morgan estimates, Company data.

Management strategy is focused on organic CT1 generation

The group outlined new targets with the primary objective of capital build towards 11-12% CT1 at its recent FY14 results. While this is positive for the capital trajectory going forward (we increased our CT1 estimates by 90bps in FY16), we also lowered our earnings estimates for the medium term due to lower revenues and elevated provisions. **While we reduced our adj EPS estimates by 25% and 16% for FY15E and FY16E after 4Q results, we did not previously factor in any material US rate hike benefit – which we have changed today based on our analysis**. <u>We've also added some cost benefit for recently announced management actions, which were previously not included</u>. In our view, the group's plan to reduce costs and RWAs give enough time for new management to revisit the group's strategy while improving capital strength. We outline the management plan below:

- **Cost savings of $1.8bn over the next 3 years:** The group targets gross cost savings of $1.8bn over the next 3 years split as $0.4-0.5bn underlying cost savings per annum and $0.3-0.6bn lower costs due to business exits. The key drivers of underlying cost saves are continued digitization & automation of processes, head count reductions and branch rationalizations.

- **$25-30bn RWA savings over the next 2 years:** The group plans to reduce $25-30bn less profitable RWAs over the next 2 years and indicated that this will have an additional income impact. We note that this is a gross number and redeployment of the released capital in to more profitable businesses will partly offset the income loss.

- **CET1 between 11-12% in 2015 and thereafter:** The group now targets 11-12% CT1 in 2015 which implies a buffer of 230-330bps above the current known minimum capital requirements of 8.7%. The group's FY14 CT1 ratio is 10.7%.

- **RoE>10% in the medium term**

Revenues Rebased for New Plan in Estimates

The new restructuring plan implies a rebasing of revenue expectations in our view. The overall revenue impact of the new plan can be split into 2 categories (i) impact from the business exits, and (ii) impact from exiting less profitable client relationships.

- **Impact from business disposals:** The group has exited some businesses in 2014 and plans to exit more businesses in 2015 (in total 15 businesses in 2014-15). The group outlines the revenue impact of these business exits to be c$450m in 2015.

- **Impact from exiting less profitable client relationships:** The group's plan to reduce $25-30bn gross RWAs is likely to have a revenue impact in the near term in our view. Revenue/ RWA for the group was 5.3% in 2014 and the group indicated that Revenue/ RWA for targeted RWAs is significantly lower than the group level. **A 2-3% Revenue/ RWA implies $0.5-0.9bn revenue impact from RWA reduction**. However, we note that this is a gross number and redeployment of the released capital to more profitable businesses will partly offset the income loss.

Asian Bank Stakes May be a Further Source of Capital

We highlight the group's stakes in other Asian banks below and note that HSBC has disposed most of its bank stakes with the notable exception of Bank of Communications, given their dilutive impact on CT1 and returns. In the case of StanChart, we highlight that the group is required to fully consolidate Permata for capital purposes by the PRA. We believe that Permata is dilutive to the group's returns (with the profit contribution inline with the 44.5% stake on full consolidation) and the group may be able to release capital through a sale.

Table 10: Standard Chartered: Key equity stakes

Principal Undertakings	% shareholding
Agricultural Bank of China	<1%
Asia Commercial Bank	15%
China Bohai Bank	20%
PT Bank Permata Tbk JV	45%

Source: Reuters, Bloomberg, Company data.

Valuation Relative to Local Banks

Relative to other local emerging markets banks (weighted according to Net revenues), we believe that Standard Chartered is valued at a discount, which reflects lower ROE, limited near term growth and market concerns over share count in our view.

Table 11: StanChart valuation against local peers

	P/TBV '14
Greater China	1.6x
North East Asia	0.7x
South Asia	4.2x
ASEAN	1.9x
MENAP	1.5x
Africa	2.5x
Americas	1.4x
Europe	1.2x
Total	**1.8x**
Weighted Average	**1.8x**
Current PE JPMe	**1.0x**
% Premium / Discount	**-43%**

Source: Company reports and J.P. Morgan estimates.

Table 12: Asian and African banks: Consensus P/Es

	P/E 15E	P/E 16E
CTBC FINANCIAL	10.2	9.8
FUBON FINANCIAL	11.7	11.7
MEGA FINANCIAL H	10.6	10.1
Taiwan	**11.0**	**10.8**
BANGKOK BANK PUB	9.1	8.3
KASIKORNBANK PCL	10.8	9.4
SIAM COMM BK PCL	10.4	9.4
Thailand	**10.2**	**9.2**
HDFC BANK LTD	22.9	19.3
ICICI BANK LTD	14.1	11.8
AXIS BANK LTD	15.1	12.4
India	**18.3**	**15.3**
FIRST GULF BANK	10.6	9.7
EMIRATES NBD PJS	8.2	7.4
UNION NATL BK/AB	7.3	7.0
UAE	**9.3**	**8.5**
MCB BANK LTD	10.4	9.2
HABIB BANK LTD	8.6	7.6
UNITED BANK LTD	7.2	6.5
Pakistan	**8.9**	**7.9**
NEDBANK GROUP	10.7	9.7
BARCLAYS AFRICA	10.9	9.9
STANDARD BANK GR	12.1	10.7
FIRSTRAND LTD	14.8	13.3
FBN HOLDINGS PLC	3.9	3.2
GUARANTY TRUST	6.8	6.4
ZENITH BANK PLC	5.2	4.6
Africa	**12.0**	**10.8**

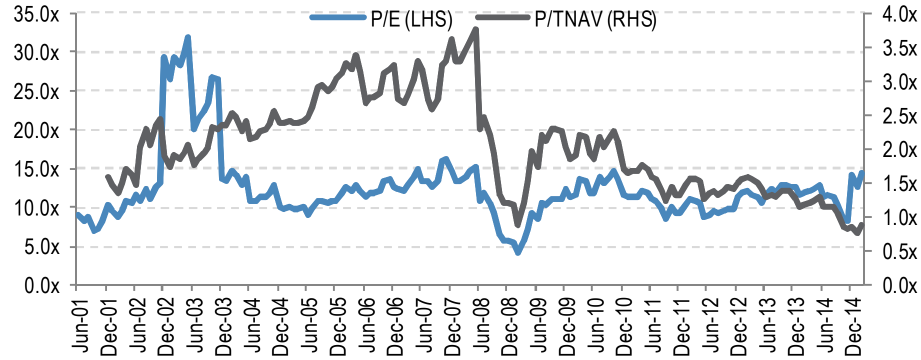
Source: J.P. Morgan estimates, Company data.

Table 13: Asian and African banks: Consensus P/Es

	P/E 15E	P/E 16E
BOC HONG KONG HO	10.7	9.6
BANK EAST ASIA	11.6	10.7
HANG SENG BK	13.9	13.7
Hong Kong	**12.2**	**11.5**
DBS GROUP HLDGS	11.8	10.4
UNITED OVERSEAS	11.3	10.3
Singapore	**11.4**	**10.3**
HANA FINANCIAL G	7.7	7.1
KB FINANCIAL GRO	9.5	9.1
SHINHAN FINANCIA	9.7	9.0
Korea	**9.2**	**8.7**
BANK OF COMMUN-H	6.0	5.7
CHINA CONST BA-H	5.4	5.0
BANK OF CHINA-A	7.1	6.6
IND & COMM BK-A	5.7	5.4
China	**6.0**	**5.6**
CIMB GROUP HOLDI	12.4	10.8
HONG LEONG BANK	11.8	11.0
Malaysia	**12.2**	**10.9**
BANK MANDIRI	12.7	11.1
BANK RAKYAT INDO	11.8	10.4
BANK DANAMON	12.4	10.2
Indonesia	**12.3**	**10.7**

Sourccce: J.P. Morgan estimates, Company data.

Figure 4: Standard Chartered: 12m fwd PE and trailing P/TNAV long term



Source: Bloomberg.

Group forecasts

Table 14: Standard Chartered: Changes to estimates

$ million

	FY14	FY15E new	FY15E old	% Δ	FY16E new	FY16E old	% Δ	FY17E new
Net Interest Income	11,003	10,869	10,701	2%	11,117	10,694	4%	11,503
Non Interest Income & Internal Income	7,231	7,127	7,058	1%	7,213	7,163	1%	7,406
Total Income	**18,234**	**17,995**	**17,759**	**1%**	**18,330**	**17,857**	**3%**	**18,909**
Operating Costs	-10,564	-10,374	-10,485	-1%	-10,355	-10,463	-1%	-10,695
Pre Provision Operating profit	**7,670**	**7,622**	**7,274**	**5%**	**7,975**	**7,394**	**8%**	**8,214**
Loan Impairments	-2,141	-3,158	-3,158	0%	-2,262	-2,262	0%	-1,843
Other Impairments	-403	-200	-200	0%	-200	-200	0%	-200
Income from Associates	248	251	**251**	**0%**	254	254	**0%**	258
PBT (ex one offs)	**5,374**	**4,514**	4,167	**8%**	**5,767**	**5,186**	**11%**	**6,430**
Exceptionals (litigation and restructuring)	-1,139	-1,000	-1,000		-500	-500		-500
PBT	**4,235**	**3,514**	**3,167**	**11%**	**5,267**	**4,686**	**12%**	**5,930**
Tax expense	-1,530	-914	-855	7%	-1,370	-1,265	8%	-1,601
Post tax profit	**2,705**	**2,601**	**2,312**	**12%**	**3,898**	**3,421**	**14%**	**4,329**
Minority interest	-92	-98	-98	0%	-101	-101	0%	-101
Preferred Dividends	-101	-101	-101	0%	-101	-101	0%	-101
Profit attributable	**2,512**	**2,401**	**2,113**	**14%**	**3,696**	**3,219**	**15%**	**4,126**
Headline EPS	**1.02**	**0.96**	**0.84**	**14%**	**1.46**	**1.27**	**15%**	**1.61**
Diluted Adj EPS	**1.35**	**1.26**	**1.14**	**11%**	**1.60**	**1.41**	**13%**	**1.75**
DPS	**0.86**	**0.86**	**0.86**	**0%**	**0.86**	**0.86**	**0%**	**0.86**
NAVps	**16.1**	**16.2**	**16.1**	**1%**	**16.9**	**16.6**	**2%**	**17.7**
Adj RoNAV	**8.5%**	**7.8%**	**7.1%**		**9.7%**	**8.7%**		**10.2%**
Loan Impairments rate	**0.73%**	**1.11%**	**1.11%**		**0.82%**	**0.82%**		**0.66%**
Total impairments rate	**0.88%**	**1.20%**	**1.20%**		**0.90%**	**0.90%**		**0.75%**
Basel 3 CET1 ratio	**10.7%**	**11.3%**	**11.2%**		**11.9%**	**11.7%**		**12.3%**

Source: J.P. Morgan estimates, Company data.

Table 15: Standard Chartered: Group P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net Interest Income	11,156	11,003	10,869	11,117	11,503
Non Interest Income & Internal Income	7,515	7,231	7,127	7,213	7,406
Total Income	**18,671**	**18,234**	**17,995**	**18,330**	**18,909**
Operating Costs	-10,193	-10,564	-10,374	-10,355	-10,695
Pre Provision Operating profit	**8,478**	**7,670**	**7,622**	**7,975**	**8,214**
Loan Impairments	-1,617	-2,141	-3,158	-2,262	-1,843
Other Impairments	-129	-403	-200	-200	-200
Income from Associates	226	248	251	254	258
PBT (ex one offs)	**6,958**	**5,374**	**4,514**	**5,767**	**6,430**
Exceptionals (litigation and restructuring)	-894	-1,139	-1,000	-500	-500
PBT	**6,064**	**4,235**	**3,514**	**5,267**	**5,930**
Tax expense	-1,864	-1,530	-914	-1,370	-1,601
Post tax profit	**4,200**	**2,705**	**2,601**	**3,898**	**4,329**
Minority interest	-110	-92	-98	-101	-101
Preferred Dividends	-101	-101	-101	-101	-101
Profit attributable	**3,989**	**2,512**	**2,401**	**3,696**	**4,126**
Headline EPS	**1.63**	**1.02**	**0.96**	**1.46**	**1.61**
Diluted Adj EPS	**2.01**	**1.35**	**1.26**	**1.60**	**1.75**
DPS	**0.86**	**0.86**	**0.86**	**0.86**	**0.86**
NAVps	**15.9**	**16.1**	**16.2**	**16.9**	**17.7**
Adj RoNAV	**13.1%**	**8.5%**	**7.8%**	**9.7%**	**10.2%**
Loan Impairments rate	**0.55%**	**0.73%**	**1.11%**	**0.82%**	**0.66%**
Total impairments rate	**0.60%**	**0.88%**	**1.20%**	**0.90%**	**0.75%**
Basel 3 CET1 ratio	**11.1%**	**10.7%**	**11.3%**	**11.9%**	**12.3%**

Source: J.P. Morgan estimates, Company data.

Table 16: Standard Chartered: SOP 2017E

HK$ million

	Earnings	Value	Valuation Basis	Value per share	P/E (x)	P/BV (x)
Group Earnings ex Δ in levy	36,095	359,142	P/E	141.7	10.0	1.1
Δ in levy	-1,167		0		0.0	0.0
Capital Excess/ (Shortfall) above 12%		8,496	1 times BV	3.4		1.0
Price Target	**34928**	**367,639**		**145.0**	**10.5**	**1.1**

Source: J.P. Morgan estimates, Company data.

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Divisional Estimates: Greater China

Table 17: Standard Chartered: Greater China P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	2,862	3,006	2,935	3,140	3,386
Non interest income	2,336	2,440	2,440	2,440	2,464
Operating income	**5,198**	**5,446**	**5,375**	**5,580**	**5,850**
o.w. Client income	4,846	5,029			
Operating expenses	-2,772	-2,911	-2,795	-2,739	-2,876
Loan impairment	-242	-469	-629	-483	-403
Other impairment	1	-142	-50	-50	-50
Associates and JV	146	177	177	177	177
Operating profit	**2,331**	**2,101**	**2,079**	**2,485**	**2,699**
Customer loans	**87,472**	**87,131**	**80,584**	**80,433**	**80,802**
Customer deposits	**145,275**	**151,535**	**151,535**	**151,535**	**151,535**
RWA	**63,284**	**66,585**	**61,669**	**61,612**	**63,460**
Net interest margin	3.34%	3.34%	3.50%	3.90%	4.20%
Loan impairments rate	0.28%	0.52%	0.75%	0.60%	0.50%
Total impairments rate	0.28%	0.68%	0.81%	0.66%	0.56%
Cost/ income ratio	53%	53%	52%	49%	49%

Source: J.P. Morgan estimates, Company data.

Divisional Estimates: North East Asia

Table 18: Standard Chartered: North East Asia P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	1,312	1,238	1,175	1,123	1,113
Non interest income	327	221	210	199	199
Operating income	**1,639**	**1,459**	**1,385**	**1,323**	**1,313**
o.w. Client income	1,462	1,323			
Operating expenses	-1,186	-1,179	-1,120	-1,064	-1,064
Loan impairment	-427	-394	-315	-208	-151
Other impairment	-29	-11	-10	-10	-10
Associates and JV		0	0	0	0
Operating profit	**-3**	**-125**	**-60**	**41**	**87**
Customer loans	**30,292**	**29,328**	**27,981**	**27,485**	**27,492**
Customer deposits	**34,061**	**32,619**	**31,967**	**31,327**	**30,701**
RWA	**26,701**	**23,990**	**22,071**	**20,967**	**19,919**
Net interest margin	4.12%	4.19%	4.10%	4.05%	4.05%
Loan impairments rate	1.34%	1.33%	1.10%	0.75%	0.55%
Total impairments rate	1.43%	1.37%	1.13%	0.79%	0.59%
Cost/ income ratio	72%	81%	81%	80%	81%

Source: J.P. Morgan estimates, Company data.

Divisional Estimates: South Asia

Table 19: Standard Chartered: South Asia P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	1,267	1,267	1,297	1,333	1,371
Non interest income	773	588	588	606	624
Operating income	**2,040**	**1,855**	**1,885**	**1,939**	**1,994**
o.w. Client income	1,770	1,725			
Operating expenses	-823	-793	-817	-825	-841
Loan impairment	-215	-183	-356	-293	-264
Other impairment	-105	-73	0	0	0
Associates and JV	0	0	0	0	0
Operating profit	**897**	**806**	**712**	**821**	**889**
Customer loans	**13,709**	**14,062**	**14,446**	**14,850**	**15,274**
Customer deposits	**15,518**	**15,210**	**15,666**	**16,136**	**16,620**
RWA	**26,721**	**26,522**	**27,318**	**28,137**	**29,825**
Net interest margin	9.16%	9.08%	9.10%	9.10%	9.10%
Loan impairments rate	1.56%	1.31%	2.50%	2.00%	1.75%
Total impairments rate	2.31%	1.83%	2.50%	2.00%	1.75%
Cost/ income ratio	40%	43%	43%	43%	42%

Source: J.P. Morgan estimates, Company data.

Divisional Estimates: ASEAN

Table 20: Standard Chartered: ASEAN P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	2,175	2,251	2,258	2,306	2,369
Non interest income	1,836	1,465	1,319	1,319	1,358
Operating income	**4,011**	**3,716**	**3,576**	**3,625**	**3,727**
o.w. Client income	3,646	3,482			
Operating expenses	-2,075	-2,078	-2,182	-2,182	-2,226
Loan impairment	-396	-698	-1,129	-744	-592
Other impairment	2	-86	-50	-50	-50
Associates and JV	78	62	65	68	72
Operating profit	**1,620**	**916**	**281**	**717**	**931**
Customer loans	**81,695**	**75,884**	**74,633**	**74,167**	**73,916**
Customer deposits	**95,775**	**93,787**	**93,787**	**93,787**	**93,787**
RWA	**80,377**	**82,603**	**81,394**	**81,002**	**83,432**
Net interest margin	2.67%	2.75%	3.00%	3.10%	3.20%
Loan impairments rate	0.49%	0.85%	1.50%	1.00%	0.80%
Total impairments rate	0.48%	0.96%	1.57%	1.07%	0.87%
Cost/ income ratio	52%	56%	61%	60%	60%

Source: J.P. Morgan estimates, Company data.

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Divisional Estimates: MENAP

Table 21: Standard Chartered: MENAP P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	948	951	954	958	968
Non interest income	917	892	892	892	892
Operating income	**1,865**	**1,843**	**1,846**	**1,850**	**1,860**
o.w. Client income	1,663	1,625			
Operating expenses	-960	-984	-1,014	-1,014	-1,024
Loan impairment	-47	-89	-173	-139	-106
Other impairment	0	-1	0	0	0
Associates and JV	0	0	0	0	0
Operating profit	**858**	**769**	**659**	**697**	**731**
Customer loans	**17,184**	**17,370**	**17,324**	**17,508**	**17,698**
Customer deposits	**23,498**	**22,480**	**21,356**	**21,356**	**21,356**
RWA	**29,402**	**29,775**	**29,696**	**30,012**	**30,913**
Net interest margin	5.60%	5.40%	5.50%	5.50%	5.50%
Loan impairments rate	0.28%	0.51%	1.00%	0.80%	0.60%
Total impairments rate	0.28%	0.51%	1.00%	0.80%	0.60%
Cost/ income ratio	51%	53%	55%	55%	55%

Source: J.P. Morgan estimates, Company data.

Divisional Estimates: Africa

Table 22: Standard Chartered: Africa P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	992	988	995	995	1,015
Non interest income	759	841	908	981	1,059
Operating income	**1,751**	**1,829**	**1,904**	**1,975**	**2,075**
o.w. Client income	1,560	1,539			
Operating expenses	-862	-990	-1,069	-1,155	-1,247
Loan impairment	-270	-175	-245	-204	-166
Other impairment	0	-1	0	0	0
Associates and JV	0	10	10	10	10
Operating profit	**619**	**673**	**600**	**627**	**671**
Customer loans	**7,819**	**8,246**	**8,070**	**8,234**	**8,411**
Customer deposits	**11,520**	**11,017**	**11,348**	**11,688**	**12,039**
RWA	**19,729**	**20,289**	**20,898**	**21,525**	**22,170**
Net interest margin	12.56%	12.26%	12.20%	12.20%	12.20%
Loan impairments rate	3.42%	2.17%	3.00%	2.50%	2.00%
Total impairments rate	3.42%	2.18%	3.00%	2.50%	2.00%
Cost/ income ratio	49%	54%	56%	58%	60%

Source: J.P. Morgan estimates, Company data.

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Divisional Estimates: Americas & Europe

Table 23: Standard Chartered: Americas P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	393	396	385	375	394
Non interest income	465	465	451	451	474
Operating income	**858**	**861**	**836**	**826**	**868**
o.w. Client income	799	802			
Operating expenses	-536	-668	-701	-701	-729
Loan impairment	-11	-21	-62	-49	-39
Other impairment	0	-1	0	0	0
Associates and JV	0	0	0	0	0
Operating profit	**311**	**171**	**72**	**75**	**99**
Customer loans	**10,673**	**10,955**	**9,859**	**9,859**	**9,859**
Customer deposits	**14,772**	**33,379**	**16,690**	**16,690**	**16,690**
RWA	**12,454**	**13,692**	**12,323**	**12,939**	**13,586**
Net interest margin	3.90%	3.58%	3.70%	3.80%	4.00%
Loan impairments rate	0.11%	0.19%	0.60%	0.50%	0.40%
Total impairments rate	0.11%	0.20%	0.60%	0.50%	0.40%
Cost/ income ratio	62%	78%	84%	85%	84%

Source: J.P. Morgan estimates, Company data.

Table 24: Standard Chartered: Europe P&L estimates

$ million

	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	1,207	906	869	888	886
Non interest income	102	319	319	325	335
Operating income	**1,309**	**1,225**	**1,188**	**1,213**	**1,222**
o.w. Client income	1,126	1,098			
Operating expenses	-979	-1,142	-1,176	-1,176	-1,188
Loan impairment	-9	-112	-248	-141	-121
Other impairment	2	-88	-90	-90	-90
Associates and JV	2	-1	-1	-1	-1
Operating profit	**325**	**-118**	**-327**	**-195**	**-178**
Customer loans	**44,386**	**42,410**	**40,391**	**40,327**	**40,258**
Customer deposits	**50,552**	**54,162**	**54,162**	**54,162**	**54,162**
RWA	**74,389**	**89,592**	**89,592**	**89,592**	**92,280**
Net interest margin	2.83%	2.08%	2.10%	2.20%	2.20%
Loan impairments rate	0.02%	0.26%	0.60%	0.35%	0.30%
Total impairments rate	0.02%	0.46%	0.82%	0.57%	0.52%
Cost/ income ratio	75%	93%	99%	97%	97%

Source: J.P. Morgan estimates, Company data.

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Investment Thesis, Valuation and Risks

Standard Chartered Plc (HK) *(Overweight; Price Target: HK$145.00)*

Investment Thesis

Although we were hesitant to change our view for the arrival of the new CEO which has been a material positive, we believe that last week's UK budget may lead the market to attach a higher probability of strategic actions to change domicile & unlock value. We believe normalised ROTE for STAN in an alternative domicile such as Singapore/HK would be higher (~12-13+%) than the current 10-11% and STAN's fully loaded CT1 target of ~11-12% is inline with Asian bank reqts. At 0.9x P/TNAV 16E this would be accretive despite our assumed $2.5bn one-off costs for such a move. We also model ~50% of the rate benefit implied by the Fed's dot plot given STAN is now more US rate sensitive than HSBC (LDRs), taking EPS +8% and PT to HK$145. With 18% potential upside and valuation 0.9x P/TNAV at discount, we upgrade to OW.

Valuation

We value that group at 10x FY17E P/E (ex the impact of higher levy) plus the excess capital in FY17E above 12% (upper end of the group's 11-12% target CT1) which results in a Dec16 price target of HK$145.

Risks to Rating and Price Target

The key upside and downside risks that could prevent our rating and price target from being achieved include the following:

- Macro economic risks (both upside and downside): Being an EM focused bank, StanChart is exposed to general macro economic variables in EM such as slowdown or quicker than expected recovery in GDP growth, inflationary pressures, depreciation of EM currencies & cross border & political risks.
- China hard landing (downside): Standard Chartered has direct and indirect exposure to Mainland China and a China hard landing scenario poses downside risk to our investment thesis.
- Pickup in growth (upside): Standard Chartered remains geared to growth in Asia and a material pickup in growth in Asia poses upside risk to our estimates.
- Regulatory uncertainty (downside): Standard Chartered remains exposed to the uncertain regulatory environment in the UK.
- Weakness in commodity prices (downside): Given the weakness in commodity prices globally, the provisions can rise significantly which poses downside risk to our estimates

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Standard Chartered Plc (HK): Summary of Financials

Income Statement					
$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
NIM (as % of avg. assets)	1.8%	1.7%	1.6%	1.6%	1.6%
Earning assets/assets	72.4%	69.6%	67.2%	66.2%	64.2%
Margins (as % of Avg. Assets)	1.3%	1.2%	1.1%	1.0%	1.0%
Net Interest Income	11,156	11,003	10,869	11,117	11,503
Total Non-Interest Income	7,515	7,231	7,127	7,213	7,406
Fee Income	0	0	0	0	0
Dealing Income	0	0	0	0	0
Total operating revenues	18,671	18,234	17,995	18,330	18,909
Operating costs	(10,193)	(10,564)	(10,374)	(10,355)	(10,695)
Pre-Prov. Profits	8,478	7,670	7,622	7,975	8,214
Provisions	(1,617)	(2,141)	(3,158)	(2,262)	(1,843)
Other Inc	-	-	-	-	-
Other Exp.	(129)	(403)	(200)	(200)	(200)
Exceptionals	(894)	(958)	(500)	0	0
Associate	226	248	251	254	258
Pre-tax	6,064	4,416	4,014	5,767	6,430
Tax	(1,864)	(1,530)	(914)	(1,370)	(1,601)
Minorities	(110)	(92)	(98)	(101)	(101)
Attributable Income	3,989	2,693	2,901	4,196	4,626

Per Share Data USD	FY13	FY14	FY15E	FY16E	FY17E
EPS	1.63	1.09	1.16	1.66	1.80
DPS	0.86	0.86	0.86	0.86	0.86
Payout	52.8%	79.0%	74.2%	51.9%	47.7%
Book value	19.05	18.78	18.91	19.54	20.31
Fully Diluted Shares	2,447	2,473	2,503	2,534	2,566
PPOP per share	3.49	3.12	3.06	3.17	3.22

Key Balance sheet $ in millions	FY13	FY14	FY15E	FY16E	FY17E
Net Loans	290,708	284,695	272,597	272,173	272,328
LLR	(3,481)	(3,909)	(4,223)	(4,521)	(4,859)
Gross Loans	294,189	288,604	276,820	276,693	277,187
NPLs	6,479	7,492	8,050	8,577	9,156
Investments	193,853	202,695	244,908	228,997	214,177
Other earning assets	36,843	42,216	42,216	42,216	42,216
Avg. IEA	474,755	487,582	503,139	510,028	494,873
Goodwill	6,070	5,190	5,190	5,190	5,190
Assets	674,380	725,914	770,523	769,840	772,081
Deposits	390,971	414,189	396,510	396,681	396,889
Long-term bond funding	118,598	140,453	159,049	181,402	206,808
Other Borrowings	84,986	94,898	109,133	125,503	144,328
Avg. IBL	581,445	626,461	668,656	683,346	674,530
Avg. Assets	655,449	700,147	748,218	770,182	770,961
Common Equity	46,246	46,432	47,345	49,533	52,133
RWA	325,196	341,648	333,560	334,386	344,186
Avg. RWA	313,529	333,422	337,604	333,973	339,286

Growth Rates	FY13	FY14	FY15E	FY16E	FY17E
Loans	0.7%	(1.9%)	(4.1%)	(0.0%)	0.2%
Deposits	3.5%	5.9%	(4.3%)	0.0%	0.1%
Assets	5.9%	7.6%	6.1%	(0.1%)	0.3%
Equity	1.9%	0.4%	2.0%	4.6%	5.2%
RWA	7.7%	5.1%	(2.4%)	0.2%	2.9%
Net Interest Income	3.5%	(1.4%)	(1.2%)	2.3%	3.5%
Non-Interest Income	(6.1%)	(3.8%)	(1.4%)	1.2%	2.7%
of which Fee Grth	(100.0%)	-	-	-	-
Revenues	(0.6%)	(2.3%)	(1.3%)	1.9%	3.2%
Costs	1.4%	3.6%	(1.8%)	(0.2%)	3.3%
Pre-Provision Profits	(2.9%)	(9.5%)	(0.6%)	4.6%	3.0%
Loan Loss Provisions	35.2%	32.4%	47.5%	(28.4%)	(18.5%)
Pre-Tax	(11.5%)	(27.2%)	(9.1%)	43.7%	11.5%
Attributable Income	(16.7%)	(32.5%)	7.7%	44.6%	10.3%
EPS	(17.5%)	(33.2%)	6.5%	42.8%	8.9%
DPS	2.4%	0.0%	0.0%	0.0%	0.0%

Balance Sheet Gearing	FY13	FY14	FY15E	FY16E	FY17E
Loan/deposit	74.4%	68.7%	68.7%	68.6%	68.6%
Investment/assets	28.2%	28.3%	29.9%	30.8%	28.7%
Loan/Assets	44.7%	41.6%	37.8%	35.9%	35.9%
Customer deposits/liab.	62.3%	61.0%	54.9%	55.1%	55.2%
LT debt/liabilities	18.9%	19.8%	21.4%	23.6%	27.0%

Asset Quality/Capital	FY13	FY14	FY15E	FY16E	FY17E
Loan loss reserves/loans	(1.2%)	(1.4%)	(1.5%)	(1.6%)	(1.8%)
NPLs/loans	2.1%	2.4%	2.7%	3.0%	3.2%
Loan loss reserves/NPLs	55.1%	52.9%	52.3%	52.6%	52.9%
Growth in NPLs	15.7%	15.6%	7.5%	6.5%	6.7%
Tier 1 Ratio	11.7%	10.7%	11.3%	11.9%	12.3%
Total CAR	16.5%	11.1%	11.7%	12.4%	12.8%

Du-Pont Analysis	FY13	FY14	FY15E	FY16E	FY17E
NIM (as % of avg. assets)	1.8%	1.7%	1.6%	1.6%	1.6%
Earning assets/assets	72.4%	69.6%	67.2%	66.2%	64.2%
Margins (as % of Avg. Assets)	1.3%	1.2%	1.1%	1.0%	1.0%
Non-Int. Rev./ Revenues	40.2%	39.7%	39.6%	39.3%	39.2%
Non IR/Avg. Assets	1.1%	1.0%	1.0%	0.9%	1.0%
Revenue/Assets	2.8%	2.6%	2.4%	2.4%	2.5%
Cost/Income	54.6%	57.9%	57.6%	56.5%	56.6%
Cost/Assets	1.6%	1.5%	1.4%	1.3%	1.4%
Pre-Provision ROA	1.3%	1.1%	1.0%	1.0%	1.1%
LLP/Loans	(0.6%)	(0.7%)	(1.1%)	(0.8%)	(0.7%)
Loan/Assets	44.7%	41.6%	37.8%	35.9%	35.9%
Other Prov, Income/ Assets	(0.1%)	(0.2%)	(0.1%)	0.0%	0.0%
Operating ROA	1.0%	0.8%	0.6%	0.7%	0.8%
Pre-Tax ROA	0.9%	0.6%	0.5%	0.7%	0.8%
Tax rate	30.7%	34.6%	22.8%	23.7%	24.9%
Minorities & Outside Distbn.	0.1%	0.1%	0.0%	0.0%	0.0%
ROA	0.7%	0.5%	0.4%	0.5%	0.6%
RORWA	1.6%	1.0%	0.9%	1.2%	1.3%
Equity/Assets	7.0%	6.6%	6.3%	6.3%	6.6%
ROE	8.7%	5.8%	6.2%	8.7%	9.1%

Source: Company reports and J.P. Morgan estimates.

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JPM Q-Profile

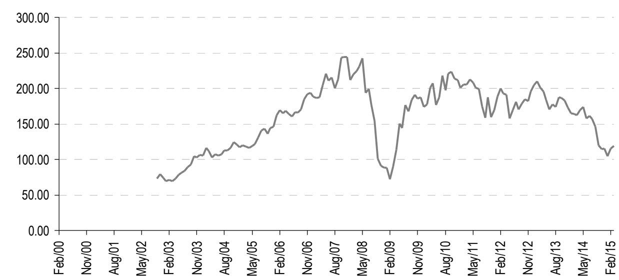
Standard Chartered PLC (BRITAIN / Financials)

As Of: 23-Mar-2015

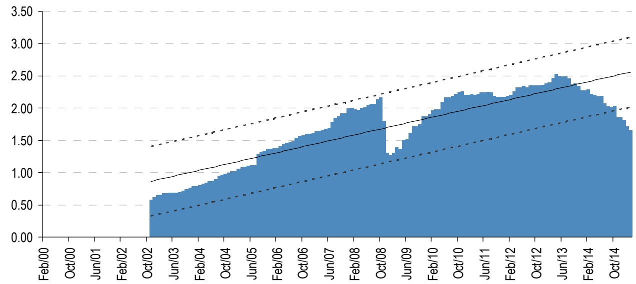
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

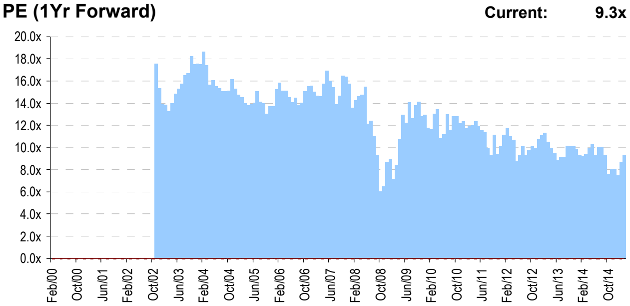
Local Share Price Current: 119.70



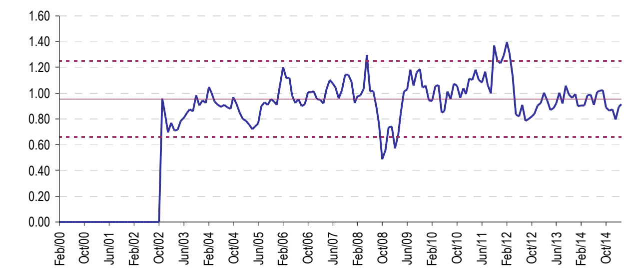
12 Mth Forward EPS Current: 1.66



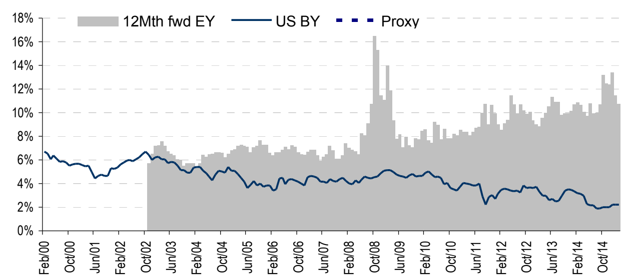
PE (1Yr Forward) Current: 9.3x



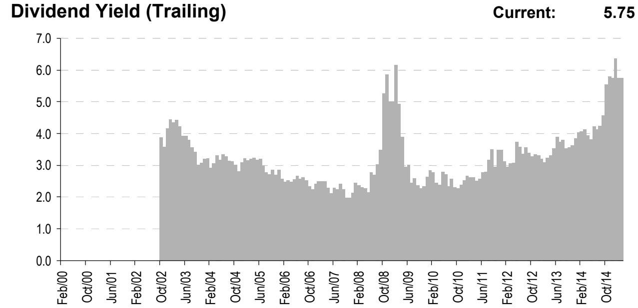
P/E Relative to Great Britain Index Current: 0.92



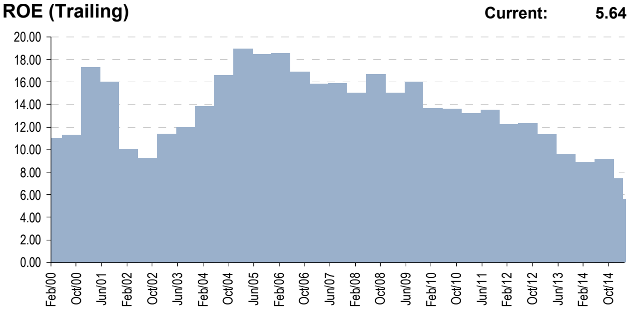
Earnings Yield (& Local Bond Yield) Current: 11%



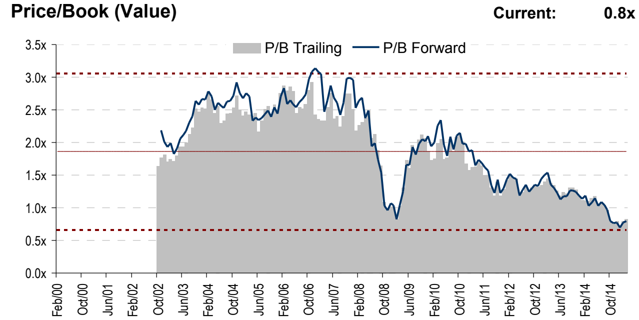
Dividend Yield (Trailing) Current: 5.75



ROE (Trailing) Current: 5.64



Price/Book (Value) Current: 0.8x



Summary

Standard Chartered PLC		**As Of:**	23-Mar-15
BRITAIN	**TICKER 2888 HK**	**Local Price:**	119.70
Financials		**EPS:**	1.66

	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	**9.30x**										
P/BV (Trailing)	**0.82**	0.72	2.92	1.86	1.87	3.06	0.67	-12%	255%	127%	127%
Dividend Yield (Trailing)	**5.75x**	1.97	6.36	3.09	3.25	5.09	1.41	-66%	11%	-46%	-43%
ROE (Trailing)	**5.64**	5.64	18.97	13.62	13.68	19.88	7.48	0%	236%	142%	143%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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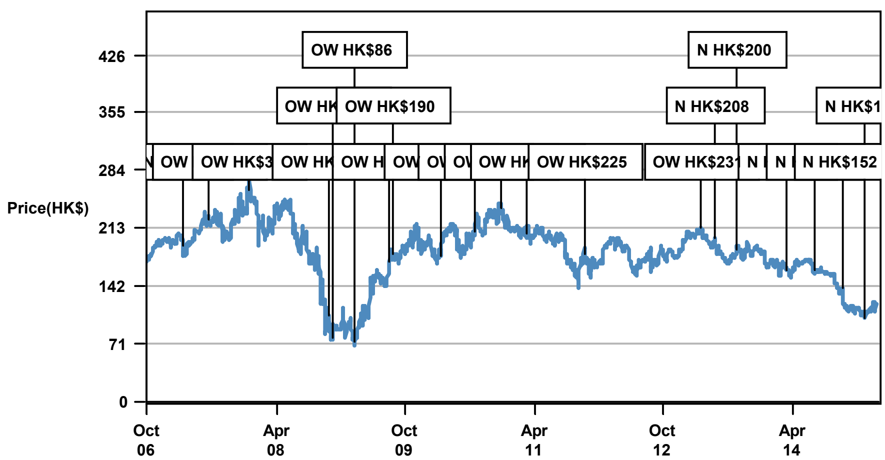
Standard Chartered Plc (HK) (2888.HK, 2888 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Feb 28, 2007.

Date	Rating	Share Price (HK$)	Price Target (HK$)
28-Feb-07	N	191.84	205.00
21-Jun-07	OW	223.98	308.00
06-Dec-07	OW	259.24	320.00
07-Nov-08	OW	104.56	150.00
25-Nov-08	OW	78.03	100.00
04-Mar-09	OW	73.35	86.00
27-Jul-09	OW	172.70	185.00
05-Aug-09	OW	182.20	190.00
03-Mar-10	OW	179.90	210.00
23-Jul-10	OW	209.40	225.00
12-Nov-10	OW	237.20	250.00
02-Mar-11	OW	206.60	240.00
28-Oct-11	OW	181.40	225.00
06-Mar-13	OW	214.80	231.00
08-May-13	N	201.00	208.00
07-Aug-13	N	187.50	200.00
09-Mar-14	N	163.30	181.00
02-Jul-14	N	160.90	169.00
28-Oct-14	N	139.00	152.00
02-Feb-15	N	103.70	115.00

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J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.
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