Morgan Stanley European Financials Conference 2021

Q&A with Bill Winters, Group Chief Executive, Standard Chartered PLC
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(Amended in places to improve accuracy and readability)

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Good afternoon and good evening, everybody, and welcome to this session of Morgan Stanley European Financials Conference with Bill Winters, the CEO of Standard Chartered. Thanks for joining us, Bill.

My name is Nick Lord. I cover Standard Chartered for Morgan Stanley. I also cover the Hong Kong banks and the Southeast Asian banks.

We're going to have a quick chat for about half an hour or so, where we'll just chat about a few of the issues, and then we're going to open it up to Q&A. We've also got a polling question, which we're going to push out to you now. That's going to remain live for about five minutes. It discusses sort of what you think will drive Standard Chartered share price over the next 12 months. It would be great if you can fill that in, and we can incorporate the results later on during our chat.

But Bill, thanks very much for joining us. And I really want to just start off and talk a little bit about some of the nearer-term things that are happening. And you commented in the 4Q results that you were having a good start to 2021. I think the message that we've heard from a lot of banks in this conference has been very similar to that. You've said that Financial Markets and Wealth Management were having a good start to the year. I'm interested to know if that's been maintained, what bits of the products are doing well in that and how sustainable is it.

Where are you seeing the most demand for lending across your universe?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Firstly, thanks very much for having me, and thanks to Morgan Stanley for hosting this conference and having me come by. Thanks to the investors for beaming in.

So yeah, we commented a few weeks back that the year had started out well, and I'm sure that that is similar with other banks. We had a good start in Financial Markets. We had a good start in Wealth Management. That's building in each case on momentum that we saw - certainly in the Wealth Management space - in the latter part of last year, as the Asian markets opened up, lockdowns receded, and sentiment improved.

That has carried through into the early part of this year. We all know, though, that - in addition to being cyclical businesses, and both Wealth Management and Financial Markets are cyclical - they're also seasonal. And the first quarter tends to be a relatively strong period as people come into the year ready to reposition. Obviously, in this case, added to by very, very strong underlying equity markets, which creates an investment backdrop that should create good opportunities for wealth growth.

We also know in Q1, certainly in our markets, the lunar new year kicks in. And that takes a little bit of wind out of sails. This year it was in February; last year it was in January. But I'm happy to say that I think the underlying momentum that we've seen building since the trough of the pandemic, has continued. And when I look at Financial Markets in particular, I'd say that the areas that have continued to perform well for us are ones that are a little bit more particular to Standard Chartered.

So I think we could look at the extraordinary level of capital markets activity, in particular in and around the US and US dollars, which is not our sweet spot - we have a good business there. We make some money, we serve our clients, but we don't cash in on the bonanza of high levels of US capital markets activity.

We're much more focused on what's happening in emerging markets, what's happening in our local markets where we operate, and an extremely important market for us generally but in Financial Markets in particular, is China and the opening up of China. We've been very encouraged by the ongoing opening that we're seeing, the opportunities that that creates. Standard Chartered is just so well-positioned as - I'll say “the”, and someone else will say “a” - leading bank in cross-border payments, a leading bank in bringing international capital, in particular in the bond markets, into China and moving Chinese capital out, whether that's in Belt and Road type projects or other external investments. That underlying flow, which we have both at a strategic level but also at the operational level, supports things like Wealth Management and obviously to a lesser extent, (inaudible)

So yeah, the underlying trends are good. Yes, the start has been good. In terms of asset growth, we're continuing to see asset growth. And you know, of course, anybody can have asset growth if you compromise returns. We have not, and will not, compromise returns in terms of our asset growth and that's why we've been able to grind out improvements in our return on risk-weighted assets, interest rate pressures notwithstanding.

So broadly, where are we seeing that? We're seeing that in the markets that emerged from the pandemic more strongly in many of our Asian markets. We're seeing that in terms of consumers who are coming back after a bit of a pandemic-related hiatus in the early part of last year, who are coming back in to spend. You're seeing now the consumer spending figures. You're also seeing it in asset figures - steady as she goes, in terms of the underlying growth story.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. And in terms of what happens to deposits from here, I mean, you know, obviously last year was great in terms of deposit flows, probably a little bit too good, in fact. What do you think happens there? We're expecting that we can manage asset growth a bit better with deposit growth and maybe get a move-up in asset deposit or in loan deposit ratios?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Yeah. And it's a great question. Obviously, it goes directly to the asset story as well. At Standard Chartered, we've been talking about the quality of our liability base for some time, referencing the fact that it was not as strong as we would like it to be a few years back. It's been steadily improving, and that continues to be the case.

It's hard to look at a year like 2020 where we obviously had some extraordinary deposit-gathering opportunities, as did everybody else, as a result of the liquidity splurge into the market. And we benefited from that. So clearly, some of the increase in our high-quality deposit base, whether it was on the retail side or in treasury, corporate operating accounts, some of that was the rising tide that lifted our boat along with others.

But we also see very clear indications that we're improving our position vis-à-vis both individual and corporate clients. The things that we look at very carefully are, on the individual side, whether we have the salary payment going into the Standard Chartered account, which obviously tends to flow through to the main transaction account. And the signs are encouraging; they have been for some time, but that continued through 2020 and into this year.

For the more affluent population: is this their main investment account? Do we see money flowing out of our account into securities dealers or brokers, or are the transactions being conducted in our account?

On the corporate side, obviously there is a quite specific definition of what a treasury operating account is because there's liquidity benefits that come with that. So we track that very carefully. And for some time now we've been asking for the business, we've been asking for their deposits, and incentivising Relationship Managers to put that closer to the top of the list of things that we talk about with our clients rather than an afterthought. And it's paying off.

So yeah, rising tide for sure, and when that tide goes out, we can probably expect some of that money to flow out with it. But there are good structural improvements on our side that we will continue to build on, independent of the environment.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Thank you. And then if we just talk a little bit about NIM, obviously, HIBOR has obviously drifted down a little bit in the first quarter. Other short-term rates look as if they're stabilising. Are you comfortable with your guidance that NIM should stabilise marginally below 4Q '20 level? And what levers do you think you have available to you for the next two years when rates presumably remain low, to try and manage that NIM up?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Yeah, and I touched on some of that in the comments I just made. But yeah, we are comfortable with the guidance. Obviously, we're seeing some indications that there's some hope for some upper drift in rates over time. We've not built that into our plan or our thinking or our guidance in any material way, as we discussed in Q4. But you've had quite a good move in long-term rates, which suggests obviously some shift in sentiment.

So we think we can manage to maintain our NIM, probably a bit below where we finished up last year, but then gently increase it from there. And it's a combination of the improvement and quality of liabilities that I mentioned just a moment ago, which is a key area of focus for us and has been for some time. And second is the rebalancing of our asset portfolio, so we expect to see some growth in some of the better-returning components of our asset portfolio, whether it's on the consumer side in unsecured consumer credit, or on the corporate side. But we've got a particularly strong niche in sustainable finance, and the financing gap in our markets in particular is just so enormous and the need so desperate that there is an opportunity for us to fill that gap. Taking relatively small asset positions in financings that we pulled together, but where the underlying financing can be put on our books at good, attractive levels.

So that sort of thing will just gradually, and on the margin, shifts our asset mix, which together with improved liabilities, we think stabilises the NIM and then gets into a gentle improvement trend.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Okay, perfect. So that's probably a good time to let you know what the results of our survey were. And I think given the question was, what do you see as the most important issue for Standard Chartered share price over the next 12 months, and given what you've just spoken about -- 40% thought the Asian economic recovery was the most important, which is the biggest category, and 35% thought continued improvement in the rates outlook was the most important. So that should be quite encouraging.

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
I feel super strong on the first one. I don't understand why we trade at 5 pounds and 4 pence if it's all about the Asian economic recovery. That one feels pretty good to me. Rates, I'm more hesitant to forecast.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Yeah. So what I want to do next is just move on a little bit and talk maybe about some of your strategic priorities and some of the stuff you're doing in the medium term. And I think, you know, one of the things you've spoken about historically is that your Network across markets is one of your biggest competitive advantages.

And I guess, you know, you've highlighted in the past that 70% of your revenues, I think, comes from your international customers. I think we said about at the end of '18. I assume it's come down a little bit in 2020, and I guess that was probably the rates that drove up.

But what gives you confidence that you can begin to regain some of that momentum and pushing up the contribution from those Network customers going forward?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Most of our income lines -- not all, but most -- took a step back when rates went from 2+ percent to 25 basis points minus, right. We just took a straight step back in income. And we need to recover that doing other things, including growing our net interest income and clearly non-financing income.

But thankfully, the directly pandemic-related dips in non-financing income - it’s very difficult to sell bancassurance when physical medical checks are important for example - are largely in the past now. Not entirely, but largely in the past, just as Hong Kong, Singapore, China, Taiwan, etc. have opened up and have been open for some time now.

So the key for us to get back onto the growth path is to continue to do what we've been doing for the past several years. The Network client income that we talked about took a step back, in Cash Management in particular, on the back of lower interest rates. But the number of clients that we're adding and the depth of our relationship with those clients is improving. Our market share, in an area where we have a pretty high market share to begin with, in Asia, the Middle East, and Africa, is on a gentle upward trend.

Where we don't have a strong market share to begin with is with corporations that are based in Europe and the Americas. It's a growing market share and we've got a lot of reasons to be confident. Our penetration of the new economy in the US and Europe has been extraordinary, extremely rewarding for us. I mean, rewarding in terms of seeing very tangible returns on the efforts that we've made.

And those clients, they need our Network as much as any multi-national corporation on the planet, and they need our money maybe not at all. Because they've got a lot of money themselves, and access to very cheap capital.

Well, that's just about perfect for us, and when I think about the sorts of things that will boost our returns structurally, it's continuing to grow our business in ‘emerged’ markets - I always hesitate when I say that because it's hard to think of Hong Kong, Singapore, Taiwan, and China as not developed, but you know what I mean - to continue to grow those markets and grow our market share given we're coming from a bit behind.

Recognising that those corporations and those markets are also very focused on issues in the Middle East and Africa, because a lot of their growth is going to come from those markets for the same reason that we're excited about our own growth. So the Network is becoming more and more relevant. Yes, we took a step back during 2020 with lower interest rates. And we took I would call it a much more transitory step back as trade was disrupted around the early days of the pandemic.

Well, trade is coming back super strong, right, whether it's east-west trade which is back very strong, or south-south trade, or intra-Asian trade, which is much more our sweet spot. The growth is tremendous. And yeah, it's been offset by margin compression to some extent, but that also is stabilising. So we see opportunities for profitable asset growth, opportunities for increases in market share, and opportunities to continue to leverage this Network which is a big differentiator for us.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
And if we go onto -- I mean, another one of your drivers is obviously on the Mass Retail, and I guess that means different things to different people. I guess it's an area that you probably have not been in as major way for a few years. So what makes you think now is the time to sort of pivot back into that and how can you avoid the mistakes of the past?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Yeah. Now, I know those are all the right questions, that we've been asking ourselves for some time. Of course, when I joined the bank 60% of our retail income was in the mass market - what we call the Personal client segment. But zero percent of our profits, maybe actually a negative percent of our profits, were in the mass market. Why? Well, one, because we are small, in most of the markets in which we operate. We have a small mass-market market share, in particular in the very large markets like India and

China, for example. So we were the antithesis of scale. We had a high cost base because we were very manual, and that combination of being relatively sub-scale and very manual is a bad one.

And then on top of that, we had a – honestly - we were underweight unsecured consumer credit, probably somewhat overweight secured credit, mortgages in particular, although it's a good business for us and remains a good business. But we were underweight unsecured consumer credit, and we were underweight for good reasons. We had really bad experiences in Korea and Taiwan and Vietnam, and in Thailand and India. And the reasons were relatively straight forward. We had not invested in cutting-edge data analytics. We had outsourced a lot of our distribution to third-party sales agents. Many of these areas were identified and addressed before I arrived, but that was sort of where we started was a just a poor mass market business that was the majority of our income, right.

Now, the only good part of the story is that it absorbs -- if it's 60% of the income, it absorbs roughly 60% of the expense base. So it is a big absorber of infrastructure costs, fixed costs.

So what we started doing then was, we said, okay, fine. We're going to take a big step back in the unsecured consumer credit side. We're going to invest heavily in data analytics. And we didn't have a data analytics team. We had some data analysts, not many. But we didn't have a dedicated team. We pulled that together, started focusing on propensity modeling and sales applications, moved quickly to risk. We've now got over 500 people, sort of Ph.D. level types, sitting mostly in Bangalore although spread throughout the network, who have developed some excellent risk-based analytics. And of course, we've been trialing those, iterative learning continuously.

This is a new thing, I can tell you, for many companies and for a bank like ours: to go into this exercise of some relatively small trials where you're certain that there are going to be some failures. Some of the analytical techniques we develop are going to work, some aren't. And so we've gone through that process, very reassured by the progress that we're seeing; rebuilt our own distribution channels, largely digital, although in some cases we've added back some of our own feet on the streets. We have invested heavily in the digital channels, so we now have the ability to onboard customers real-time, no human intervention, under 7 minutes, that kind of thing, in many of our key markets. That's absolutely critical.

And we learned through some partnerships, we have a very effective relationship with people like Ant Financial in China, or through digital banks that we're building with Toss in Korea or Line in Taiwan, or our own experience building Mox in Hong Kong, which we now intend to roll out in Singapore as soon as we get the final regulatory approvals.

And each one of these is a learning experience, but it's also another stake in the ground that allows us to tackle this mass-market business: one, in a highly-innovative and customer-centric sort of high-level customer experience way; two, much better informed by data that we have access to, either access through ourselves or through our partners, both are important; and three, confidence that we built up in the organisation that we actually have what it takes to understand and grow this market.

So you know, these things will roll out over a period of time. We're frankly in quite a deep hole if you look at the EVA, risk-adjusted profits from our mass businesses. It's still a big drag. It's obvious what that is, because we talked about how much above the cost of capital our affluent business is. That's the other half of the retail business, and if one's well above average, you know the other is well below average.

And we're not going to have a mass market business that is going to overtake the Affluent business anytime soon, probably never. But what we will have is something that contributes to growth rather than detracting from it, and we'll have something that is accretive to returns rather than destructive. And it will continue to absorb a big chunk of the fixed expense base.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. I think when you mentioned the Affluent market just there, which is you know, I mean, we think it -- I think you've said you think it's going to grow about 8%. I think our forecasts are a little bit higher. We think it's a 9% growth. So it's clearly a very, very attractive market in this part of the world. But it's also

bringing in a lot of investment from elsewhere. I mean, everybody seems to want to get into that space at the moment, and there are clearly, sort of players out there whether they're big, international US asset managers or whatever, or you know, the Chinese banks eventually which have big domestic markets, which they can use presumably cross-subsidise what happens in your part of the world.

So you know, what would you define as sort of winning in this space? And how are you going to compete against some pretty big and well-funded players in that Wealth Management space in Asia?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
That's a great question. And it's another one that we really dwell on quite a bit. And when I joined the bank in 2015 and we rolled out our refreshed strategy, the Affluent client proposition had been central to the bank for years. It had been growing at 10% compound up to that time, at least in the previous five years or so.

And I said, as did my predecessor, that we're going to continue to focus on our Affluent client proposition, and we're going to invest heavily in it, which we subsequently did. The reaction I got was: come on, it's a crowded space, you've got the big multinationals -- I mean, I could repeat the question that you just posed to me. I got it five years ago. So yeah, that may be true. It is true. But we've done pretty well for the past decade against that kind of competition, so I bet we focus on this and invest, and we did significantly step up our investment in that client segment. Our technology investments, our advisory investments, and both the quality and the quantity of Relationship Managers.

And we have increased our market share in our key markets in the subsequent period, probably most noteworthy is Singapore where competition is about as stiff as it can be, with very strong local banks together with every international bank that has a retail business in Asia with an anchor in Singapore. Hong Kong, where we had an extremely strong business to start with, has remained strong. Taiwan has improved. China is going gangbusters. Gangbusters is basis points of wallet share in the context of China. But big percentage growth for us. And that's with the Chinese population unable to buy 99.9% of what we have on our shelf at any point in time because of currency controls.

So why do I feel comfortable that we can go toe-to-toe with any competitor that comes our way? One, because we have. Two, because we've invested in it. Three, because we have a differentiated proposition. We are open architecture. I love it. I love the part of your question where you said hey, those big asset management companies can come in and kick your butt. So yeah, they can, selling their excellent asset management products, if they have any. But they aren't going to sell anything else, because they're conflicted. They're always selling their own crap first.

So we're not. We're open architecture. We don't sell anybody's crap. We only sell stuff we believe in. That doesn't mean it's always right, by the way. I know that. But we fundamentally believe in this open architecture model, and it serves us, it puts us in very good stead with our customers.

And then these investments that we've been making, the investments are good. We've got a significantly streamlined back-end. We've introduced some really exciting new products, best-in-class, online equity trading, online FX trading in Singapore and Hong Kong. When I say "best-in-class," I don't know how many times those of you that have listened to every session that Nick and his colleagues have moderated -- I guess everybody says they're best-in-class at something. Our customers are telling us that this is really, really good stuff. I know the customers are telling us that Mox is a best-in-class digital bank. That's what the reviews say. It's my personal experience as a Mox customer, as a Standard Chartered Affluent customer.

So yeah, I think we can go toe-to-toe with anybody in those markets.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. And then, you know, another thing I guess that you started to talk about, and you mentioned it a couple of times already in this session, is Sustainability. So you know, I guess the question is that you know, you could get a billion of income from this business in the medium term. I guess there's questions

about the profitability, what sort of retail and capital can you get on it, what sort of capital commitment are you going to have to put behind it. I mean, how much is it -- is it going to be a driver of your business?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
No. I mean, like everything else that involves booking loans on your balance sheet, the direct lending in part itself in some cases is outright profitable. I mean, we've got plenty of loans that we book, I would say in particular in the Sustainable Finance space, where we generate a return in excess of cost of capital on the loan. But in many cases we don't, right? In many cases, the loan that gets booked is going to be below cost of capital in terms of its direct return.

The opportunities to generate a return above cost of capital on the package is really directly related to the complexity of the transaction. So the number of people that you need to bring together to execute a transaction, the degree to which the skills required to complete a transaction are unique or specific, those are the things that create an opportunity to actually generate a bit of return, a bit of profit.

When you get to Sustainable Finance, it's just about perfect for Standard Chartered because many of the transactions in our markets, emerging markets, are going to be some kind of blended finance where there's bank capital, maybe some capital markets, maybe the World Bank or intermediary guarantee or IMF funding, or IFC or AIIB, or some export credit agencies, or a Chinese development bank. And this is Standard Chartered's sweet spot. We are very, very good at pulling together those complicated financing structures. Complicated is what's necessary to get a risk-sharing deal done in many of the markets in which we operate.

Combine that with the fact that the need in emerging markets is just orders of magnitude more substantial than the need in developed markets. Europe is able to finance its own sustainability drive. It has, substantially. The US, as the efforts really kick in, is able to finance its own sustainability drive. Sub-Saharan Africa and most of South Asia is not able to finance it themselves. There's like a 90% funding gap. And this is the opportunity for us to step in.

Layer in on top of that I'm going to mention a topic that's extremely close to my heart, which is the carbon trading market. Close to my heart, because I'm chairing a task force called the Task Force for Scaling Voluntary Carbon Markets. This is 200 of the world's leading companies, investors, NGOs, academics. Many of the people on this call right now are represented on that task force one way or another, including Morgan Stanley. And the opportunity for us is to create a really big, scalable carbon market that plugs into our Sustainable Finance franchise; or I should say, we plug into it. There are opportunities in carbon trading as that market becomes large: we should be a leader in that. There are opportunities in structuring transactions and in a differentiated way. These things are symbiotic.

So like everything else, we want to create that ecosystem around the Sustainable Finance universe including making our own commitments around sustainability, where I think we're a leader. We've committed to being net-zero by 2050. We've committed to producing our detailed transition plan by the end of this year. And we're talking to our shareholders right now about whether they want us to put that to a shareholder advisory vote next year. Nobody else is doing that. Why are we doing that? Because we're ahead. Because we're a thought leader in the space and we want to continue to be a thought leader. We want to help shape the agenda rather than just be a price taker at the end of the process, because we think we can make money doing this. And that's exactly how we're approaching this. Doing the right thing? For sure, we fundamentally believe in that. Create the infrastructure that allows that - and then profit from it.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Thank you. So I want to just ask one last question from me, which is now, if we can now go to the very long-term, you know, 10 years from now what is Standard Chartered?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
I think 10 years from now, Standard Chartered is, for starters, a much more profitable bank than it is today.

I think we'll be recognised as a global bank. It's tempting in difficult times -- and we're clearly going through our own difficult time as are many companies in the world right now -- to retreat into some sort of a core. Our core is our global network, and that I think is the thing that will stand us in good stead.

So 10 years from now, we'll have an exceptionally strong global network. We'll be truly differentiated, probably connecting more nodes than we do today, in the sense that we'll continue to penetrate these client bases in Europe and the Americas together with what we've got in Asia, the Middle East and Africa and with important businesses in parts of Latin America and eastern Europe, although much smaller.

We'll continue to have a balanced wholesale and retail business that's part of being a local bank, so the network is the international stuff. But then they ask to be anchored into hubs or nodes that are fundamentally local. And part of that local presence is a retail market, retail presence, that should be exceptionally strong. If we can continue to grow our affluent business as we have, if we can get our legs under us really firmly and grow in the mass market business, we'll have good strong-growing profitable retail businesses that will help fund our wholesale business, but also complement them in terms of our local presence.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Cool. Thank you very much. So we've got a few questions that have come in from investors. I'll just remind people, there is an ask-a-question box I think on the left-hand side of your screen. So if you have any questions for Bill, you can type those in and I can read those out. But we have had a couple come in.

So first one's really going back to the margin point, I guess. You know, a lot of you, your liquidity is invested at the short end of a curve, very, very sensitive to short-term movements in HIBOR. Would you consider investing further along a duration and taking advantage of the shape of the yield curve at the moment?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Yeah. Look, our balance sheet as a whole -- not just our treasury portfolio -- is very short-dated. We have short-dated assets, 70% under a year. And we have consequently short-dated liabilities, which also means that our liquidity buffer is going to be shorter-dated. So the duration question I think comes in two forms.

One is, should we be going out the yield curve? We take relatively limited duration positions. I mean, I know I've worked in places that took really big duration positions, and that's okay. That's maybe a little bit more characteristic of the US approach, especially for a bank with a very big mortgage market - especially mortgage-servicing rights.

So we have taken duration positions. Duration is a good offset to some of the other things in our portfolio. We realised some gains on our duration positions over the course of last year, and the year before, for that matter. And so we went into the current period of a widening rate cycle or a rising rate cycle, of the long-end, relatively well-positioned. That's good. At some point, maybe to some degree already, we see opportunities to reload a little bit on that. But this is really on the margin.

I think the question really is, should we be taking some of our liquidity buffer and pushing that out of the curve a bit in order to get out of the risk-free rate type zone and into something that's a big more attractive. Perhaps still qualifying for a high quality liquid assets. And you know, the liquidity that we've got, we've got because we think we may need it one day. And we do calculate quite precisely the drag on our returns that come from the size of our treasury balance sheet, and the ways that we can sweat that balance sheet harder. So I think we -- well, not I think -- we are definitely taking concrete steps to sweat that portion of our balance sheet more heavily, to make sure that we've really cranked down the amount of liquidity that we need in individual markets as well as a buffer at the group level or at the bank level.

And so we should be able to get a little bit of support for our NIM, for our treasury portfolio returns, by taking the kind of steps that I think that are implicit in the question. But since Nick you referred to duration, I wanted to talk both about yield curve duration as well as underlying tenor of the liquidity.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Thank you. Another question here, what are you seeing on the ground asset-quality-wise? We have seen -- I think this is a question -- we have seen early signs of deterioration, or have you seen signs of deterioration?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Well, no. I mean, we took some pretty healthy provisions in the early part of last year, in fear of some real deterioration. We did see deterioration in a number of the metrics, in particular on the consumer side, which we called out in each of the Q1, 2, 3 and 4. Things have stabilised substantially and in the markets that have come out of the pandemic early, we saw a reversion back to pre-pandemic type levels by the end of the year which is obviously very encouraging.

We even saw a substantial improvement in some of the markets that hadn't fully recovered or hadn't even begun the recovery process, from the health effects of the pandemic. I’m thinking about India or Malaysia, for example, where the pandemic was still rife. But as the debt moratorium and payment holidays were lifted, the return back to almost normal delinquency levels has been encouraging.

Now, there's still a lot of government stimulus. There's still easing monetary policy. There's still an element of forbearance in the market. I mean, we're all busy trying to work with our clients through these difficult times rather than dropping the hammer at the first opportunity. So it's a little bit too early to say we're out of the woods. But the signs, and it continues to be the case through today, the signs are encouraging, that what we feared a year ago might not be quite so severe.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
And can I ask, I mean, just to link to that, have you -- I mean, as a result of the experience of the last 12 months, what have you done on underwriting? I mean, have you changed your underwriting practices at all, other things you've learned from that?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Well, I think all of our underwriting standards went under heavy review when we got into the pandemic a year ago. So in many cases, there were debt moratoria or payment holidays that were imposed relatively quickly. So of course, we weren't underwriting credit in the same way during a period of payment holiday as we would either before or after.

But in terms of our underlying risk appetite, if I could rephrase the question: has our risk appetite changed throughout the pandemic? I think the answer is no. We think we understand our markets pretty well. Let me put it a different way. The things that we thought we understand, we still think we understand. And the things that we weren't sure we understood, we weren't pushing out the boat in any case. So, these are areas that we continue to investigate.

So no, our risk appetite has not changed. Our sense of opportunity has not changed. We clearly were more cautious during the period when the data was just so opaque around the economic impact of lockdowns and the economic impact of the health consequences of the pandemic and all that. So yeah, of course, we changed our credit decisioning during that peak period of uncertainty.

But I'd say we're largely back to normal in the markets that are going largely back to normal.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Another question here. Trading at such a discount to book with such a unique franchise, how vulnerable do you feel to an approach from a larger international bank?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>

Not very vulnerable, because I think it's very hard to execute a cross-border bank merger these days. I think between capital surcharges, and the regulatory impediments, the fact that we are a complicated beast operating in a number of risky areas. We're very comfortable with the risk that we're running but it doesn't mean that another bank that would look at us as a partner or as an acquisition, would be comfortable with the same risks, unless they're as familiar as we are, and very few people would meet that definition.

So I don't feel very vulnerable. But I say by the same token, if there's a very valuable combination out there and somebody wants to give it a go and explain to our shareholders why they're better off in combination than they are sticking with us alone, be my guest. And we'd approach anything like that completely constructively. But it never features in our discussions. It's not part of our plan. It's not something that we're preparing for. We don't look at our strategy through the lens of whether it increases or decreases the likelihood of that question of vulnerability.

That may disappoint some of you, but it's the truth, so I share it. We've got a strategy; we believe in the strategy. We're executing it, it's working. We took a big blow backwards last year on the back of rate movements. But that doesn't detract from our sense that the underlying strategy is the right one. It's the one that will create the most value. And if somebody wants to pay for that up-front, then if our shareholders think that's a good idea, there's not much we could do about it.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. In terms of costs, obviously you've got a -- you've reiterated your commitment to a constant currency, so $10 billion at cost base. As a result of the COVID-19 experience last year, where do you think incremental cost savings can be derived now?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
There are all the tactical things - and we obviously got a great trial run on significantly reduced travel expenses and a much more extensive use of collaborative technology. We were on-track to generate 20% compound reductions in travel and entertainment expense, in any case: we had for the prior two years before the pandemic, and obviously it was more than that last year. They will return to something, I would expect, higher than 2020 and 2021. But it will never go back to the 2019 levels would be my guess.

That's great, but these are relatively tactical things. And there are other reasons to do it, save the planet and save the health of all of us who were spending too many hours on planes and too jet-lagged.

The much more important thing for us to do, though, is to continue to fundamentally transform the way that we work. And that has to do with automating everything end-to-end, digitising everything end-to-end, being truly cloud native. And I've been kind of impressed, maybe surprised, I would even say, by the number of outside experts including big cloud companies and big consulting companies, who have said: yeah, Standard Chartered is actually well ahead of the curve in terms of cloud migration. You guys have either actually moved your core banking systems into the cloud or are in the process of moving every one of your core banking systems into a single core banking system which is cloud-based. All of your mobile banking apps are cloud-based. You built Mox in Hong Kong, 100% cloud-based. The wealth systems that you're installing are 100% cloud based.

This is fundamentally productive, and I don't know why or how Standard Chartered seems to be ahead of the curve, according to people who have a perspective on this. I just know about ourselves. I think it's one, because we decided we were going to be cloud based in everything we did; two, because we've undergone and are undergoing a really, really substantial investment programme to make our infrastructure fit for the future, that we've got a really good bit of digital connectivity between ourselves and our corporate clients. It's called Straight2Bank. Many of you use it, or many of your companies use it. It's been around for a long time. It was excellent and cutting-edge when it was rolled out. By three or four years ago it was one of many.

We're now a year into a three-year programme to completely migrate that platform and all of its functionality including the Financial Markets interactions into a cloud based application that will be a real platform, and I think we could permanently occupy space on the corporate treasury desktop by offering not just the Standard Chartered product in the most convenient way possible, but also other people's products as appropriate in the most convenient way possible.

These are the kinds of things that we're doing that will fundamentally drive productivity. These aren't tweaks on the margin. This is taking big swathes of our existing expense base out and replacing it with something that is much better in terms of customer satisfaction, which would obviously contribute to the boost in the revenue line.

So yeah, the tactical stuff is great and we'll continue to do that. We have to continue to do that. But the structural stuff is the big preoccupation and I think we've got a good head start on that.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Okay. Okay. Thank you. We've got time for one last question because we're coming up to the end of our time. And I guess this one was going to be asked in the -- where we are. Can you give us some views about geopolitical risks and how this may be impacting your business?

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Yeah. Obviously, another huge preoccupation. I mean, the short answer is, it's not impacted our business in a material way so far, although it's been a major, major distraction for me and our board and management team, for all the obvious reasons. We'll watch each interaction between the US and China, with great anticipation.

On the one hand, the fact that Blinken and Sullivan are meeting with their counterparts from China in Alaska tomorrow, is very encouraging. On the other hand, the US laid another round of sanctions on 24 more Chinese individuals earlier this week. I'll note that those 24 individuals were already sanctioned under OFAC sanctions, but nevertheless I think we can expect to see that back-and-forth. That's all before China thinks about how they're going to retaliate, or before they take action to retaliate.

So we'll continue to see the back-and-forth. It will provoke nervousness and anxiety. But in terms of the underlying trade flows, underlying investment flows, underlying business flows, our ability to get business done: the bank has been unimpacted so far. We are fundamentally committed to our business in and around China. I think it's just simply too important to be anything else. And we'll continue to invest in that and so far, every indication is that's been a really good bet, because the Chinese market itself, broadly-defined, is expanding quite nicely.

And the actions that are coming out of the US and the UK and elsewhere, while impactful on many levels, have not been impactful to our ability to get business done.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Bill, I'd like to thank you very much for spending time with us. Comments are really appreciated. Thank you to everybody for listening in, and thank you for all the questions that came out from our investors today.

<<Bill Winters, Group Chief Executive, Standard Chartered PLC>>
Thank you very much, Nick.

<<Nick Lord, Head of ASEAN Research, Morgan Stanley>>
Have a good afternoon. Cheers.