

Morgan Stanley European Financials Conferences 2024

In-depth conversation 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, everybody. Thank you for attending this set. Very happy today to be joined by Bill Winters, CEO of Standard Chartered. Thank you very much.

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

Nice to be here. Thank you.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

And thank you for joining us.

We're going to start off with a quick polling question, as is traditional. So, the question is, "What is the biggest risk to Standard Chartered achieving its 2026 12% ROTE target?" Is it, (1), the impacts of lower rates on NIM? Is it, (2), delivery on Wealth and Financial Markets revenues, especially on the non-interest income side? Is it, (3), an overshoot on expenses? Or is it, (4), lower loan volumes?

Delivery on non-interest income targets.

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

Good.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

I think that's as expected.

So, thanks very much for joining us, Bill. And I'm going to start off just by asking you about today's, or this morning's, announcement. It's a bit of a restructuring announcement. So, I'm just wondering if you could talk about, from your point of view, what was the logic behind that, how does it fit into the overall strategy.

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

I promise that we didn't time our announcement for the Morgan Stanley conference. It's been something we've been working on and thinking about for some time. And it went back to the questions that we asked ourselves over the past year or so around what are the things that are holding us back in terms of accelerating our growth. We feel that we're fundamentally in growth markets. We've delivered good growth. We've delivered good improvements in operating performance. But we're nowhere near what we would consider to be our potential or what we should be delivering in these markets.

A lot of what we hear internally – and this is all internal stuff, I will confess – is it's just a little bit too hard to get things done inside Standard Chartered Bank. This is not unique to Standard Chartered Bank. I can tell you in 25 years I heard the same thing at J. P. Morgan. But it means a little bit more in Standard Chartered. It actually is too difficult to get some things done.

And we broke that down into three sources of friction that slow us down. One is the, call it, front office/back-office divide. Do business managers really feel like they can control their own infrastructure? I'd say we've made huge progress on that, but we're not fully done. And we launched this Fit for Growth

program transformation with that fundamental: let's get the front-to-back business process completely ironed out at this point in time.

Second is the first line/second line, or risk and compliance business. We're in a heavily regulated industry. In our distant past, we had – and I say "distant," because we are now talking a decade ago – we had risk and compliance issues. I think we've very substantially addressed those. But are we completely aligned in terms of being able to drive the kind of growth that we want to in our markets? There's always more that we could do. That was the second one.

Neither of those are directly addressed through this reorganisation. Most of that is addressed through the Fit for Growth program that we announced at the time that we announced our full-year earnings.

The third point of friction is country versus business. So, we have had a full-fledged matrix with regional heads and business heads. At the top level, they worked excellently together. As you got down into the organisation, people got parochial. Again, you can't magic away a matrix. We will always have a matrix. Many of you work in organisations that have matrices. I always did. But we can make it less frictional.

What I said to the team is we are going to set things up so that the people who are running the lines of business are also responsible for the countries, and we're not going to be organized with a big regional infrastructure. But the countries are going to be run by the people who are also running the businesses. And your business heads that's now Sunil, Roberto, running the CCIB business jointly and Judy the retail business, CPBB, you guys are responsible for understanding what goes on in the countries, understanding what the nuances are so that you'll adapt your business strategy to our local strategy. And you, the country heads, are going to have to be part of the business management teams, and you'll influence the allocation of resources, the strategic priorities. You'll all be one team. You'll have one set of objectives, one set of resources. Go for it, and generate growth.

Maybe you haven't seen what we said. Simon Cooper, who had been running our corporate bank, is leaving. He'll be replaced by two people: Roberto Hoornweg, who has run Financial Markets, and Sunil Kaushal, who's a long-time Standard Chartered professional who's been in many different roles, currently running the Africa & Middle East region. They'll co-run CCIB. Judy Hsu will continue to run CPBB, which is retail. They will be in Dubai, Singapore, and Hong Kong, respectively. Ben Hung, who has been our head of Asia, will become President of International. He has been my key partner since I joined the bank. He'll continue to be my key partner. And he'll make sure that we keep the balance right between the focus on business and the focus on the different countries, in addition to having a more substantial external profile.

So, that's the change. And we did some other stuff which is less directly impactful, but very important internally, which we could talk about. But I think you probably want to move on.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Perfect. Thank you. Maybe we can start off by talking about net interest income and the rate cycle. So, I'd just be interested in your view on where we are in the rate cycle. I mean, obviously, at the top, but how quickly we go down and how far we go down. What are you doing to protect the bank as rates fall? And how confident are you on your ability to grow top line as rates fall?

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

My view, our view on interest rates isn't fundamentally guiding the way that we structure the bank. I'll say we've had the view for some time that we'll be higher for longer. I think that, obviously, the market has reacted that way. But we clearly seem to be getting to the end of that higher-for-longer period. Inflation does seem to be coming under control. And short of some exogenous shock, we would expect rates to start falling in the second half of the year.

We introduced structural hedging late at Standard Chartered. We put our initial structural hedges on a few years back. We topped that up with short-term hedges around the Ukraine war, which, with the benefit of hindsight, were perfectly badly timed, but have now rolled off entirely. So, we're able to layer back in

structural hedges, which we have been doing and will continue to do as we approach the, I think, inevitable decrease in rates.

So, we'll have some buffer from our structural hedges. We've been totally transparent about those and will continue to be. So, you can all see the assessment there.

But we'll still clearly be sensitive to lower rates. As a bank, we're roughly 50% NII, 50% Non NII. And as rates fall, we would expect that percentage to change as we have higher growth in the Non NII. I see that's the area of biggest skepticism, which is fair enough. And we no doubt will have a chance to talk about both Wealth Management and FM, the two businesses that you called out in your question. But we're very confident that we can grow at the top end of our growth range for the group in FM and Wealth Management, or above the top end, and we would expect NII to grow, but obviously less strongly.

There's skepticism as well about, although apparently less so from your poll, whether we can grow NII, and we can decompose that into a few pieces. One is the short-term hedges that we had put on rolled off finally in the early part of this year, and that's a drag removed. So, we have a tailwind into 2025. That's simply mathematical.

From there, obviously, we'll have some benefit from structural hedge as rates decrease. But the only way for us to keep NII from dropping is to grow assets or to change the mix of assets into a higher-yielding pool. There is skepticism, again not reflected so much in the poll, that we can do that because we have not grown assets recently.

But we need to unpack that, because it's a much more interesting story that our asset growth has been zero-ish, plus or minus a couple of percent. And the story is threefold. One is we've very aggressively optimised, it's the polite term – but optimised, in some cases, means cut – lower-returning assets in our corporate bank: a total of over \$60 billion in the last five years, \$24 billion in the last two, against this \$22 billion in guidance that we gave over three years, just two years ago.

So, we've been very, very active in reducing low-returning RWAs, which obviously has the impact of reducing assets. It also has the impact of reducing NII. We do it because it increases our return on tangible equity and increases our ability to return capital to shareholders at what is an attractive price to be buying back stock.

We're never done with the optimisation, but we've gotten our return on risk-weighted assets from below 2% to well above 7%, and that optimisation imperative is going to be less acute. But rather, we can let the underlying organic growth, which has been there throughout but has been swamped by the optimisation efforts, will allow the growth to come through.

And we've also, I'd say, shifted the direction of travel in the bank to say, "Your job is not just to optimise the portfolio. Your job is to find attractive assets and put them on the books and run with them." It will take some time to fully flesh that out, but we entered into a whole slew of new origination activities on the consumer side over the past three or four years. Those kicked in last year noticeably for the first time. That will accelerate. We're being very cautious about how we roll that out. We don't want to overbake unsecured consumer credit. But that should be a steady source of some growth for us.

As we sit here today, we're slightly underweight China commercial real estate, although we've marked it down almost completely. Relative to other banks, we're underweight. Relative to where we should have been, we're overweight, and that's a big screw-up. We should not have been in that position. But we've taken our medicine and we have moved on. It's the only meaningful source of credit loss that we've had in the last five years. But no excuses for that one.

Otherwise, though, in the other hot spots – so, commercial real estate in the rest of the world, leveraged finance – we're way underweight. And we're way underweight in part because of our natural footprint, in part because we have not been in the asset-accumulating business, just trying to buy beta in a market

that looked like it might generate returns. And so, we're underweight. We've not taken any material losses, and we don't think that we will.

Will there be opportunities for us to expand our client franchise in a way that we can offer a suite of services where assets are a part of that? Yes, there is. And we have the latitude to do that at a time when many other banks don't. And we're taking advantage of that; in some cases off our own bat, in some cases in partnership with third parties, as we have on the retail side. We're very excited by the prospects so far. We're beginning to see some decent asset flows coming off those partnerships. We think they're very well positioned from a risk versus return trade-off perspective. And we'll continue to find new ways.

The whole green space has been a tremendous source of business for us: \$720 million of income last year, guiding to \$1 billion next year as a commitment we've made to ourselves, with very little underlying asset growth, because there's so much demand for these assets from institutional asset managers that we can just flow them through. Are there structures where we could actually accumulate some interesting assets ourselves? Yes, we think there are.

So, this is why we think we can get asset growth, some of it higher yielding, to have the composition and mix offset what we expect to be the interest rate headwinds and grow NII. Sorry, long answer to a short question.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Well, just following on from that, obviously, last year wasn't a great year either for mortgage asset growth in Asia. Are you seeing signs of that picking up? Or what do you think needs to happen for that to pick up?

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

The other thing I left out of the diagnostic is that our mortgage market share in Hong Kong in particular has, through our own actions, reduced substantially. So, we've had negative growth in the Hong Kong mortgage market, which I can tell you we've had a substantial share in Hong Kong mortgages for a long time. We continue to have a very strong and relevant presence. The assets are unattractive for us to hold. And as a result, since we're optimizing our returns, we've been very happy to really only service clients where the mortgage is part of a broader client relationship. We're not originating mortgages for the sake of mortgages. Obviously, that, given the size of that market and the size of those assets on our balance sheet, has the effect of reducing loan growth, but also reducing NII.

Again, it's absolutely return-optimising. And I think if there's one message that we've gotten very clearly from our shareholders is that you'd like to see our return on tangible equity go up. I would say we fully embrace that. Now, the question is, is that going to turn around in a lower rate environment? And the answer is probably it will. Is it going to be a sea change overnight? No.

I think there's a number of things that are suppressing the returns available on Hong Kong mortgages. One is a lack of demand, which has something to do with interest rates, and it also has something to do with the fact that house prices have decompressed; not enormously, but they definitely have. And there's some anxiety in the market around housing prices, not material; certainly, nothing close to what would give us credit concerns. With lower rates and with the Hong Kong economy that is actually kicking back in, not in a super exciting way, but it's growing, and there's a bit of a wealth effect that could come through as equity markets normalise a bit.

So, I think there's a future in Hong Kong mortgages, for sure, but it's probably not going to be the thing that drives our asset growth.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. And on Asia corporate, generally?

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

Trade is picking back up, which is encouraging. So, we had really stagnant trade flows for a while, very low growth. Part of that was us. I think we needed to adjust our own mechanisms, including our own internal transfer pricing. Part of that was the market, mostly the market.

So, I think trade will continue to grow. The green investments are growing extremely nicely. Infrastructure is growing very nicely. We've had some good asset growth around Chinese investments into ASEAN. So, the whole China Plus One, which, as you know, the most active capital flows around China Plus One are Chinese companies who are investing mostly in ASEAN, but South Asia to some extent, Africa to a lesser extent, Middle East to an even lesser extent. And that's our sweet spot. When Chinese companies invest in Indonesia to build out their EV supply chain, they're highly likely to involve us, because we're dealing with them on both sides and we can handle the FX and we're onshore and offshore in both markets, all that.

So, I think we'll see some reasonable asset growth coming in Asia, as we have seen. But as I said, it was offset by the optimisation efforts – well, more than offset. I think the growth itself will become a little bit more apparent.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. Perfect. Obviously, the question in the polling said that non-interest income was a key point. And I think I'll quote you from the results meeting, which was the start of the year being "somewhere between pretty good and awesome." So, now we're further into the quarter, through Chinese New Year, are we still between pretty good and awesome?

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

It's a pretty wide channel, I can tell you. By design, it was a pretty wide channel. We saw good momentum at the end of last year in Wealth. We saw steady momentum over the last year in new client numbers and net new money and, implicitly, AUM, but most of the money was parked in deposits. Towards the end of the year, we saw that money being activated, and that has continued up to and including today. So, that's a good trend back to what we would consider to be normal in terms of year-on-year growth.

With Financial Markets (FM), if you've spent a little bit of time with our numbers, you've seen that a few years back we started separating our FM results, the client numbers, into flow versus episodic: flow being about 70%, on average, and not very volatile and growing at a nice steady growth rate in line with our overall group growth targets; and the episodic being very volatile, between zero and 50% of the total income.

2022 was a good episodic year. I hate to say that, because the thing that made it good was all the disaster around the war in Ukraine. 2023 was a less good episodic year, which meant that our overall results were flat, slightly down, year on year in FM.

And as we come into 2024, we've got ongoing good growth in the flow business, and it's a moderately attractive trading environment, as it were. Deals are happening, and events are happening in markets that are advantageous.

So, I can't narrow the range between pretty good and awesome, other than to say that the things that caused me to strike that range in the first place have not changed.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. Thank you. If we just talk a little bit about some of those longer-term growth rates, and not dealing with near term, can we just talk through some of the drivers? And let's start off maybe talking a little bit about the Wealth Management side. Can you talk a little bit about how you see competition, your competition in that space at the moment? Are we going to see Wealth Management fees as a percentage of AUM begin to return to pre-COVID levels? What are going to be the main drivers about the Wealth business?

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

Obviously, there's a few dynamics. On the tailwind side, there's been a steady flow of money that has moved internationally, mainland China into the rest of the region, for sure; Hong Kong and Singapore both benefiting from that. I'd say the rest of the flows have been as individual savers – and I'm talking more mass affluent here than ultra-high net worth – as mass affluent accumulate savings, they're aggregating into wealth hubs, rather than limiting all of their exposure to local markets. So, Indonesians, for example, for years, of course, there was a tax arbitrage for Indonesians to keep their money offshore. Post the tax amnesty in Indonesia five years back, there's no real tax arbitrage, and of course if it's dirty money, it was never going to touch our bank in the first place. So, that's not what's driving the movement.

What's driving the movement is you've got centers of excellence in Singapore, Hong Kong, Dubai that are definitely accumulating wealth. They accumulate talent. They accumulate wealth. They're nice places to visit for people who want to move around, et cetera. So, that wealth demographic, the underlying wealth demographic, it's good itself. The migration of capital suits us very well because we've got strong positions in the big wealth centers.

The headwinds have been, obviously, China and the equity market, which has spilled over to others in the region – most notably, Hong Kong – which has been a big incentive for Chinese savers and investors to keep their money on the sidelines, either because of the wealth effect or because they had just lost confidence in the market.

COVID, obviously, was a big impediment to money movements as well.

So, over 2022 and 2023, we had great client growth numbers. We had good AUM numbers. As I said, it was going into deposits.

Market confidence is coming back. You guys know that I ran an investment bank until I came to Standard Chartered. I watched retail businesses a lot, didn't know much about it. Nine years in, watching this business very carefully, I'd say I know something about retail. I'm not a retail guy, but I know something about it.

And we've had three major wealth compressions in my time in the bank. The first one was right when I arrived. China devalued the RMB. All of our clients had RMB carry trades on, which they got carried out on. And wealth income dropped by 40% on the back of that wealth effect. And it takes six months before clients reengage and 18 months before they're fully reengaged.

I would say the clients in this cycle reengaged in the second half of last year. And I think it'll be another year before they fully reengage. What's that mean? That means we'll go back on the path that we had been on, which is going from deposits to time deposits to bank insurance with low-risk underlyings to government bonds or other fixed income funds to slightly riskier credit funds to equity funds and back into trading of equities and FX. And then, what was just beginning before the music stopped last time, which was a move into alternatives, starting with private credit and then moving into private equity and other structured products.

We have not seen any material pickup in the illiquid reengagement as yet, but I'm pretty sure it will come. And one of the largest wealth managers in Asia, the only one that's open architecture, we have a very good relationship with the big manufacturers. They like the fact that we don't compete with them on any of the product that they're creating. And they like the fact that we've got a supermarket with heavy curation approach to distribution. So, a lot of the private credit, private equity, and other large asset managers will co-create product that obviously is just a slight variation on their existing product, but suited to our customer base.

We're seeing now the beginning of some real appetite to reintroduce illiquids, but in a liquid form that isn't something like BREIT, which set the market back a lot as a sensibly liquid product that became illiquid when Blackstone had to gate that fund. They've now cleared the entire backlog of gated product, and the performance of the assets has been okay, given what the underlying is.

So, I can see that moving back over the next 12 months into full engagement. The medium to long term I think will be very, very interesting in Asia for illiquids, but it is a big cultural shift for the investor in Asia to have a meaningful part of their portfolio in illiquid product, and that obviously is the highest margin product for us, as it is for the asset managers.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. in terms of the Financial Markets business, there's many elements to that business. But again, what do you see as being the key driver of that non-interest income growth over the next year or two?

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

I think we'll help you guys out a bit by over the course of this year and into next year breaking out the Financial Markets business. It's quite a large agglomeration right now. It's everything from capital markets to everything that we do in financing, syndicated financing and others, together with all the conventional FICC-type businesses. So, there's many strands to that FM growth.

I'd say we've done a pretty good, but not yet complete, job of capturing the internal flows and really positioning ourselves for excellent customer service. So, we have a very large cash management business. We have a large trade finance business. We have a large custody business. We have definitely invested in systems to make it easier for customers to execute their transactions in a one-stop shop. It's not complete. So, we can continue to generate growth there.

We capture a meaningful proportion of our retail customer flow to our own FX desk. We're very, what's the word, pure about making sure that we always focus on best execution anywhere where we've got a quasi-fiduciary role, which we treat retail that way. So, there's no obligation to deal in-house. What we want to do is make it easy and efficient for clients that prefer to execute that way.

So, we have more to go there.

Second is, while we've got a pretty good market share in cash and trade with Asian-domiciled corporations, MNCs, we still have a relatively low market share with Americas and European customers. It's our fastest growing region. European and American customers are a little bit more than one-third of the origination of our corporate bank.

And this is because whether you're a West Coast tech company or a German engineering company, you're expanding internationally and you're probably expanding disproportionately into the markets that we call home. And where we had, I would say, approximately zero market share in U.S. tech into the rest of the world ten years ago, we've now got a meaningful share of our income coming from that client segment. It's still a small wallet share, because the Citibank's and the J. P. Morgan's and the Deutsche Bank's or the HSBC's were very well embedded before we ever got around to this.

We can lament the fact that we've got a relatively low market share with American corporations. I don't. I see that as pure opportunity. We go through RFP after RFP after RFP. We win a disproportionate share of those RFPs because the products and services are very good. And I think that's a source of long-term growth.

Where does that growth show up? It shows up in cash and trade directly. It shows up disproportionately in FM, because that's where if you're a large mobile phone manufacturer in the U.S., you're thinking pretty hard about how you manage your currency risk in and out of China, in and out of India. These are our sweet spots. So, we are really differentiated in those markets. And we don't have to get 100% market share – and of course, we don't get 100% market share – but if we get a meaningful market share, which we do, that is a very material increment to our growth.

So, when you look at that flow business, it's more clients, it's better penetration, better capture of internal flows, roughly in that order.

The episodic, which is the stuff that everybody loves to not love because it's volatile and can't be forecasted and ranges between zero and 50% of our FM income, is very diverse. We talked a bit about this on the earnings call, what does something have to be to qualify as episodic in our definitions. It has got to be one-off market event. So, there have been currencies that have de-pegged or where governments have allowed them to float or allowed them to readjust. These things rarely come by surprise. You see them building up for some time. And as we're managing our customer flows, we make sure that if we have any positions at all – we prefer not to have positions at all – if we have any positions at all, that they're skewed to positions that will pay off in a positive way if that event occurs. And those happen from time to time. We can't predict them. We don't wish them, because typically there's a problem someplace else. The currencies rarely revalue in jump form; they devalue in jump form.

As the M&A market picks back up, another source of episodic flows for us has been deals that are linked to M&A transactions, either because the deal itself is contingent on the closing of an M&A transaction or on the achievement of regulatory approval or something like that. SA business line that has been around in the market for 30 years, we've been actively in for the past seven or eight years. We treat those flows as episodic because they come and go.

So, those are the other one-off transactions which are episodic. That has grown structurally. It's hard to see because it's quite volatile, but they've grown structurally. I would say that the median line or regression line as we plot that through time grows at least as fast as the rest of our business. Frankly, not asking for the market to revalue our stock on the back of that because you can't forecast it. We can just demonstrate that over time and know the worst case is incremental profits that we can use to buy back our relatively inexpensive stock. I'm trying to be polite with my choice of words.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

We'll come up to that later. I'm just going to break off to see if there's any questions from the audience.

I can't see any. So, I will talk about Ventures. Now, I think in the Q4 results, you said that you wanted to be RoTE-accretive by 2026. So, I guess my first question is, does that mean above 12%? My second question is, how do you expect to achieve that?

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

Ventures for us is SC Ventures, which is our venture lab, which itself has an allocation of capital for investments, minority investments, in fintechs in every case where we have a strategic partnership with that fintech. And then the two big ones outside of SC Ventures, but in what we call Ventures, are our two digital banks in Hong Kong and Singapore, called Mox and Trust.

Mox and Trust, it's the bulk of the capital that we've deployed into Ventures, and it's the bulk of the operating loss that we've incurred over the past several years. We've guided to Mox achieving profitability this year and Trust achieving profitability next year.

How's that happening? Obviously, the increase in interest rates over the last year has helped. They started as deposit franchises. We now have an asset base, which is consumer lending, consumer and small businesses, so that we have assets and liabilities of roughly the same, and they're each about \$1 billion on all four sides there. They're all growing nicely. Deposits are growing. Customer numbers are growing. Loans are growing.

We've added a Wealth product line in Mox. This is a purely digital, mass market-oriented Wealth proposition, and early results are encouraging. The customer engagement is good, and the level of customer satisfaction is very high. We'll roll out Wealth products in Trust towards the end of this year or into next year. And we'll introduce insurance products as well over time to support the profitability.

The facts are the rating of these banks in the local markets is best-in-class. So, #1 NPS score, #1 customer satisfaction, #1 app store ratings. We have not led with price. The cost to acquire for our 700,000 customers in Trust in Singapore is something like \$30. I can tell you the cost to acquire in Standard Chartered Bank is closer to \$200 per client. At DBS, it's closer to \$300.

So, we're not getting those customers by offering them 9% interest rates in a 5% environment, as has been the case in other digital banks around the world. We're leading with user experience and great partners. In Hong Kong, it's Hong Kong Tel and trip.com. And in Singapore, it's NTUC, but really it's the Fair Price Group, which is a grocery store chain that has about a 50% market share in Singapore.

So, I think it's just a matter of momentum and getting those things through to profitability. As we hit profitability this year or next year, it won't be at a 12% ROTE, but it'll be a big gap relative to where we were historically.

Other ventures, we will be churning much more actively. So, we launched five new ventures last year, we exited two, and we've got several exit processes in place right now. We've shared in our disclosures the mark to market for an external valuer of the Ventures portfolio is about a 1.3 times return on invested capital. I would say that those are pretty conservative valuations, because for some of the ventures that we built that have not had any additional funding rounds, we've more or less left them at cost. For those things that we don't think are working out, we've written them off. And obviously, we made typically between 5% and 10% investments in fintech partners with really good strategic value for the bank. We find that we get good value from these fintechs when we have a small ownership stake. Not that they wouldn't be serving us well anyway, but we just find that we get an extra dimension to our ability to work closely with these guys. And the returns on that portfolio have been good.

So, we'll get to 12% by actively managing that portfolio, generating some capital gains, in addition to achieving profitability in some of the core ventures.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. Just again, if there's any questions from the audience?

Maybe I can move on to costs. So, there's obviously a \$1.5 billion Fit for Growth expense saves coming through. My question is, what are you doing now that allows you to deliver those versus what you were doing previously? And after 2026, do we see another Fit for Growth mark two?

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

A quick reprise of the expense pictures in the nine years that I've been at Standard Chartered. We were basically flat for eight years. Last year, we grew substantially on the back of inflation, a little bit of performance-related stuff. And so, we've grown about 2% per annum, in a 4% inflation environment, keeping in mind where we operate.

And we've done that by squeezing the rock continuously, getting the fat out, constant layering and spans of control, as well as some transformational stuff. The bulk of the transformational efforts so far have been taking what had been quite a disconnected end-to-end organisation and telling each of the line of business managers – the head of macro trading, the head of cash management, the head of wealth management – "You own your business from end to end. You own your tech, you own your ops, you own your marketing, you own your legal. Make it work." That was a sea change for Standard Chartered Bank, that we didn't have people that had that experience, and we didn't have people down the chain that had experienced that either.

And we did, I'd say, a reasonably good job, not perfect, but a reasonably good job of getting those vertical alignments. And that's what allowed us to operate with, basically, no expense growth while income went from a low of \$14 billion up to \$17 billion.

What we lost through that process is some of those shared service layers or, call it, the horizontal elements. And the best way to explain this might be an example, which is as cash and trade and FM or macro or credit markets were building their vertical processes, we replicated little payment modules inside those vertical processes. So, we had one payment platform for the bank in terms of everything outside, but the things that were building into the feeding of the one external payment platform, while they started

in the same place, they diverged. And that's the consequence of saying, "You own your business. Optimise your business."

And now we think we have the opportunity to take a step back and say, okay, maybe we can rip out eight of those payment modules, consolidate into one, have a fundamentally more productive environment, and be mature enough so that the line of business owner still knows that she or he runs the line of business, but parts of those services that are provided are going to be coming from an internal third party or maybe, in some cases, an external third party if we decide to externalise a particular function.

And by ripping those eight payment engines out, these are assets that have a carrying value on our balance sheet. They've got a remaining useful life. And that's the \$1.5 billion estimate of cost to achieve, which is much more than the cost to achieve from, let's say, for example, the last \$1.3 billion productivity program that we had, where the only restructuring charges really were redundancy, where we had them. A couple of little write-offs, but mostly it was redundancy.

This time around, I think we'll probably have relatively light redundancy, because there's just not a lot of fat left in the organisation. And this reorg that you asked about right up front, Nick, is nothing about cost cutting. Yes, we'll be more efficient. We'll streamline some things. It's not a cost cutting exercise. It's to realign the organisation to make things faster and easier to get things done.

Fit for Growth, which is the productivity program, is about organizing things, yes, completing the execution of our end-to-end vertical processes, introducing the horizontal layer, and doing that in a really disciplined, programmatic way.

We should be able to nail all this in the three years that we've given ourselves, for the \$1.5 billion and the \$1.5 billion. Will there be a need for another one? We'll see. If we do an excellent job, we should be back into hygiene, rather than the need for big programs. But let's just get the first thing done first.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Okay. Perfect.

Are there any questions? Omar?

<<Omar Keenan – Co-Head European Banks Equity Research, Credit Suisse>>

Thank you. Omar Keenan, at Credit Suisse. Obviously, if we look at the Financial Markets story, it's been very, very positive over the past few years. And I appreciate you've given us some comments around the split between what's going on in the flow and episodic revenues. If we look at things with a macro trading versus credit markets trend, credit has been the bit that has lagged.

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

Yes.

<<Omar Keenan – Co-Head European Banks Equity Research, Credit Suisse>>

If we look at something like financing solutions and issuance, it kind of makes sense that it would have lagged with interest rates going up. Corporates are perhaps waiting to get some certainty on levels of interest rates before they execute on various transactions.

How good a line of sight do you have on this pipeline of activity to come from corporates, whether it's project finance, various sectors? Do you think there's a material recovery to come through there? Thank you.

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

I think your diagnosis is right. It's definitely been a macro trading environment for the past three years. But between COVID, which obviously had a very suppressing impact on investment, which then flows through to capital markets activity, wars and more wars, with the spike in inflation and big move in interest rates, have all been very conducive to the macro environment.

I don't think we'll see a repeat of the interest rate hikes of 2023 anytime soon, nor do I think we'll have the same pace of reduction on the way back down. But I see no prospect of the end of volatility in macro markets, given the state of the world.

Credit markets have definitely suffered during that time. Capital markets issuance, certainly in our footprint where we have a very, very small Europe and Americas capital markets footprint and a large Asia, Middle East, and Africa footprint. The Middle East has been booming and we are a continuously #1 in various lead tables, which, for the most part, is pretty good business. Asia and South Asia, ASEAN, have really lagged in terms of issuance volumes. In part because the bank market has been relatively strong with relatively liquid local banks, for the most part.

The pipeline is good. The pipeline is as good as it's been in the last five years. There's still a question about the executability of the pipeline. Right now, in a slightly, let's call it, a less risk-off environment, we're getting some good capital markets business done. But it still feels a little bit tenuous.

But like I say, the pipeline is very good, coming from investments and refinancing bank debt. I wouldn't say the trend is firmly established as yet. But we are quite optimistic that even if we see a slightly less attractive macro environment, even if it's only for a period of time, that can be more than offset by improvements on the credit side.

Commodities is a relatively small business for us, but it has tended to be uncorrelated to the other two. So, we're able to engage there a little bit more opportunistically. But I think there's structural growth in that piece as well.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Thank you. Any more questions?

Can I just touch on capital? So you've said \$5 billion in capital return, I think, in your guidance, which I think was probably a lot less than people had in their numbers and certainly less than I have in my numbers. So, how should we think about dividends and buybacks? And how realistic or how conservative is that \$5 billion?

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

We gave ranges of income growth and indications of positive jaws in our guidance. And you could extrapolate from that to the most attractive end of any of those ranges and you could run it through the calculator, assuming that we can keep our credit discipline as we have. In fact, we've got a higher credit cost, although there's no particular sign that that's supported by any trend that we're seeing, but we know the world in which we live. But you crunch that all through the calculator, you can come up with much bigger numbers than \$5 billion. And you could crunch the least attractive end of the range through the calculator, and you might get something closer to \$5 billion.

What we have said quite clearly is, at today's share price and recognizing that we have a pretty full investment program already, we're happy with the pace of investment. We don't feel like we're starving the organisation of the opportunities that we see. We don't see a lot of inorganic opportunities in the market. And where there are inorganic opportunities, they're not priced at a level that, from our experience – and we've looked at all the ones that have come by – they're not priced at a level that we find attractive relative to our other uses of capital, including returning via buybacks.

So, we're perfectly comfortable operating fluidly through that 13% to 14% CET1 range. We went down to 13% a year and a half ago. We are constantly bumping up against the top end of that range, which obviously is a good sign in terms of giving us the ability to return capital if we've done it consistently.

And obviously, thinking about 2025, when Basel 3.1 kicks in, with the impact on us, we said that we could have as much as 5% RWA inflation. It could also be zero if the rules that come out following the

consultation process are less impactful than the original rules suggested or if we take mitigating actions in areas that could eliminate that gap.

So, top end of the range, bottom end of the range, you get very different outcomes. We're going to manage it very actively. We have managed our RWA extremely actively, and we'll do that through the Basel 3.1 process, whatever comes out of that. And we'll return capital to shareholders if it is indeed surplus.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Perfect. We've come up to the end of our time. So, Bill, thanks very much for your comments.

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

Thank you, Nick. Thanks very much.

<<Nick Lord – Head of ASEAN Research, Morgan Stanley>>

Thanks, everybody, for attending.