

Standard Chartered's Financial Markets Investor Event 2022

Presentation with:

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(Amended in places to improve accuracy and readability)

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Good morning and good afternoon, everyone. Thank you for joining our call today where we'll give you an update on our performance in Financial Markets (FM) over the last 3 years and an insight into the strategy and execution plans for the next 3 years. Back in February, I outlined the actions we're taking in the Corporate, Commercial & Institutional bank, or CCIB, to drive improved returns, targeting 160 basis points improvement in income return on risk-weighted assets. Financial Markets is an integral part of CCIB's strategy, being around 60% of CCIB's income and is already delivering double-digit return on tangible equity.

In the last few years, we've built a more diversified business providing our clients with a fully equipped fixed income, currencies and commodities franchise, delivering solutions across rates, credit and commodities. We have an attractive footprint with trading desks in 36 markets and a sales presence in 44 markets, providing unique market access and intelligence. Our clients have recognised this, leading to us increasing our market share in the FICC space in Asia from 8% in 2018 to 9.4% at the end of last year. Looking forward, the FM business will continue to be pivotal in delivering CCIB's and the broader Group's strategic priorities.

In today's presentation, Roberto and team are going to talk about three key messages. Firstly, FM has delivered on the targets and commitments we set ourselves three years ago when we last hosted an event specifically on this business. Secondly, this business is now set up to accelerate growth with a more integrated approach to origination and distribution compared to the past. And finally, FM is targeting an improvement in returns that we'll see income return on risk-weighted assets increase by 160 basis points to around 7.5% in the next 3 years, whilst continuing to deliver a double-digit return on tangible equity.

Clearly, the external environment has been challenging over the last two years, and we've navigated these volatile markets well, as you would have seen from our most recent results. The steps we've taken over recent years give us a great platform to work with. And I've never been more confident that the focus areas you'll hear about today will enable us to drive improved returns in CCIB, and deliver 10% return on tangible equity for the overall Group by 2024, if not sooner.

So with that, let me hand over to Roberto.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Thank you, Simon. Good morning and good afternoon, everyone. In 2019, we provided you with an update on our progress, and we set ourselves some goals, including financial targets and a number of strategic levers, as Simon just mentioned. I'm happy to announce that we have successfully delivered on these. Let's start by looking at the financial targets.

We have delivered income growth of 7% over the last 3 years. Cost growth was below inflation at 2% and we produced a return on tangible equity of 11.4%, already in excess of the Group's target of 10% by 2024. These numbers are based upon the consolidated Financial Markets and Corporate Finance businesses following their combination in early 2021. As we're looking back on the targets we set ourselves back in 2019, we should look at the FM business, excluding Corporate Finance for a like-for-like comparison. FM was a much smaller business back in 2018. Since then, we have grown income by \$1 billion, and we have doubled our return on tangible equity from 9% to 18% between 2018 and 2020.

A rejuvenated management team has also successfully executed the strategic levers we identified in 2019. Client penetration has improved with product cross-sell improving from 3.0 in 2018 to 3.4 in 2021 for clients that generate more than \$0.5 million of income. Credit has built a structured business with products including asset-backed securities, mezzanine loans and multiproduct collateralised lending are now transacted. These structured products help drive distribution to our investor clients and they fall under the umbrella of the Credit Solutions business, where income is up 34% CAGR.

Our China business is leading edge, and we are now active in deal contingent trades. China origination income has grown 22% CAGR. This income is derived from servicing Chinese multinationals, both within China and across the rest of our footprint. In 2018, our commodities business was precious metals based. Since then, we have successfully added oil, agriculture and physical carbon trading. The integration of commodities with the FX platform over the last couple of years, along with new products and a better technology stack has also driven income higher.

January 2021 was a key date in the FM journey when the majority of the former Corporate Finance business was combined with FM. We did this at speed, completing the integration by the end of the first quarter of 2021. Combining the Corporate Finance origination capability with the distribution capabilities of FM has significant benefits. We are now able to underwrite larger tickets because we know upfront what risk we plan to sell to banks and investors. This creates greater capacity to originate more assets with the increased structuring fees helping drive income growth. As we distribute more to banks and investors, those conversations lead to demand for additional assets, either from our origination clients or from the secondary market. And lastly, distribution de-risks our business, giving us greater insight into market fluctuations.

Global Credit Markets, our name for the combined credit business within FM, has led to a shift from an originate-to-hold to an originate-to-distribute philosophy. This in turn has led to origination volumes rising 15% in 2021 with distributed volumes up 55%. In the first quarter of 2022, we have seen origination volumes grew 11% on the prior year, whereas the market overall has seen a significant reduction in origination activity. Investor demand remains significant, and we need to continue building the machine that onboards the correct clients and supplies them with value-added products. Investor clients demand specific clauses, for example, and we're now taking this into account when originating.

To deliver the full potential upside of the business, we're investing to address the remaining gaps in our platform. Investors are responding positively, and this gives us the confidence that we're on the right track. Our O2D business model is driving returns higher. The business model does, however, introduce the potential for increased revenue volatility within a given quarter as credit market conditions may impact the mark-to-market of assets on the balance sheet. We have had instances over the last 15 months where mark-to-market losses have gone through the income line in 1 quarter and then reversed in following quarters as that's proactively risk manage the credit risk. Getting loan documentation correct at the point of origination and proactively risk managing the book per our O2D strategy, both lead to superior returns relative to the more traditional originate-to-hold strategy.

In 2019, we also highlighted our focus on managing risk-weighted assets. Merging with Corporate Finance has allowed us to accelerate this, exiting low-returning assets in 2021. In the first quarter of this year, FM delivered \$3 billion of the \$6 billion sub-optimal assets exited across CCIB and will continue to contribute to CCIB's \$22 billion 3-year target. We are only adding capital accretive business on a go-forward basis. This is central to CCIB's target of holding RWAs flat over the next 3 years.

FM is also delivering strong income growth with a 7% CAGR over the last three years with around 70% of this income coming from Flow-related business. This is a stable and consistent source of income as volume growth has offset the natural reduction in bid-offer spreads. The investment we've made into broadening our product offering and improving the channels that our clients access has enabled us to deliver a 5% CAGR growth in Flow income over the same period.

The Episodic business line, which includes the bigger ticket trades and mark-to-market movements is around 30% of total income and is more volatile, albeit delivering stronger growth. The Episodic flows are typically event-driven and involve a high degree of packaging across sales, trading and structuring. Our focus on understanding our clients' needs and then scaling these solutions has resulted in higher revenues and stronger returns.

The key message here is that whilst market movements on the number of larger ticket trades may result in volatility in our quarterly numbers, around 70% of our income is stable, reliable and somewhat predictable. We remain focused on our clients and accelerating the growth of both the Flow and Episodic streams of income.

As Simon mentioned in his opening comments, our clients have recognised the great progress we have made over the last couple of years, leading us to increasing our market share. We have grown FM income, excluding Corporate Finance, 300 basis points higher than the industry average since 2018, according to Coalition data. Our market share in the FICC space in Asia has thus increased by 1.4 percentage points to 9.4% at the end of last year.

Given the industry context and what we have delivered over the last three years, we are well on the way to delivering our vision to be a world-class emerging markets franchise in our footprint and the leader in Sustainable Finance products, a key partner for Corporates and Financial Institution (FI) clients as they seek to fund their growth, manage risks and invest in emerging markets and a powerful accelerator for the growth of local markets in our footprint and in bringing global investors to them.

The vision we have set ourselves is being delivered by a number of strategic priorities across clients, products and geographies. Our clients' strategy is aimed at increasing our reach, relevance and wallet share with Local and Network clients. More specifically, within the Financial Institutions segment, we're increasing our share of wallet as developed market clients look to emerging market assets for yield. Our FI income is now 44% of the total FM income, up 5 percentage points since 2018. We have set ourselves a target of increasing this as a key contributor to CCIB's target, which is to grow FI income by 9 percentage points to around 50% of total CCIB income.

Secondly, we are expanding our product suite to meet our clients' needs. Specifically, in the credit space, we are increasing the velocity of our balance sheet and using our capital more efficiently. This has already led to an income return on risk-weighted assets on par with the best in the market in the first quarter of 2022.

Our group-wide focus on sustainability and an equally strong uptick in client demand in this space is seeing us create and deliver more ESG-related products and investments. In Financial Markets, this includes originating greater volumes of sustainable bonds and loans as well as building out the physical and voluntary carbon trading offering. All of this is underpinned by a growing CCIB-wide digital offering, including our FX product, where e-volumes now exceed voice volumes.

Lastly, we are continuing to strengthen our position in our emerging markets footprint by building on our leading edge in China and India. We're sharpening our focus on RMB internationalisation, China onshore and India onshore whilst maintaining our consistently valuable presence across the wider network. I'm confident that in delivering our vision enabled by these strategic priorities, we will drive an improvement to income return on risk-weighted assets in 2024 by 160 basis points to 7.4%, whilst delivering a return on tangible equity in the mid-teens, as highlighted by Simon earlier. The income upside from possible rate

risers is not a critical factor in our targets. The upside from rate movements is captured in the banking book liability products outside of FM.

My colleagues, Geoff Kot and Molly Duffy and I will now spend the next 10 minutes or so talking to 8 specific priorities in more detail across clients, products and geographies, each of which is estimated to deliver between \$200 million to \$500 million of additional income over the medium term. So let me now hand over to Molly, who will talk about our client strategy and related priorities.

<<Molly Duffy – Head, Europe & Americas (Standard Chartered PLC)>>

Thank you, Roberto. Good morning and good afternoon, everyone. As Roberto highlighted earlier, the product cross-sell on our clients that generate more than \$500,000 income has improved from, on average, 3.0 of products sold per client to 3.4 from 2018 to 2021. Wallet sizing, a clear focus on returns, channel improvements, product expansion and a better understanding of our clients' needs and wants has driven the improvement.

The strategic agenda we are taking you through will drive further cross-sell in future years. The channel of how we interact with our Financial Institutions and Corporate clients is now changing and we are embracing the change to make life easier for our clients and drive the cross-sell. And we are executing a number of exciting digital initiatives, which Geoff will cover later.

Our approach is to drive commercialisation across a number of our platforms with the immediate focus on greater client onboarding and adoption, more dynamic pricing and improving our product offering. Within CCIB, the Transaction Banking business and Financial Markets are collaborating to continue the growth of cash management and the FX cross-sell. The latest offering to clients provides a single technology platform to improve the client experience, embedding FM capabilities into our Cash and Trade propositions, enabling our clients to pay and collect in more currencies and manage their liquidity and risk across different currencies.

From a client perspective, our solution supports large or complex deals whilst using data analytics to sharpen our client prospecting. It also supports the increased digitisation of our front-to-back processes across Cash, Trade and FM. Our clients responded to the change with the business growing income by \$50 million in 2021 to \$270 million, with potential for this to nearly double over the next 5 years.

Turning now to our tailored investor franchise. We are clear that our strengths are in Corporates, Banks and Broker-Dealer clients. And we are in a leading position in Macro and Financing compared to peers. However, we are relatively underpenetrated in the Financial Institutions segment, especially in Investors and Insurance clients. FI clients are typically low risk-weighted assets as they tend to collateralise exposures. They don't need our balance sheets as much as Corporates and the majority of our income from FIs is fee-based. All of this means that the returns on our FI business are relatively superior. So naturally, we want to grow the FI business further, as Simon outlined, as part of CCIB's growth strategy.

Our goal is to ensure that FIs are bigger than our Corporates business in the near future. And with income up from FI clients, 21% in the first quarter, we continue to make good progress in delivering this. We have realigned the organisation to enable the product sales team to work even more closely with our strong coverage team. We have also made selective hiring in the Investors segment to drive the connection with FI clients. Client selection, asset selection, packaging, pitch books and distribution form a seamless chain. We have built the chain and are in the process of industrialising it so that we can improve the service and access the open wallet. All of the work we have done is to ensure that the clients receive the products and the services that they demand. FIs also typically transact higher volumes compared to Corporate clients, and they execute most of their trades electronically. Our investment into digital channels has enabled us to service this higher volume while containing the cost.

I'll now hand over to Geoff, who will talk about our product strategy, including the focus on our digital expansion.

<<Geoff Kot – Global Head, FM Electronic Trading & Platforms (Standard Chartered PLC)>>

Thank you, Molly, and good morning, and good afternoon, everyone. As Roberto mentioned, the creation of a Global Credit Markets business has helped us address the opportunity to drive returns higher. We have achieved this through increasing origination and distribution volumes, and improving balance sheet velocity. Roberto has already highlighted the growth in 2021. And in time, origination and distribution volumes will be more evenly matched, whereas in the short term, distribution volume growth will remain higher as we continue to exit sub-optimal returning assets in line with CCIB's strategy on RWAs.

We further accelerated this shift in the first quarter of this year where loan origination increased 11%, with distribution rising 20% against a market backdrop of primary origination falling. The numbers speak for themselves. We are making changes, and it's coming through in both the top line and in the RWA line. There's a strong linkage between our O2D strategy and the FI strategy Molly just talked about. There's huge demand for the emerging market credit we originate with investor clients looking for higher yield. We are changing our deal origination approach and introducing technology to package and provide assets in the formats that our clients want. This is addressing the gap in our current offering to investor clients and is at the heart of our FI agenda.

Very importantly, the new business has led to a cultural shift with the reliance on net interest income and hold reducing, resulting in NII as a percentage of total income reducing and will continue to decline. We intend to continue to grow our origination volume in sync with the improvement in our distribution channels. Together, our FI and O2D strategies are very significant levers to accelerate the drive to higher returns for FM, CCIB and the Group overall.

Now turning to our Security Services business. This was combined with FM in 2020. The business serves mainly Financial Institutions, offering financing, clearing and fund services. Combining security services and FM enhance the synergies with prime services and the FX business. As a reminder, our prime offering is targeted at hedge fund clients who require settlement services. This move also generated synergies across operations and technology, leading to an improved cost-to-income ratio.

Here, we are pursuing an accelerated growth strategy through both organic and inorganic routes. For example, we have just acquired a trustee business in Hong Kong, enabling us to offer mandatory provident fund trustee services in Hong Kong for the first time in our history. The compulsory savings scheme for Hong Kong residents tops HKD 1 trillion. The purchase gave us access to a new set of clients and access to a large marketplace. We're also working on and have acquired significant mandates that will be onboarded over the coming months, a clear sign of how we have successfully enhanced our reputation and built out our capabilities.

In summary, Security Services is a high-returning product focused on servicing footprint clients and we are capturing market share, and we'll now look to add new clients, technology and products. This includes commercialisation of Agency Securities Lending and Digital Custody Services, growth in third-party FX and the addition of exchange-traded derivatives offers further opportunity for upside.

Moving on to ESG, which is a significant opportunity for the Group with a bold agenda. FM has a big part to play in this. Our Capital Markets franchise is currently #1 on the Green Social Sustainability, Asia ex Japan G3 bond league table. FM contributes 2/3rd of the Sustainable Finance income in CCIB today with our focus on originating sustainable bonds and loans. Our clients are rapidly embracing ESG and we're actively bringing new clean tech solutions to these clients as well as incentivising them to add ESG clauses to both loans and derivatives.

We started a carbon trading business in 2021, and we'll start trading voluntary carbon credits soon. And we've recently rolled out an ESG portfolio dashboard in Security Services for clients, which was well received. We will continue to invest in building our Sustainable Finance capabilities, which are a key part of the Group delivering on its net-zero targets and Sustainable Finance commitments and are increasingly important to our clients. At the same time, it aligns with our strategy to do more business with FIs and it generates returns above the Group target.

Lastly, looking at our digital strategy. A great example of the progress we are making in this space was the launch of SC markets in 2021, enhancing our platform capability and our clients' user experience by replacing our S2BX single-dealer platform. This now enables clients under a single log-in access to trade execution, research, post-trade analysis and our online banking platform Straight2Bank.

Clients also have access to a broader suite of execution algorithms in FX as well as a full suite of vanilla and flow exotic products in FX options. Already the majority of our FX volume is done digitally and bond transactions are increasingly coming through digital channels. And then at the end of 2021, we were the #1 foreign bank on the China Bond Connect platform. Our continued investment in digital platforms will not only improve the commercialisation of our products, it is also contributing to improving cross-sell in CCIB. The build-out of our digital platforms is also helping drive our reach to new clients and geographies, which Roberto will now talk to in more detail as he outlines our geographic ambitions.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Thank you, Geoff. Growth in China and India is critical as this is a core strength today and an area of continued opportunity for us. We're a market leader in providing access to China's onshore market. For example, in RMB bonds, access products and FX hedging. We are growing the corridor business across ASEAN and South Asia and across Africa and the Middle East, leveraging both the RMB internationalisation trend and current client demand outside China. In Credit Trading, we're focused on building onshore and offshore trading in investment-grade Corporates, Financial Institutions, state-owned enterprise and CNY high yield. We're capitalising on onshore and offshore stressed, distressed and non-performing loan opportunities and growing structured financing onshore as an asset class. Lastly, subject to regulatory approval, we're setting up a securities company in China to access local clients and exchanges.

Turning to India, product extension is key as INR becomes an international currency. We're focusing on a number of initiatives, including expanding our Indian government bond franchise with features like international central securities depository settlement, 24-hour trading and index inclusion. And we're building on our capabilities in Gift City, allowing our clients to access Indian assets whilst optimising their returns. This demand here is largely from non-domestic FI clients. Whilst China and India are where we have a leading edge, our clients value the breadth of our network.

To that end, we have recently opened a branch in Saudi Arabia and obtained preliminary approval for a banking license in Egypt to provide international clients with access to these markets as well as addressing domestic client needs. We've also been expanding our FICC business in Latin America and Central and Eastern Europe for a few years now, having established a foothold in these markets, and we will continue to refine and improve our offering.

So to wrap it all up, we're well positioned for the structural changes taking place. The opportunity for further growth in Financial Markets is clear, and we're already executing to deliver it. Uncertainties do remain, and we are cognisant of them. China opening is an opportunity, as I just noted. That opportunity comes with the potential for risk and P&L volatility. We saw some of the names in the commercial real estate sector drop 60 points in a single day. Risk management is clearly critical, and we continue to invest in this area.

The opportunity in Sustainable Finance is also clear. Shifts in the regulatory environment and changing client demand will create opportunities as well as temporary income volatility. Structural global allocation to India and China will continue, so risk management and origination capabilities will provide high returning revenue streams for the intermediaries of choice. We're investing in digital, as Geoff noted, our competition is doing the same, and this is lowering the barriers to entry for banks and non-banks. We are highly aware of both the risks and opportunities, and we are confident that we will successfully deliver our vision based on the strategy that we have just taken you through. This will drive an improvement to income return on risk-weighted assets in 2024 by 160 basis points to 7.4%.

Thank you. I'll now hand back to Simon for his closing remarks.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thank you, Roberto. As you can tell by what you've just heard, there is a lot going on. So just to recap, Financial Markets had a record performance in the first quarter of this year. We have the team in place to deliver a clear and simple strategy. We are set up for success given the synergies and opportunities of combining Corporate Finance and Financial Markets. Structural market changes are supportive to our growth aspirations and driving improved returns is at the heart of our CCIB strategy. And as you just heard from Roberto, we've set ourselves a target in Financial Markets to increase income return on risk-weighted assets and consistently deliver double-digit return on tangible equity. To achieve this, we're focusing on Financial Institution clients, driving balance sheet velocity and addressing the opportunities that we've taken you through today.

We look forward to keeping you posted on our progress. Thank you for your time, and I'll now hand back to the operator so the team and I can take your questions.

Q&A session

Operator (Operator Instructions)

Your first question today comes from the line of Alastair Ryan from Bank of America.

<<Alastair William Ryan - Head of European Banks Equity Research, BofA Securities>>

Volatility versus issuance activity, I guess this is a topic, I'm not going to ask anything that isn't obvious, but traditionally, like in the sort of old Standard Chartered years ago, volatility tended to be good. And then for a while, it was bad, but I tended to think of you as a sort of activity-driven franchise rather than a book-driven franchise? Where would we be in that at the moment? And then between more volatility at the moment and less issuance, would that tend to advantage you if that persists? Or would that be, if it's just not enough issuance, there's no opportunities to make money.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Great. Thanks, Alastair. Roberto, probably one for you to kick off.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Sure. Alastair, nice to speak to you. I think that if you look at what's happened, how we're changing the shape of our business, even though in Q1 issuance in the market has fallen, origination for us has increased by 11%. And if you look at what we commented on O2D, it's very much a model where we feel we can expand our market share in origination because we know both how to structure the deals and how to sell them, leading to a much higher velocity on our balance sheet and the ability to do more volume and more deals. So I think that even if volatility makes it challenging for the beta of the market in terms of issuance I think our strategy allows us to increase market share, and therefore, it doesn't particularly hurt us. Back to Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Roberto. Operator, we'll go for another question.

Operator

Your next question comes from the line of Nick Lord from Morgan Stanley.

<<Nicholas Lord - Head of ASEAN Banks Research and Executive Director, Morgan Stanley>>

Just a quick one about market share. You obviously showed that shift in FICC market share. But I'm just trying to understand what the major driver of that is. Is it that the market is just expanding and you're taking a disproportionate number of new customers? Is that market share coming from more product sales to existing customers? Or are you taking customer key relationships from elsewhere? I'm just trying to understand the drivers of that market share change?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

So thanks, Nick.. Roberto, maybe you kick off, it'd be really interesting to get Molly's input as well.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Yes, absolutely. Thanks for the question. I think if you look at the build-out of our Rates business across various geographies, our commodities business, our cross-sell index that we referred to in the presentation has gone up. It's two things. It's going deeper with existing clients in terms of getting more of their wallet share. And as you know, the more relevant you are to a client, the wallet share increases exponentially. And two, the deliberate increase in FI, which allows us to have a broader distribution of our credit assets and originated assets to FIs, makes you more relevant to FIs so you end up naturally competing more in the other products and the Macro products and their Flow businesses. And Molly, maybe can add some color on FI and the client business in general.

<<Molly Duffy – Head, Europe & Americas (Standard Chartered PLC)>>

I think one thing to note, Nick, is that our FM cross-sell improved from 3.0 in 2018 to 3.4 in 2021. So a significant improvement there against that client base. The other bit on the Financial Institution clients is they're representing currently 44% of our FM income versus 56% from Corporates. We're expecting that to accelerate into double-digit growth in FI, taking that percentage much closer to 50% from 44% from the FI clients. And what we deliver to FI clients is they want access to both developing and emerging markets via our network, and also, as was mentioned before, on the O2D piece, really, they enable us to expand our originate to distribute, resulting in higher balance sheet [velocity] and greater returns as well, which this client base is also seeking. So a really consistent strategy here and looking at expanding that FI client segment. Thank you, back to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Molly. I'll pass it straight back to the operator.

Operator

Your next question comes from the line of Tom Rayner from Numis.

<<Thomas Andrew John Rayner – Analyst, Numis Securities Limited >>

I think if my math is right, FM is accounting for about 51% of CCIB's RWAs as of Q1. I just wondered if you could give us an indication of what you think that percentage will be by 2024 and it obviously comes in line with your overall financial targets?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Tom. Yes. I think it's fair to assume that overall, that sort of rough 50-50 mix will continue. It's also going to continue in terms of our optimisation as well. So of the \$6 billion that we optimised in the first quarter, half of that came from Financial Markets. So I think if you think of roughly 50%, you're not going to go far wrong.

Operator

Your next question comes from Aman Rakkar from Barclays.

<<Amandeep Singh Rakkar - European Banks Analyst, Barclays Bank PLC>>

Two, if I may. One, on interest rates. What impact would 100 basis points increase in U.S. dollar and U.S. dollar-linked rates have on the FM business? And if you could help us kind of understand that bridge to the higher RoRWA target that you're looking at, how much of that is coming from net interest income as opposed to fee income would be really helpful. And the second was just if you were willing or able to give us a trading update on Q2, what are you seeing in FM relative to a pretty decent Q1?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Aman. So maybe you start with rates and I'll pick up the trading update.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Okay, sure. So for FM, it's quite negligible as the banking book liabilities are outside of FM. So as a direct passthrough, it's negligible. The interesting thing is how do we get there. And to the extent that there's interesting and tradable volatility as a result of that rate increase then obviously, that's an opportunity for our clients, and an opportunity for us, particularly in our Flow business where we see volumes go up in

those times, and that more than makes up for any cyclical trend in bid-offer spreads tightening. So Simon, maybe you want to address the trading update.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks. Yes, look, we obviously had a fantastic Q1. We're still seeing in April and May trading year-on-year improvement, but we're not going to get a repeat of that Q1 number. So I think we'll continue to see strong trading in Macro, but offset a little bit by a slowdown in Capital Markets and in Credit Trading. So that's probably enough guidance for now. Back to you operator.

Operator

Your next question comes from the line of Martin Leitgeb from Goldman Sachs.

<<Martin Leitgeb – Analyst, Goldman Sachs Group>>

Could we just follow up on the question just earlier in terms of the impact of a higher rate environment of your Financial Markets franchise, is it right to conclude that if rates would be materially higher compared to where they were, say, last year that this could result in higher volatility and to a high opportunity set for Financial Markets' revenues? And secondly, I was just wondering if you could comment on the competitive landscape in Financial Markets in Asia. You point out share gains in FICC in Asia over the last 3 years. Should we expect this to continue? And how do you see competitors reacting to the opportunities there?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Martin. So Roberto, to you again.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Yes. As we said, the liability balance we have in FM is so small that the rate rises don't affect the core of the business. But as you asked, the volatility, depending on how it manifests itself, it definitely is an opportunity. It's not something we shy away from. Then you need to see what are the flows, does it mean that investors retreat to DM [Developed Markets] or not, what's going on in globalisation in general. But at the same time, that could be a con, but the pro on the other side is Corporates need to keep hedging further out and we're a provider of choice for that. So on the whole, I would say that increased tradable volatility from higher rates is something we welcome.

In terms of your second question, I think it's a high barrier to entry, the FICC business in Asia, and maybe I'll hand over quickly to Geoff to talk about what's going on in electronic market share in Asia specifically. But before we do that, it is a high barrier to entry. So what we've done in the last few years in cementing our presence and being an intermediary of choice within the FICC Asia space. This gives me confidence that we can keep growing that market share. And hopefully, if the overall wallet is also increasing and our share of it is going up, that gives us a fair wind to reach our return targets. Geoff?

<<Geoff Kot – Global Head, FM Electronic Trading & Platforms (Standard Chartered PLC)>>

Yes. Thanks, Roberto. So you're absolutely right. I mean the barriers to entry in Asia are quite high. There are a lot of restricted markets in Asia and having an onshore presence definitely does benefit the FM business. Molly mentioned in the presentation, for example, some of the growth that we've seen as a function of the cross-sell in FX with our TB business. And that is an example of where our network strength really comes into play. Roberto also mentioned in his piece on geographies about China and India, where we already hold a strong market position. And we firmly believe that as the regulatory environment in those markets start to liberalise more, we are well positioned to capture that increase in market beta. So we're absolutely looking to increase our wallet share in some of our key footprint markets which we truly believe will provide a very strong tailwind for the macro business going forward. Back to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Geoff. Operator, next question please.

Operator

Your next question comes from the line of Edward Firth from KBW.

<<Edward Hugo Anson Firth – Analyst, Keefe, Bruyette & Woods Limited>>

I just wondered if you could help me a bit about what has changed in the last sort of, I guess, 6 months or so? Because I guess in the years I've followed Standard Chartered, you've always been talking about optimisation of risk-weighted assets. But we saw a sort of marked shift in the first part of this year and a marked shift in terms of the outlook. And I'm just trying to think why suddenly now, what has been the the delta in terms of your thinking or in terms of how you look at the business that has meant that suddenly we've seen this flat risk-weighted asset outlook and signs of real delivery, which perhaps has been absent for the last sort of four or five years?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Yes, thanks. Great question. Well, I think the first point to make is this isn't new. Actually, if you look back over the last three years, we've taken out about \$14 billion of sub-optimal RWA. I think what we've done in terms of setting up the originate-to-distribute model by combining Corporate Finance and Financial Markets, that's enabled us to have the tool to accelerate it, but it's not new. This is something we've been working on. And yes, we're accelerating now. Thanks, operator. Next question? Sorry, I think we better get back to Ed, I cut him off.

<<Edward Hugo Anson Firth – Analyst, Keefe, Bruyette & Woods Limited>>

I would just think a flat RWA outlook, with the sort of revenue performance and profitability performance you're talking about is quite startling and you haven't really been able to deliver that in the past. And it just seems to me that, I don't know, greater focus on it or greater delivery, I wondered if you were sort of pulling out of whole businesses or something? Because it does feel like this, I mean don't you feel as a management team that you're making more progress than you have done in the past? Or is that just a slight misunderstanding on my part?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Look, I think what we do feel is a degree of confidence, if you think about the strategy over the last few years, it's really been a strategy that has evolved. 2016 and 2017 was all about de-risking. As we moved forward we focused on returns. We put XVA into Financial Markets. We built discipline around our coverage model and we put Global Banking and Commercial Banking coverage model together a couple of years ago. Now we've put together the Financial Markets business and the Corporate Finance business. So we've now got that confidence to really accelerate the growth that we've seen and hopefully you're seeing from all of us that level of confidence. So yes, I think we are seeing confidence that it's been about an evolution to build a sustainable, disciplined, forward-looking business. Thanks, Ed. Operator, the next question, please.

Operator

Your next question comes from the line of Alastair Ryan from Bank of America.

<<Alastair William Ryan - Head of European Banks Equity Research, BofA Securities>>

I've got a second go. This is probably one for Simon, this is a Financial Markets presentation, but looking at the rest of your business as well, how much do you need Trade to be growing to grow Financial Markets? I guess, way back when Trade was a sort of driver of the client opportunity in the first place or the beginning of the relationship, which you could then expand, but you built Financial Markets pretty rapidly. Is it now relatively self-sustained that if Trade volumes slow you can still meet your targets in FM or actually trade would be very helpful to these targets where you've got, so looking at the wholesale business, a step up, how much is Financial Markets now driving itself and how much of that is helped by other activity in the bank?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Alastair. So let me kick off. And I'd be interested in asking Geoff to talk a little bit about TBFX as well because I think there is an adjacency there. I think our Trade business is growing, and clearly, that is supportive of our Financial Markets business. But when you look to those 8 key growth priorities that you've just heard about, we don't just need Trade. We've got enough confidence in terms of those

diversified initiatives to feel confident in FM delivering the business. I think where we are seeing some really exciting growth is in linking Financial Markets and Trade in terms of Foreign Exchange. And Geoff, maybe worth picking that up?

<<Geoff Kot – Global Head, FM Electronic Trading & Platforms (Standard Chartered PLC)>>

Yes. Thanks, Simon. So thanks for the question, Alastair. As we highlighted in the presentation, the FX cross-sell revenues with TB grew last year from \$220 million to \$270 million, and we're on track this year to grow strongly again. The vast majority of that revenue really comes on the back of cash payments rather than the Trade book. We are very excited about the growth opportunity in Trade, and we're working very closely with our partners in the Trade business to ensure that we monetise that cross-sell appropriately. And as Molly mentioned, yes, we do expect that we can try and grow the TBFX revenues by an additional \$200-plus million. So I would say today that the growth of Trade is factored into our FM growth plans. But overall, today, it forms quite a small percentage. Back to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Geoff. Operator, next questions, I think please.

Operator

I will now hand over to Adnan for any written questions.

<<Adnan Akhtar – Investor Relations (Standard Chartered PLC)>>

There are 3 webcast questions. The first one is from Robin Down of HSBC. If you hit the 7.4% RoRWA target by 2024, and assuming RWAs remained flat on current levels, then it would imply close to USD 6 billion of revenue in 2024, some USD 0.5 billion ahead of consensus. Is that a view you share?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

So I think I'll come back to what we've said in terms of our forward-looking guidance. I think when we stood up in February, we were very clear about what our aspirations were. I think FM is an important contributor to that. CCIB itself is an important contributor, Roberto, from an FM perspective, do you want to add specifically?

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Yes. So thanks, Simon. From an FM perspective, you're right. I can't do the math precisely in my head, but yes, hitting that income return on RWA target with flat RWAs gets you income numbers where we're really focused on growing returns. So by hitting the income return on RWA targets, and getting to a mid-teens return on equity, income will follow as part of that. I think the efficiency of the business and the returns on the balance sheet is what we've been focused on since the merger with CF, turning that business around on the O2D strategy, and that will help CCIB with its overall return targets in the medium term, quite dramatically, I hope. Back to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Yes, thanks, Roberto. Operator, next question, please.

<<Adnan Akhtar – Investor Relations (Standard Chartered PLC)>>

Okay, the second webcast question is from Raul Sinha of JPMorgan. The RoTE on your FM business was much higher than Corporate Finance as before you merged the two together with FM ex Corporate Finance at 18% in 2020. It sounds like most of the RWA measures are focused on the Corporate Finance business. Could you give us a sense of how capital consumptive this business is and how quickly it can be repositioned in terms of balance sheet duration?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

All, right, thanks for the question. Roberto, do you want to pick it up?

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Yes. So I think it's correct. And as we have indicated in Q1 out of CCIB's, \$6 billion RWA reduction, FM did \$3 billion. So it is mainly in there and the job is to increase the efficiency of that balance sheet. We also work very closely with our colleagues in Credit Portfolio Management on derivative exposures, which are in the Macro books and the XVA book. So we're constantly looking at optimising RWAs across all of FM with this big acceleration in the Corporate Finance books to change from originate-to-hold to originate-to-distribute strategy. All of that plays into this increase in income on return on RWAs. And as per the previous question, we've got a 7% CAGR in income growth, and as we've guided with Andy as well, we think we can accelerate [income growth] beyond that in the next few years. Thanks, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thank you.

<<Adnan Akhtar – Investor Relations (Standard Chartered PLC)>>

Okay, the final webcast question is from Manus Costello of Autonomous. What is your strategy with regards to offering crypto trading? And more broadly, to what extent do you see DLT changing the underlying opportunities for the FM business?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Great. Thanks, Manus. And Geoff, that's your hobby horse. So let's pass to you.

<<Geoff Kot – Global Head, FM Electronic Trading & Platforms (Standard Chartered PLC)>>

Great. Thanks for the question, Manus. So look, we recently published a statement of approach publicly, from the bank. We firmly believe that blockchain technology really does have the potential to disrupt significant parts of the banking industry. Most of what we've seen so far in digital asset space has been more geared towards the retail space. But from an institutional and wholesale perspective, we are very much getting ready to embrace the technology and hopefully embrace the disruption that comes with it. But first and foremost, really, we will be led by what our clients want. And increasingly, what we see from the conversations we're having with our institutional clients and as well as our regulators is that if I take CBDCs, for example, we have to build the infrastructure to be able to handle that.

For a lot of our institutional clients, they're very interested in not only crypto, but probably more importantly, tokenisation and the benefits that blockchain technology can bring in terms of operational efficiency. I think it's also probably important to mention also our partners in SC Ventures here as well. They have publicly announced two very important ventures in digital assets, Zodia Custody and Zodia Markets. And from a CCIB perspective, it's been tremendously helpful to have partners like that in SC Ventures really exposing us to these new ideas, exposing us to new conversations with participants that perhaps historically, we might not have had the opportunity to have a discussion with. So we are investing in blockchain technology and blockchain technology capabilities. And I'm sure you'll hear more about that in the future. Back to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Geoff. Operator, we probably have got time for 1 or 2 more questions, if there are any.

Operator

We have 2 more questions. Your next question comes from the line of Omar Keenan from Crédit Suisse.

<<Omar Keenan - Research Analyst, Crédit Suisse AG >>

I've just got two questions, please. So the first one is on product cross-sell on the improvement from 3.0 to 3.4. I was just wondering where your assessment is of where that level is versus the best-in-class industry? And when you're thinking about improving that further, where do you think the key gaps are, obviously, you think FX cross-sell is pretty important. What are other key levers do you think you can point to? And secondly, when you look at your business, how do you assess the operating leverage that's in the business when we think about variable compensation costs and other marginal costs? What do you think the operating leverage looks like?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Omar. I might ask Molly to add her thoughts in terms of how the clients are viewing us and where the opportunity to cross-sell, I think, particularly into our network are coming from. Because there aren't really clear industry benchmarks, but that's a client behavior is perhaps something that we could dwell on Molly.

<<Molly Duffy – Head, Europe & Americas (Standard Chartered PLC)>>

So without any clear industry benchmark and also what we've seen is that we're increasing each year our penetration with our clients. So partially, what we've seen is we've gone into new products both on rates and commodities and also expanding our offering across some of our FX currencies as well. With regard to the network, so we're operating, as many of you know, in Asia, Africa and the Middle East, many of our clients are looking to us to bring those businesses to them. And so what we're finding is that there's cross-sell between those regions. One of the things that you'll see also is that 1/3rd of the income is in E&A [Europe & Americas], where we have no local presence, for example. Really what that is explaining, I believe, is that you're seeing our clients coming to us really for access to the network and to fit their needs there. So it's really across both from a new product point of view and also delivering what is for us a very unique selling point, which is access to these restricted markets in the countries in which we operate. Back over to you, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Molly. Roberto, do you want to pick up the operating leverage of the business?

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

So bringing it back again to the cross-sell, we have a very good idea of what the operating leverage for each extra 0.1 of an improvement in the cross-sell index is to our top line and to returns. And so I feel right now that the shape of the business and the people in the business and the focus by Geoff and his team on digitalisation means that the marginal dollar of income is well geared for PBT and for the shareholder. So I have no issues in terms of our cost trajectory. Obviously, we have to keep investing in the business. The shift in the O2D model gives you space to invest and maintain operating leverage for our shareholders. So that's not a concern at all in terms of the shape of the FM business and the economics of it right now at all. Thank you. Simon

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Roberto. Operator, I think, we're signaling we got time for one last question.

Operator

I will hand back to Adnan as there are no further audio questions.

<<Adnan Akhtar – Investor Relations (Standard Chartered PLC)>>

There is one final question from the webcast. The question is from Andrew Coombs of Citi. Your market share in FICC used to be 13% in 2013 before it troughed 8% in 2018, and it's now recovered to 9.4%. Could you ever get back to 13% without re-entering commodities and increasing structured notes business again?

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thanks, Andrew. Roberto?

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Thanks, Simon. Unfortunately, I was not in SCB in 2013. So that statistic is new to me. I think we can increase market share. We don't want to have a target of that number. It doesn't make sense to have targets. What we'd really focus on is our journey on improving returns dramatically for FM, CCIB and the Group. If that is done with an increase in market share, which we think is available for us, so be it. We link the term very much with wallet share. And I suspect that in 2013, the correlation between market share and income and returns was not the one that we're pursuing now very aggressively. So we look at market share as a tool to deliver an outcome of increased returns but we're guided by the outcome, not the tool itself. Thanks, Simon.

<<Simon Cooper – Chief Executive, CCIB (Standard Chartered PLC)>>

Thank you. I know we're on the top of the hour. So thank you, everybody, for listening and for some excellent questions. Obviously, the IR team are available to field further questions if you have them. But I hope we've left you with an impression that we are confident in our ability to deliver this business. Thank you all very much.

<<Roberto Hoornweg – Group Head, Financial Markets (Standard Chartered PLC)>>

Thank you very much.