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Q&A with Andy Halford, Group Chief Financial Officer, Standard Chartered PLC
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(Amended in places to improve accuracy and readability)

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Morning, all. My name is Robert Noble. I cover the UK and Irish banks at Deutsche Bank. With me here today is Andy Halford, the CFO of Standard Chartered. Good morning, Andy.

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Hi, Robert. How are you?

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
I am good. How are you?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
I am well. Looking forward to be able to travel again one day, but well otherwise.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Good stuff. Maybe we can just start with, given the unique footprint that you have as an Asian bank in the UK, can you give some overview of how recovery is progressing in the geographies that some people might not be so familiar with? And maybe particularly in India, could you update us on the situation currently, and how the business looks there?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah, so I would say the pattern, with the exception maybe of the India situation, is fairly similar to what we talked about in February. So, generally speaking, the volumes of activity in Northern Asia are the strongest. And if you look at some of the export data out in China and places like that, it is very very strong.

Then as one comes down through Southern Asia, I would say it is still in a slight holding pattern. I think people have seen the light at the end of the tunnel, but still being reticent on where this is going. And with the India situation, obviously, having a bit of a worry from a number of countries.

India itself, while I think particularly for people living in the country, it clearly is a really, really difficult time, it is probably a little bit too early to actually see the impact on trading activity in the actual market itself. But the logic being that there will be some impact from that as we move forwards over a period of time.

Europe and Americas probably are still holding their own now, so not doing too badly. And Africa and Middle East, again, in that middle territory, I think people are still watchful of COVID. But underlying, it's not really fully worked its way through, northern part of the territory is definitely the strongest. And I think just a degree of caution still as we move through the coming months, particularly given the India situation of recent weeks.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Okay, that is great. Maybe if we talk about some of the more important product lines then, Financial Markets and Wealth Management. They have been standout performers recently. How much of the revenue growth that we have seen here is sustainable? Can Financial Market revenues realistically grow with lower volatility? And similarly, in Wealth Management, is the strong performance here market price based versus net new money growth? What does the outlook look like for the rest of the year and then going forward?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>

Yes, so let us split them in two. I would say on Financial Markets, we have broadened the product range in that we are less volatility dependent. But that does not mean to say that we are not volatility dependent. And clearly, in a period when there is unpredictability of rates, FX etc., I think Corporate Treasurers are still going to be mindful that they need to be quite careful about how to manage the balance sheet. So we saw a pretty strong 1Q, in volatility terms and numeric sense with Financial Markets. And 2Q, I think the market has seen a little less volatility, certainly to some extent in May and, of course, the April of the previous year was an absolute bumper month when all the markets were very strong.

But I think going forwards that we may not see quite the rates that we saw at the very peak early in the year. But we still feel that the overall direction of the Financial Markets still feels strong. We still think we have got a good footprint there, we have good client relationships, but we will have to expect that individual performances will bobble up and down a little bit as we go through that period.

Wealth Management, I think, if you look back to last year the low point was in the second quarter, people saw the [inaudible], then the prices came back so that wasn't such a bad thing. And they actually ended the year pretty strong, and we started this year pretty strong. I do not think we are going to see the same growth rates through this year that we saw in the first quarter, but that is just because it was such a strong quarter. But I think [inaudible] is not so much about volatility, but I think that is more about those who have been employed throughout this pandemic having more disposable income to hand, and it needs to find a place to go to be managed.

And I would be hopeful that if we go forwards, say, for one, two, three years, we would see good growth in Wealth Management, as we have done in the past several years, that's partly because of new money coming into the region, but part of it is because confidence has picked up from a very low point a year ago.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Great. Thank you. And also you touched on consumers having more money and investing more in Wealth Management. There has been a big global spike in retail sales. This extended across Asia as well. Should we expect this to start to build into unsecured balance sheet growth in your business as well, or has that started already for you or will that come later?

Then if you can touch on what you think about Citi, the potential for Citi's consumer businesses that are up for sale as well? Is it the right time for Standard Chartered to pursue growth and inorganic expansion on unsecured products?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah. So the first part of the question, unsurprisingly, last year we saw quite a big drop, as did most banks, I think on the unsecured lending, people were going out less, they were spending less, the balances on accounts were lower. And that was an obvious and understandable consequence of what COVID brought about.

I think that confidence is slowly coming back, but it does depend very much market by market. So given that we have got some markets that still have lockdowns going on, it is not a surprise that the level of spending on those is not quite as high it is in markets that have actually pulled out of this earlier. So overall, the direction is pointing in the right place. But I think again, it links back to the previous point about the pace at which we actually come out of these lockdowns and people get their confidence back.

In terms of the Citi portfolio, we will have a look at it. We clearly, in many of our markets, would benefit from scale. And if we have an opportunity, commercially and sensibly to actually put more scale on to an existing infrastructure, then why would we not look at it. That having been said, we need to be thoughtful about it. The sorts of customers that actually Citi have got, are probably customers who have a natural affinity for non-local bank accounts and credit cards and so on, anyway. So to some extent, we may be a beneficiary of some of that transference of activity. We do not need to necessarily go and pay up for that. So it will depend a bit market by market. We are also very mindful of the fact we need to get returns up overall for the bank. And we need to make sure that anything we do, if we do anything, is going to be helpful to the cause of actually getting the returns up for the bank.

And we are also very aware that the current share price - we are still trading at some significant discount to book. So, we will try and triangulate all of that. And if there is something that does look of interest, then I am sure we will have look at it closely. If there is not, then we will not feel compelled to do that.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Okay. Obviously, consumer business should have a positive impact on your margins. They were hammered last year by the reduction in interest rates globally. We have seen – I cannot quite believe it, but HIBOR continues to fall into 2Q, but the US yield curve is steepening. Are we at the bottom of your NIM? Are we are going to see a trough in your NIM? And can you maintain your guidance that it will gently increase from 1H?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
I would say that HIBOR continuing to come down, that puts a little bit of nearer-term pressure on the overall NIM. But it is one currency. Most of the rest of the currencies and interest rates related to them have been pretty stable through this period. So whether we are absolutely at the bottom, or just very close to the bottom, it is probably a moot point. I think over the course of this year, we will see roughly where we have been as the point where we will likely be over the coming months. That obviously then gives us some reasonable hope that when we get into the 2022 year, that actually our numbers are no longer masked by declining rates. And instead, we can be judged by the actual volume of activity within the business.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Yes, so you have spoken about the 1Q results in putting on hedges and increasing the tenure of those, taking advantage of the change in the interest rate environment. How far have you got with in the process of that? And it would be interesting to know how you were using the liquidity beforehand. And what sort of length of term are you looking at when you're looking at new hedges?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah, so there is a number of factors that we need to reflect upon, as any institution does. We have got generally a relatively short tenure book. And we want to make sure we do not get out of sync in terms of tenures. On the other hand, we have got some sort of funds, like equity, which will be around for a long period of time, and therefore matching them with slightly longer-term rates profiles makes some sense. We are literally going through that process at the moment. And we are being thoughtful about it. To the extent that we lock into rates now, there is some uplift from where we currently are at. On the other hand, if rates do, over a period of time, go up by more than the market is currently expecting, then we will have locked in already and we would not benefit from the further upside.

So we will do it thoughtfully, we will do it progressively. I think there is some upside from where we have been recently. The caution is we just do not want to not be able to avail ourselves of increases, should, in a year's time, whatever, people will confidently be talking about rate increases at that point in time.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Okay, great. And so as the interest rate impacts on margin, hopefully it bottoms out because as you mentioned, you should start seeing revenue growth. Loan growth has been particularly strong. You have highlighted the opportunity in Network revenues, Affluent and Mass Retail revenues, all seem substantially in excess of your 5-7% medium-term growth guidance. Do you see these as conservative targets or what is the drag that you see versus the opportunity? And why don’t you think consensus gives you the credit for what seems conservative targets within the revenue forecast?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Well, I think to your latter point, people want to see the numbers doing the talking. And I think the numbers were doing the talking leading into COVID. And then obviously, with COVID, it produced a bit of a pause on that. I think people want to see us getting back into that space.

Whether our targets are cautious or not, I do not know. However I look at it, 5-7%, so 6% midpoint of the range, if you normalise out for COVID which is a slightly difficult concept at the moment, but the GDP is growing in the markets which were operating around 4%. We are implicitly saying, can we actually nudge a couple of percentage points of growth out over and above GDP growth. I think with what we have been doing in the digital space, the Mox rollout and things like that, what we are doing in Indonesia with the Nexus platform, there are lots of areas to think that we should be able to just do a little better than the country average growth rates.

And therefore, in that sense, I think that 5-7% range, and obviously we will go as high in it as we possibly can do, I do not think it is unreasonable. Clearly, within any average number, there will be some that do better and there will be some that do less well. We will try, clearly, to get the most in the former category. But I think that it seems to us to be a sensible range. It is where we were operating in the quarters leading into COVID. So it is not like we are just plucking numbers out of the air. It has got a fact pattern to it. We just need to make sure that as these countries come out of the aftermath of COVID that we are taking our share of that.

If we can do that 6% growth, it is nearly a $1 billion of topline for us. If we can keep the very good handle on costs, which we intend to do, then the compounding effect of that over two to three years is obviously the very substantive part of how we get to double-digit ROTE.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
What is the sensitivity of that range, the 5-7% range to whether you have interest rate rises or not? Can you hit that level of revenue growth with no change in LIBOR rates across the globe?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Well, when we put the range out, we expressly said that we were assuming a small increase in rates over a multi-year period, but not the very big one; probably where markets are at the moment is slightly bigger than we had actually factored in. I suppose the way I would look at it is interest rates would be very helpful. If we were otherwise going to do 7% growth, then we only need to do underlying 6% if rates move a certain amount. So it will be multifaceted. We have put the interest rate sensitivity at roughly just under a $1 billion per 100 basis points of rate change globally for a full year. That is not too different to what we have experienced going down the rate curve over the last year, so maybe one and a half percentage points to about a $1.5 billion. So again roughly a $1 billion to 100 basis points of uplift. I think a good proportion of that, a very good proportion of it should flow through to the bottom line. If the computers are processing things with a higher digit at the front, that is not actually increasing any of our cost base. Just as we saw the negative effects of it as we came down the curve, I think we should see the positive effects as we move up the curve.

So a simple answer is the more of it, the better. We think we can get there even if it is only moderate. And at the moment, it probably looks a little bit better than moderate, but time will tell.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Okay, great. Thank you. If we maybe move onto asset quality, obviously everything is recovering now, particularly markets. And nobody seems too worried anymore. Early Alerts have been falling for you since the middle of last year. Are there any material tail risks that you are still worried about?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
I do not think there is anything that particularly stands out. Obviously, we have got to be focused upon countries where COVID is still proving to be very difficult. And India clearly is an example of it. But I think across the portfolio of 60 countries, the portfolio averaging effect we think should broadly work through.

We had, as you know, a very, very low print on credit impairment, P&L cost, in the first quarter. Now, that is not going to be replicable across all quarters, but nonetheless it does start the year off on a pretty good footing. And I think if we can end up with credit impairment around $1 billion level this year, let us say, that would be back to 2019 levels. And that would actually mean that the 2020 year when we were just over $2 billion, we took an excess billion over the normal run rate, actually I think an excess billion on a $300 billion loan book is not too bad. In fact, this time last year, I think [inaudible] had said that that was the full impact we were going to see.

So, as with any bank, we will have some idiosyncratic events from time to time. We are not going to be immune from them. But I do think the book is less concentrated now, there are less big exposures, which would be a problem for us if they went wrong, our exposures are more spread across sectors, spread across geographies.

So I would be quietly hopeful that so long as governments are continuing, which I think they have every interest in doing, in supporting country economies as they go through the next stages of COVID, that we should see still a reasonably benign situation in terms of the credit impairment as we go forward over the next several quarters.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Is there a chance that we come out of this – and as you said, you have very highest stock of provisions and you put aside the extra billion, that not materially has been used. Could we end up with multiple years of sub-normal cost of risk, or is the level of provisioning you have a realistic reflection of what losses you are actually going to take?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
I think it is more the latter. We have used models, as everybody does, to make predictions. We have done some overrides, but they have not been finger in the air. Those have been looking at particular situations. A country where our mortgage book has got high loan to value percentages, we will possibly be a bit more exposed than to markets that have low loan to values. So there is a science behind it. I think in the majority, the provisions are provisions that we will end up having to swallow. At the perimeter, maybe, some of it will not be required. But we are not going to go and release that one-off. We are going to let this run for several quarters. And just like the India situation was in its second wave not that envisageable maybe two to three months ago, things will happen in some countries and just to know that we have something tucked away in reserve of our balance sheet in case there is a rainy day on some of that unenvisageable front, I think will be helpful.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Okay. Perhaps if we move onto costs then. You have guided to higher costs this year. I think you guided to higher costs earlier than the other UK banks did. More restructuring, more investment, and perhaps a high variable pay accrual. So where are the savings efficiencies coming from in the cost base to offset this inflation? And I guess as we are already in June now, what is surprising you on the positive and negative side about the evolution of the cost base?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah, so a guide to an increasing cost, we had a lower cost base than normal in 2019, because like many institutions, in particular, we had accrued less for variable compensation. So if you normalise that out, we were saying at $10 billion guided at constant FX for 2021, that actually it would be fairly similar to 2019, but having made that correction.

Now, that means that to achieve that, we have to take underlying costs out in order to be able to keep the number constant and have absorbed inflation, and have absorbed a slightly higher level of IT investment spend. Now, that latter phenomena is not new. We have had a cost base, give or take, $10 billion for several years now. And I would say on the average, any one of those years, we probably had to swallow, I do not know, $250 million of inflation, $150 million of IT investment, something like that. So we have had a good track record of taking underlying of about $400 million out of costs. And that has therefore funded the otherwise increase due to inflation, etc.

So really what we are trying to do this year is pretty similar to what we have done previously. We have had a number of initiatives. We have collapsed the number of regions now. We have moved our small corporates into our big corporates. And each time we do things like that, there is a few tens of millions of savings that come off the back of it. We have said of course this year that is one other factor, which is that the FX translation effect of moving things into dollars will put roughly about $300 million onto both income and costs. So it will be essentially neutral at the profit level, but it does mean that the $10 billion number for this year, assuming current outlook on the FX, is more a $10.3 billion number. And therefore, quarters should essentially be roughly a quarter of $10.3 billion, and then we are on track.

It will be tight this year, but then it is always tight. People always find the cost challenge in any business, a difficult one. But I would say that we are on track for it. And as we get near the backend of the year, we will obviously make determinations on variable compensation and things like that, which is the only one that could push it outside that envelope. Not massively, but that is the only one, to my mind, if we do have a good year, we do not want to go and to have to put a lid on that unnecessarily. So I think overall, the story on costs is a good one.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
If we look beyond just this year, how should we expect the costs to pan out over 2022, 2023 and beyond, indeed? The efficiencies that we have generated or the change in the business models that has come out from COVID, does this fundamentally change the cost base for any bank, but your bank in particular, obviously? Could we see a complete change in the mix of your cost base?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
I do not think it fundamentally changes that. Having kept it essentially flat for about four to five years now, we are saying, look, if we can keep it maybe beyond 2021, so talking about 2022, 2023, maybe there will be a bit of inflation that we will actually not be able to cover.

But the primary reason for not covering it will be the investment that we are making into new business areas. So the investments that we are making into likes of Mox Bank in Hong Kong, the Nexus platform in Indonesia, there will be a little bit more investment cost actually in some of those areas. And realistically, we did not want to starve the business to be able to invest in those areas because we see those as being very important for the future.

So we have said beyond this year, we think costs at or below inflation. And of course if you then go back to my previous comment, if we have the income growing 6-7%, we have the cost growing 2% or whatever, that is opening up 5% on $15 billion a year. And you put those together and then the math of the double-digit ROTE actually will come out pretty quickly.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
I guess this was answered, but you are guiding to 7% in 2023, heading towards greater than 10% in terms of ROTE. Is it literally as simple as that? You will keep costs at 2% inflation. And the high-growth regions that you operate in should comfortably lead to higher than that in revenue growth? Or maybe another way to ask it is, where is the best opportunities at the moment or where are the best investments that you see the highest returns?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah, I think the combined efforts of 80,000 people actually being condensed into one sentence of being as simple as that, probably is underplaying it. I think it is going to be a whole number of levers. Obviously, credit impairments normalising more quickly would be helpful, albeit maybe by 2023, they would have normalised by then anyway. But having them normalise a bit earlier would be good for the cause. Operationally ther income and cost levers are obvious ones that we need to work on. And I think particularly on the income side, it is looking at the areas where there is maybe a bit more potential than we have previously been able to benefit from.

So, what will be an example? Mox I guess targeting the slightly younger age audience in Hong Kong to extend the customer target group that we could otherwise service. Looking at other countries where we could do similar. The Nexus platform which is plug and play that we can interface with internet-based players who do not otherwise sell financial services products. Something we have not done in the past, something should be a bit more additive. Looking at working more with partners outside of the sector in the retail consumer space to see whether actually with partnership arrangements, we can actually attract high numbers of customers.

So I think it is putting those together and making sure that that income line is fortified as much as we possibly can do. And then, of course, no ROTE conversation would be complete without referring to the 'E' in ROTE, managing the equity side of it thoughtfully. Once we have got clearance hopefully at some point, we will have more flexibility to be able to do shareholder returns, whether dividends or buybacks.

And it will be all of those going into the mix and back to the previous point, if interest rates did start to rise, that would clearly be very helpful for the cause as well.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Yeah, you just touched on this. But your approach to capital return going forward, with your share price trading below book value, what are you thinking here? Buyback and dividend? And when are we expecting to hear from the PRA about whether you can actually start paying back in a normal fashion again?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
So at the moment, they said I think essentially we can accrue, but not pay out. I think a number of parties have said it would be quite helpful if we could actually just reappraise both the accruing and the paying-out bit so that the banks know what basis they can plan for the rest of the year.

We will see what the PRA do say. Put that on one side, we are clear that operating above our target range had a purpose in a very volatile year, last year. But it is not the purpose that we see as being one that we need to stick to on an enduring basis. We are very happy to be in the range, in the 13-14% range, and we will expect the majority of this year to be in the range rather than above it.

You are absolutely right, clearly, that the share price at the moment does make buybacks pretty attractive. We clearly know some shareholders prefer dividends to buybacks. So I think we will have an eye to both, as we decide, as we move through the balance of this year, as to what is the best to do.

And of course the other ingredient in all of that is how much underlying asset growth there is available to us that seems to be profitable. If there is good stuff that we can do on that front, we will invest RWAs in that in the first order. And to the extent that there is anything left over, then we will look at the return side.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Operating such a diverse business as Standard Chartered, obviously you come across many, many different regulatory regimes. Your 13-14% core tier 1 target, if you grow in an area that has higher capital requirements than 13-14%, is that factored into that range already? If you outgrow somewhere, that you are able to maintain your capital target and eventually get shareholders back to that level, almost regardless of your growth pattern?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yes, in giving a single range, we, obviously, in one sweeping go, try to accommodate many, many factors that work within it. To the extent that we did have a higher proportion of growth in higher RWA countries, then clearly one of the other things that we are working on is, can we get more of our business to not be balance sheet dependent and actually, be more fee-income based, and therefore, have that growth in those markets, but not necessarily of a capital-consumptive product set. And we have increased the proportion of our income coming from fees, albeit in part, mathematically that is because of the reduction in interest rates.

So it is factored in there. And we monitor it. I do not see any reason for changing that range at all at the moment. I think we will be happy operating within that for a good period of time.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>

Okay, great. Rounding off capital then, I think if I compare you to the other UK banks, your capital headwinds are fewer. Could you just talk to us about what RWA inflation you have seen potentially from credit migration? And what you expect to see from the regulator this year and going forward as well?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
Yeah, I think this year will be a mix of factors, how much profitable underlying client demand is there. As I said earlier, where there is good opportunity there that is profitable, we should go for it. We, as ever, are working on lower returning client situations to moderate those or sometimes exit, as I guess any institution will do.

We are looking intensively at the way that we model and actually interpret RWA rules. And there is usually some opportunities that come up through that. So I would say that mid-single digit percentage increase in RWA for the 2021 year as a whole, when you put all of that together, probably there or thereabouts is where we are at.

The only one beyond this year that I guess most of us are familiar with is this BASEL III, BASEL IV change. We have had a 5-10% range. We probably think it is the lower end of that now. But is that two years away? Maybe. Is it possible it is a bit longer than that? Possibly.

So I think in the overall scheme of things, it does not change the math significantly. And to the core part of your question, I think something in the mid-single digit percentage growth this year is likely where we will be at.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
And beyond this year, let us strip out the regulation part, does it grow in line with asset growth? Or you are looking at consumer business, hopefully consumer rebounds. Could RWAs grow quicker than loan growth going forward if the mix is going to shift?

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
A bit of a crystal ball job, isn't it? Directionally, I agree if unsecured is going to rise a bit faster as the consumer confidence come back, that could put a little upward pressure. On the other hand, unsecured is a small part of our book, and actually, we have got much more that is secured in the consumer space than unsecured.

So I do not think the impact of that will be huge. I think the things that we have got in motion to try to manage RWAs equally, there is quite a lot of juice still in the tank. So I do think we can keep the growth to or slightly below the rate in nominal growth of assets over a period of time.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
All right, lovely. I think we are coming to the end of our time now. Yeah, we will wrap up there. Thank you very much for coming to speak to us, Andy.

<<Andy Halford, Group Chief Financial Officer, Standard Chartered PLC>>
All right, my pleasure. Thank you very much. Thank you.

<<Robert Noble, Head of UK and Irish Banks Research, Deutsche Bank>>
Thank you.

[END OF TRANSCRIPT]