

Redburn Atlantic CEO Conference2024

In-depth conversation with:

Bill Winters, Group Chief Executive, Standard Chartered PLC

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(Amended in places to improve accuracy and readability)

James Invine - Redburn:

Hello, everybody, and thank you for joining. Welcome to this session with Bill Winters, CEO of Standard Chartered. This is part of the Redburn Atlantic CEO Conference. I will kick off and ask Bill a few questions, but if you'd like to put a question to him yourself, then please do type it into the chat box at the bottom of your screen and I will read it out for him. Bill, thank you very much for joining us today. But maybe we can start with current affairs. We've had an election in the U.S., Donald Trump has been talking a lot about tariffs, 60% on Chinese imports, up to 20% from elsewhere and then he added some more last week. Of course, this could just be the start of a negotiation. But assuming that those tariffs are imposed, as he says, what does this do for your business? On the one hand, negative for your clients, but on the other hand, it would probably bring quite a lot of restructuring of supply chains, which could be an opportunity for you. So what's the net impact?

Bill Winters:

Yes, obviously, it's a super topical question. And first of all, thanks for having me. It's really nice to be here. And we're all dissecting and informing views real time how much of it is rhetoric and how much is intended action. I think our assumption is that there will definitely be some tariffs. It would be very difficult politically not to introduce something incremental. And we've heard the 10% right off the bat on China, which of course is different than 60%, but then maybe the 60% is on top of the 25% average starting place. So 25% plus 10% is 35%, still 16% to go for bad behavior or something like that.

The fact is we don't know. I don't think anybody does, possibly nobody in Washington knows either or Mar-a-Lago or anywhere else, but we'll see. The consequences for us, you go to the extreme scenario. I think our economic prognosis has been relatively clear and transparent. If we went overnight to an incremental 60% tariff in China, it would probably take a couple of percentage points off of GDP, all else equal, but of course it won't be all else equal. There will be a very substantial stimulus program that the Chinese would launch at that point, hopefully targeting this stepped up resuscitation of the circular economy in China, rather than just offering a palliative to the companies that are most affected by these tariffs, but we're into double hypotheticals now. Could China survive for a while with 3% underlying growth, with a 1% or 2% offset by a stimulus, yes, of course, China would be fine in that scenario. The U.S. would also be fine in that scenario, but you'd have this stubbornly high inflation becoming stubbornly higher. And that, as we all know, is a regressive tax on the population, which is exactly targeting the people that have been most supportive of the incoming administration. So I think there's limits to how much that can happen.

So in the short-term, I think things could get bumpy in that scenario, we would expect to see a modest uptick in delinquencies or defaults in our consumer and SME portfolio in China. I don't think that's something that you would notice in your assessment of the financial numbers because it's just not that big. But we would feel that, and I think depending on where the stimulus in China was directed, could either be helpful or neutral. It's not going to be hurtful. And then there'd be a substantial step up in the China plus one migrations which have net-net been enormously helpful for us. So not to be too mercantilist about it, but we have a big market share in Indonesia, Malaysia, Vietnam, also in India and other places where if an international company, Chinese or otherwise, is investing in those markets, they're very likely to engage us to undertake the financing, the currency risk management, the establishment of treasury centers and payment systems, all the stuff that we do well, those same

companies in their home market, whether that home market is Japan, China or the United States, is less likely to be dealing with us because they probably have very strong local banks that are satisfying their local business. So in the medium to long-term, I'm not saying that it would be a good thing for us because the world would be more tense, but I think our profits would go up. In the short-term, it could be a bit bumpy. It really depends on the policy response. And from there you can get into all sorts of hypotheticals around what else might happen in terms of sanctions or excluded parties or whatever. But that's we can hypothesise on that if it's helpful, but it is just hypotheses.

James Invine - Redburn:

Lovely, thank you very much for that.

Bill Winters:

Well, when you started off talking about politics, I was sure you were going to ask about Korea, but maybe that comes later. Maybe it doesn't matter. Maybe we can just forget that the whole thing happened.

James Invine - Redburn:

Well, we can maybe jump into that later. I was going to turn next to loan growth. Standard Chartered has done a great job improving its returns over the past few years. You are talking about returns rising from here. But you are in growth markets and yet the loan book hasn't really grown very much. Some banks are managing to find a bit more loan growth than you are. So what is the constraint that stops faster loan growth? Is it more about the credit quality, the pricing? What's holding you back?

Bill Winters:

I don't think anything is holding us back, but it's obviously a perfectly fair question. So when I take a step back, the first thing I note is that when I joined this bank, roughly 70% of our income was NII. We're roughly 50% today and I guess the percentage is likely to go down from here because our non-NII is growing very nicely for all the reasons that we've discussed in our Wealth and Affluent session yesterday, but also in our cross-border business. They're both growing very nicely. Financial Markets continues to do very well. So we've had subdued loan growth, not negative loan growth, just subdued, but we've increased our returns from sub 2% return on risk weighted assets to closer to 8%. That's really good.

Our market share in every product that is typically associated with pay to play has gone up. So we remain a number one or two or three player in capital markets in all of the local markets where we operate, including G3 issuance from countries or companies in our footprint. Without having lavished the same cheap balance sheet on the corporations that some say you need to do, you got to have a loan growth that's growing if you're going to capture all this investment banking type business, it's not been our experience. In fact, our experience has been the opposite.

Are there opportunities to lend money? Absolutely. Our blockages for us, we've got a pretty high return hurdle. So, yes, in particular when our stock was cheap, still cheap, but it was very cheap not too long ago, the alternative of deploying capital into returning capital to our shareholders versus marginal lending, pretty strong incentive to be parsimonious in terms of the lending and return that capital to shareholders. As I say, we're still trading below book value. So our return criteria for what we do with our capital is influenced by the alternative uses of capital, one of which is to return that capital to shareholders. So I wouldn't say it's an impediment, it's just a choice that we made that if there's a strategic reason to lend money, we lend money. If there's a good return to be had relative to alternatives, we lend that money. If there's a good return to be had because of all the ancillary business that we get, we'll do that all day long.

And if I saw that we were slipping in terms of our market share or market penetration for key countries or companies because we're setting a pretty high return standard for lending, then we say, okay, we might have to do something about this to invest in the franchise, but we're seeing the opposite. We're seeing more people doing more business with us despite the fact that we are not the biggest lender in some cases. That said, there have been a few areas of loan growth that we've targeted where we've had mixed success. So on the unsecured consumer side, we entered into a bunch of partnerships in addition to our own organic lending, some of those have worked quite well and we're continuing to double down on those, some have been indifferent or even negative and we've withdrawn.

So I'd say that the unsecured partnership model, I give us maybe a C-plus on that where there were a couple of As in there, there were a couple of Fs, none of it's huge, but that was one potential source of growth that has not come through the way we would have liked. One example of that is the challenge that we threw up in our digital bank in Hong Kong, Mox, where we experimented by going down market and found that we were severely and immediately adversely selected in ways that we hadn't anticipated. It was a new thing because we were the first digital bank to have real time executions for personal loans in Hong Kong, and one of the first in the world and some of it worked and some of it didn't. We cut it off that led to a brief period of retrenchment. We're now back on track.

Delinquencies are down, loan growth is back to, I would say, normal and fine and good return. So it's not that we're not trying to find ways to lend money, we are. In some cases it's working quite well in terms of getting the returns that we seek. In other cases, we've repositioned. I think that's what we're supposed to do. So no regrets about the way we've approached this so far.

James Invine - Redburn:

Okay, thank you. And maybe I'm going to ask exactly the completely opposite question as well. But as you say, your group returns have gone up, so it's a higher hurdle. Maybe some business that a few years ago generated a 10% return on tangible equity, was accretive for the group, now it's a drag. So does it bring more business into that envelope where you'll look at it and see if you should be exiting it? I know you are exiting some mass market retail businesses at the moment, but will higher group returns bring more business into that window?

Bill Winters:

Not necessarily. I think first of all, there are three small markets that we announced we're considering exiting. They are all financially accretive. The issue there is are we the best owner of those assets? and can we do something better with the resources as part of the pivot to Wealth? which you heard about from Judy and team yesterday, or alternative uses of capital or alternative uses of management time. That really is a focus decision rather than a return decision per se. A lot of the optimisation has happened in the CIB business where we've shed, over six years or so, we probably shed \$40 billion of under returning risk-weighted asset. It never goes to zero, because there's always new assets that were accretive, that become less accretive, or that were misjudged on issue. So we're always working on that; but I'd say that the back of that problem is substantially broken. And the mindset in the organisation is that there has got to be a very good reason to do something that we're not getting a good return on outright, and that good reason better be there are other things we want to do with this client and we're investing in that client. That's in the mindset. Not 100%, but big shift in a few years.

The biggest change in loan volumes has been residential mortgages where we very consciously took our balance sheet down, in particular in Hong Kong and Singapore, but also in Taiwan and Korea, because with the surplus liquidity in those markets, residential mortgages become something like a treasury product and the returns on a standalone basis were unattractive. So we had taken our new origination market share in those markets down dramatically, which has led to obviously as the portfolio matures, reductions in loan volumes.

It's not impacting our franchise. We'll have no problem re-engaging in mortgage market when the returns are attractive. It's not running in any way counter to our asset liability management in these countries we have better uses of capital and better uses of liquidity in those markets generating higher returns. But it does lead to a headline reduction in NII and loan balances. We're not concerned about that.

James Invine - Redburn:

Okay, great. Thank you. I'll just pick up on the Wealth presentation that you mentioned yesterday. So, you recently announced you're doubling the investment that you're putting into that business. You hosted a very interesting session yesterday. Now as you laid it out, the case for further growth here looks irrefutable with strong revenue, good cost income ratios, and so on. But clearly we have seen some other players try to hire a lot of new relationship managers and it's been difficult. So, could you talk about what Standard Chartered as an employer offers to those wealth managers that will make their job easier and attract them to you?

Bill Winters:

Judy went into that question in some detail. So, you can refer back to the slides that Judy showed yesterday if you want some nitty-gritty detail. But the question that we always ask ourselves, and you ask quite rightly of us, is what's differentiating Standard Chartered Bank? Why you? And there's a few reasons that we really are different, and this is why we're gaining market share. One is that we are local in a number of these markets. So at source, the wealthy individuals open an account in China or in Indonesia or in India and then they go overseas to diversify their portfolio and generate wealth income for us. So the fact that we have the local feeder is important.

Second is we cover the different tiers from the mass market, where we're clearly focusing on aspiring affluent to the extent that we can. But we start at mass market, we've got a Premium segment, we've got a Priority [segment], Priority Private, [and] Private Bank. And as we look at each tier going up the wealth spectrum, we're getting significant volumes in each higher tier from the tier immediately below. So we're self-originating our affluent customers, which again is difficult for somebody to do. If you're coming in at the Private Bank level, there is no up tiering. All you can do is get a higher proportion of that individual's net worth, which of course, is also a good thing to do, but there we're not particularly differentiated relative to UBS, or JPMorgan or anybody else. We have to out compete step by step. But we do have these tiers and that's been a very key source of new clients and new AUM.

Third is that we're open architecture. Some say "hey, that's a marketing line" Savers or investors, they don't care whether you have your own asset management company or whether you're selling your own insurance product. It's not true, they do care. They do care if they're being sold a fund product that's coming from in-house that may or may not be the best fund available in the market at that time. They do care whether they are being flogged insurance that's coming from the house provider rather than the best third-party that we can possibly curate.

So, I think with that open architecture approach, we don't compete with the asset managers. The asset managers treat us as a very coveted distributor. So, when it comes to creating the next public-private credit funds, whatever the next hot investment topic is for our investors in Asia, the best asset managers in the world are much more likely to develop that with us than with somebody with whom they're competing on the same product or a variation on that theme in some other context.

So, these are the things that differentiate us. Of course, we've had to meet market in terms of compensation or we've been at-market consistently. Our attrition is low relative to even our best-in-class competitors. We have increased wages in the segment for sure over the past three, four, five years as pressures have built. But I think we can safely say that there is nobody in the market, if we are paying market wages, that aren't very happy to consider Standard Chartered and many are just saying, yes, I like the platform, you're committed to it, you've got good leadership. So not talking about myself, talking about Judy and the team that presented yesterday, they are very credible.

And we've got a long term track record now. And there is opportunity. So we have been the third largest wealth manager in Asia, where DBS has moved ahead of us on the back of their acquisitions of some of the Citi assets. We're definitely in the pack and I say the pack is separating itself from the rest of the pack.

In particular when you get into that model which has got a local route and the multiple tiers from Mass through to Private, there is really just a couple of us and we're gaining share, we're gaining share steadily. And I think we'll continue to obviously now that we're now making this incremental investment.

James Invine - Redburn:

Another growth area that you've talked about in CIB is doing more with financial institutions. So, you're talking about pushing it from about half to 60% of the revenues. What does Standard Chartered need to do to actually make this happen? Do you need to develop new products, processes or is it just focus?

Bill Winters:

No, it's new products, new processes and new clients. I've been in the bank for coming on 10 years and I think we had about 30% of our CIB revenue was coming from financial institutions. Most of that was correspondent banking. Correspondent banking is a good business. It's not a super high growth business, because the number of banks in the world is not increasing dramatically and they're becoming increasingly self-sufficient. It's a good business, good returns, good underlying growth. We're good at it.

We had a very weak business with asset management companies, with serving fund managers. We had entirely transactional relationship in emerging market, FX typically out of Financial Markets and we had a relatively small custodian at the time. We had a payments platform and a fund administration platform that were not at all equipped to deal with asset managers and we've invested in those things.

So we're now very frequently, certainly in Asia, Middle East, Africa, Financial Markets, custody payments, the things that we do well, we're frequently now a top two or three player with asset managers having been non-existent within that category before.

And then there is some new areas that are opening up and we've got some really interesting things going with the private equity companies. We've always been involved in leveraged finance. We're getting better and better at that. And it's a more and more global platform, so we can begin to take on assets in the U.S. or Europe that we wouldn't have touched years ago, because we know the sponsors very well, we know the underlying credits in many cases we know the companies. So, that's a source of incremental growth within the financial institution segment.

And then there is a whole private credit thing which I got a very simple philosophy which is that regulators have decided not to exterminate fractional reserve banking, which means the government is on the hook at some level, in some way and they don't like that at all. So they would like us to have more and more capital and be more and more liquid. Fair enough. If we don't want to be a bank, we don't have to be a bank. But if we want to be a bank, we're going to have to live with that. That's going to make lending less and less attractive for a bank, which is creating real, genuine, fundamental arbitrage with other capital providers that aren't backed up by their host government.

There is nothing wrong with any of that, it's just a huge opportunity for us. And I see these reports of the amount of the banking wallet that's going to go away in favor of private credit. And the only stuff that's going to go away is the stuff that we don't want and the stuff that we're going to do in terms of financing these guys or originating loans to feed into that machine, that's what we do.

And when I think about what really differentiates Standard Chartered Bank, we are absolutely differentiated originators of credit because we've got the corporate client relationships or the government relationships. We know them, they like us, we're embedded. They don't particularly care whether the loan is coming off our balance sheet or some private equity or private credit company's balance sheet. We are a differentiated originator of credit.

It's a really good place to be right now. And we are a differentiated provider of advice and services to wealthy individuals. That together with our cross-border network, which is unique, we're not the only one that has a cross-border network, but we're only one that has our cross-border network and it's unique. Those three things differentiate Standard Chartered in a fundamental way. Thankfully, none of them requires a lot of our own capital, which is why we're able to return so much to you guys.

James Invine - Redburn:

Great. And just sticking with CIB and specifically the Markets business, that's been a good business for you over the past few years. Obviously, there's a big market component that makes it difficult to know where the revenues are going to land in any given year or quarter. But can you give us some leading indicators of how that business performs, specifically the number of net new clients that you're adding to your client list or something like that so that we can see that there's continued progress in the franchise?

Bill Winters:

First of all, 2024 has been just fine and it's carried on just fine in the fourth quarter, lots of streams going into that. Obviously, interest rates have been a driver of the returns on the Cash Management side. The prospect of a little bit higher for a little bit longer is a good thing. And we're still in that sweet spot because we've not seen any pickup in credit stress as a result of some idea of higher for longer.

So that pipeline is where the interest rate related pipeline feels relatively benign right now. The deal pipeline is very robust. So we've had a good run all year. It continues. The pipeline is very healthy right now. Execution is very healthy. That's good old fashioned financing, a big chunk of which is Sustainable Finance. We are sticking with our guidance of making at least \$1 billion in Sustainable Finance next year. I think we'll be very, very close to that this year would be our expectation.

And the flow business in Financial Markets has remained very strong. That's been a really good steady, mid to high-single digit growing business for some time with very low volatility. And we've explained what that is. But just as a reminder, in our definition, these are day-to-day transaction flows in currencies and rates, to a lesser extent commodities, with companies who are engaging in ordinary course hedging or ordinary course conversions or ordinary course risk management just knocking it out, one day after another. This has been super stable for a long time, but growing at a very healthy clip. And that is continuing to be the case and we think that will continue to be the case for some time. We're far from saturated in terms of penetration of our markets.

The episodic business, the more one-off either market related or deal related flows, which are very volatile. They've been ranging between 0% incremental addition to income and 50% incremental addition on a 30% bucket. And that episodic income we do do better in volatile markets on the episodic side. And if there's one thing I think we can count on in the days ahead, its volatility. Even if that volatility only lasts seven hours like Korea last night, or goes on for four years, which may be the case with the incoming administration in the U.S., there's going to be some bumps in the road and we're going to benefit from that on average.

I'm super proud of the fact that with our Financial Markets team that that range is 0 to 50 [percent], not minus 25 to 50. It's like 0 to 50. So we're very, very disciplined in terms of not running prop operations that generate material losses from time to time. It's not been the case. And so I'll take positive volatility all the time, don't mind the volatility, if it stays positive. Positive slipping into negative, we're going to change the model. It has not been the case and there's a reason, it's because we're quite disciplined.

Trade is one area that's been a bit of a laggard. Part of that is the same liquidity in the market dimension that I talked about earlier in the context of mortgages, Trade is also a bit of a treasury product and at a time of surplus liquidity in some of our markets, the trade margins have compressed a lot. We're not happy with the fact that our trade book is barely growing at the pace of global trade. We should be increasing share actually as a practical matter. Continuing to invest in that, but we're not going to chase returns and we're not going to do negative returning business because our franchise is not at risk. There's zero impact on our ability to engage with corporate treasurers on their trade needs. So the CIB outlook I would say is healthy at the moment, looks very healthy for the next year and we're going to keep on investing in it.

James Invine - Redburn:

Okay. Thanks. And just putting the two areas of investment together, is it going to make your revenue stream more volatile? Is the FI business more volatile than the corporate? And similarly, you'll have an element of trading in the wealth business.

Bill Winters:

It's a different kind of volatility. So having significantly de-risked the lending balance sheet, that episodic volatility, which is really extraordinarily painful because when you go from 20 basis points of cost of credit to 80 basis points, which is the environment into which I came 10 years ago, that's volatility.

Those days are gone, I can say definitively. But we have introduced some more market sensitive elements of our business. So just the way that flow volumes work through Financial Markets is somewhat sensitive to levels of volatility in the market or trends, episodic income even more so, and Wealth Management has a markets element. But that said, in each of those areas, we've actually significantly increased our diversification of earnings streams within those buckets. So for example, in Wealth, where we were very deposit and bancassurance heavy, if you went back seven or eight years, and you saw it in the presentation yesterday, we've now got a really healthy mix of aggressive fund products, defensive fund products, effectively online trading, bancassurance is still very important for us, which tends to be much less market sensitive, in fact, it is much less market sensitive, so much more savings product than an investment product.

So in our wealth franchise, while there is definitely some market sentiment, global equity is strong So we're going to have higher Wealth income, all else equal. Bond markets are strong and stable, all else equal, that's higher income for us, but nowhere near as dependent on any particular market as we have been in the past. Financial Markets, again, going back six, seven years, we were largely an FX shop. We

had a rates business that was not very exciting. Basically didn't have a credit business at all, and we were in and out of different commodity businesses. We didn't trade in any material way FX options. We didn't generate structured notes for investors or for retail. We got a very well distributed FM business portfolio now. So our sensitivity to any currency or group of currencies, emerging markets to pick one, that in aggregate is natural for us., Our sensitivity to any one of those things is far less than was the case before.

And the dispersion of problems that we're solving for clients is much greater than what we've had before. So yes, and at some very macro level, we substituted that horrific volatility, which is just being long credit and hoping for the best and getting clobbered one out of seven years, with a much more dispersed set of sources of volatility that we can actually manage a little bit more actively and where there's no particular concentration in any one source of volatility.

James Invine - Redburn:

Okay. Thank you. And can we turn now please to the Fit for Growth program. So you've talked about it generating gross cost saves of \$1.5 billion, and that's great to have. But you keep talking about it as though it's really going to unlock the growth or at least laying the foundations for growth in the bank. So could you just give us a flavor of some of the problems that you're trying to fix? And also, is this, do you think, you catching up with competition or moving ahead of them?

Bill Winters:

On the latter question, I don't know. Interestingly, earlier today, I had a meeting with the partner at the consulting firm that helped us get the thing set up. And he said, you're way ahead. What you're doing now, other people are now following. I don't know. I'm a little bit surprised by that because I think what we're doing is bread and butter stuff.

Not to say it's not great and differentiated, but it doesn't strike me that it's particularly revolutionary. So I think it's more taking the opportunity after years of initially cost cutting and fat cutting and all that stuff and then really fine tuning. We said, "okay, now let's take a step back and be much more transformational in terms of how we approach this".

And those transformations are going to come through process simplification. So when we poll our employees, which we all do every year, we do lots of polls, but we have one big one every year, huge engagement. We're off the charts in terms of employee engagement, intention to stay, dare I say it, admiration of leadership. Again, I'm sure they don't mean me, they mean their line manager. But these are all really good. Number one negative by far is ease of doing business. It's just too hard to get things done in Standard Chartered Bank. And we all relate to that, seeing some of the processes that we've got.

So process simplification is number one. And that requires really thorough end-to-end process mapping, where you're just determined to eliminate every blockage along the way and you're determined to run things in parallel where you can rather than in sequence, just get to the right answer, get there quickly. And that's a lot of the Fit for Growth focus is that process simplification.

Second, this a little bit more nuanced, organisations are like a pendulum in terms of being vertically aligned or horizontally aligned. When I joined this bank, tech and ops were in a separate legal entity. And if you were running Financial Markets and you wanted to get a new FX trading risk system in place, you filled out a form, you slid it under the door, you came back in two years, they delivered a bunch of code to you, and the FM guy would say, hey, this isn't what I needed, it's not what I asked for. It's what you asked for, but may not be what you needed. So complete disconnect.

So we had excellent technology that was irrelevant for the business. We pushed the pendulum hard the other way and said, if you're running FM, Roberto Hoornweg, you run it from end-to-end. That tech guy is your tech guy, that operations woman is your operations woman. You make it work. And no faff about somebody letting you down, it's your business. And the result of that was that we got really good end to end management. We got much more efficient in those verticals and we had better outcomes. But it wasn't just Roberto Hoornweg running Financial Markets. It was the rates trader had his own vertical and the European rates trader had his own vertical and we got hyper verticalised.

So now the opportunity is to say, okay, let's just push that pendulum back halfway and let's introduce some transversals is the term that we're using. So capabilities that cut across those verticals that are just

much more efficient. Better way to manage your resources, better way to leverage lessons learned in one vertical into another vertical. I can tell you it's very easy to put that into a PowerPoint deck, very easy. To actually change behaviors so that Roberto, who's now been conditioned for eight years at Standard Chartered, I own my business end-to-end, to now say, actually you do accept you're going to have an SLA [service level agreement] with a guy that's running payments and he's going to be providing you a service along with everybody else in the bank. And we say, 'oh, that's a big mindset shift'.

So that's the kind of work that we're doing in Fit for Growth. Some of that will involve some major technical overhauls. So, for example, once you create that payments horizontal, you get rid of seven of your nine payment systems and concentrate on two. And you do those two excellently. That means writing off the other seven, part of the cost to achieve the \$1.5 billion of restructuring charges. It means some investment in tech upfront, another part of the cost to achieve in exchange for cost savings for the rest of the time.

So that's the kind of thing that we're going through. It's been a fantastic experience so far, as you've heard from me and Diego, we are really just getting started on the spend. The ramp up in spend will be next year. This is more or less a planning year. Next year is a big spend year into 2026, and 2026 and 2027 are the big harvest years.

James Invine - Redburn:

When this program is finished, where do you think that leaves Standard Chartered cost efficiency in general? I think if we look out to consensus in 2027, it's still got your cost income ratio in the 55% to 60% range, whereas I think some of your Asian peers are down in the 40% to 45% range. How much of that is just different business, different mix? And how much of that do you think you can close?

Bill Winters:

I think a lot of that is different business, different mix. I think there's one elephant in the room that we should always address, and that is why are there so few global banks? And why are the banks, that have been global historically, deglobalising. The cheap answer is globalisation is going in reverse, so there's no need for global banks. That's not right. Globalisation is not going into reverse, it's just changing. And by the way, it's changing in ways that are highly beneficial to us. But that's a separate discussion. But I think the reason there are few global banks is that you get really good returns [from] being part of a small group of banks in a local market who are able to enforce strict pricing discipline in that market, often supported by local regulators who like the fact that they've got profitable, healthy banks and they keep competition out. And that's a much easier way to generate nice returns than having a global network where you're dealing with fragmented regulation and extraordinary compliance costs for monitoring transactions and cross border payments, et cetera, et cetera. Which of course begs the question, 'well then why do you do it?' And the answer is because we get a better return doing that than we could focusing on local markets where we operate.

We're reasonably penetrated in places like Hong Kong and Singapore. Number one, they're very attractive markets, but they're small. We've got a great market share. And we have attacked those markets, having set up digital banks in Hong Kong and Singapore, which the big guys with 40% market share may or may not have noticed that we're just grabbing a bit of market share every day.

But it's going to be very, very profitable for us. And we'll be the fourth largest bank in Singapore by the end of this year in our digital bank from nowhere two years ago. It's a differentiated proposition. It's going to pay off very, very well, I'm sure. But it'll be a long time before the competitive dynamic in Singapore or Hong Kong change fundamentally, because you've got guys with 40% market share. I want to wake up tomorrow with a 40% market share in my home market. It's not going to happen.

So we're going to do the best that we can. Are we being compensated for the incremental cost of being a global bank? And the answer is yes. And that's probably the most counterintuitive thing that I'll say today is you're looking at my cost income ratio today and saying you're a full clip above your regional banks in Asia or in Africa or the Middle East. And I'm saying but we're getting a higher return on that cost income ratio. And as we grow income, as we grow that cross border income at 5% to 7% compound with expenses that are going to be growing much less than that, in part, because we've been cost disciplined, in part because of things like the Fit for Growth program, that combination is going to drive us to higher

and higher efficiency. We will still not be at the cost income ratio of DBS or Hang Seng Bank, I guess, or CIMB or JPMorgan Chase, who of course enjoys tremendous economies in the sub-regions in the U.S., 40% market share in the New York City area, for example. Like I said, I'd love to wake up with that tomorrow. We're not going to get it. We are being paid for the fact that we are somewhat unique at this point and delivering a global proposition.

James Invine - Redburn:

Great, thank you. Maybe we can turn to credit quality now. So you've spent a lot of time de-risking the bank and obviously your NPL ratios and so on all look good for the moment. I think one thing that we have seen over the past few years though is banks losing money on China commercial real estate. And I think what we saw was that those losses were increased because some banks structurally subordinated themselves, lending offshore, relying effectively on property company dividend streams and so on. I know that the world has moved on from the commercial real estate issue, but do we see that kind of subordination in other sectors that could come out and bite us at some point?

Bill Winters:

Not in the same way. We also obviously took it on the chin in China [commercial] real estate, although I will say, it was very manageable for us and we were ahead of the curve in terms of recognising the problem and then dealing with it as best we could. But we lost money and we shouldn't have. Because those were asset trades, those weren't client relationships that were playing to our strengths in cross border activity or playing to our strengths in serving affluent customers.

So shame on us for having allowed assets to stay on the books that looked fine at the time that we put them on, and they looked fine until they weren't fine, but we took a hit and we shouldn't have. And part of the reason was the structural subordination, it was a novel feature that somehow the Hong Kong financing arms of these Mainland Chinese companies were going to be subordinated to the mainland financing arms for the simple reason that the recoveries or the stimulus coming from the central government was directed to the mainland entities, not because they wanted to discriminate against the Hong Kong entities, but because they wanted the developers to complete the buildings that had been pre-sold to consumers who were very angry that they were paying mortgage interest and then eventually principal on properties that weren't being developed.

So, with the benefit of hindsight, it's all very clear, but the original sin for us was to have an overweight in an asset that was not particularly strategic, that was generating good returns, but it was an over concentration of risk and that's acknowledged. Do we have other lazy assets like that on our books? Not that I'm aware. And of course we scrub the book very, very, very thoroughly, not just for that.

The second source of credit loss for us in the past, if you just go back over the past seven years, since we cleaned up the book in 2015, 2016, 2017 has been fraud. So large healthcare company in Dubai, large commodity trader in Singapore. And while I'd like to think that our fraud detection mechanisms are getting better and better, and they are at the time that the large Singapore trader went bust, there were 13 commodity trader defaults at about the same time, we only got stung by one, but the one was still really freaking painful and it shouldn't have happened.

What's the lesson learned? Okay. Further strengthen your fraud defenses but also further reduce your concentrations. So no matter how good something looks, if they need \$0.5 billion of your money, it may not be the one that you want to go into lively. So we are far from perfect. I mentioned the mistake that we made in Mox in terms of unsecured consumer credit. So all the way the other end of the spectrum in terms of source of problem. We will make mistakes all the time. My objective is to do everything we can to make those mistakes small and to learn from them.

James Invine - Redburn:

Perfect. Thank you. And maybe I'll bring it back round to revenues if I can. So just thinking about net interest income, one feature of your numbers is that, you do seem to pay a little bit more for your deposits than some of your comparator banks. But it also seems like you're now using stronger language to discuss your actions to take on that. I think Diego talked about assertive management of pass through [rates]. I think 'aggressive' was also used as a word. Do you think you can close that gap versus peers?

Bill Winters:

Going back to the 'I wish we had a 40% market share in our home markets', we don't have a surplus of free deposits in markets which we can call home. We have wonderful deposit franchises in a number of places, not least Hong Kong, Singapore, Taiwan and Korea just to pick four wonderful deposit franchises. But they're not in direct surplus. That allows us to fund the rest of the bank off of those franchises.

So that the gap in cost is coming from the lack of free deposits. We've done a really good job, I think so that the CIB guys has done a very good job of establishing our operating relationships with corporate and financial institution accounts, so that we're gathering an increasing amount of our liquidity from those institutions in the corporate accounts and that contributes, that has lowered our cost of funds. It's only had a marginal impact on our liquidity ratios because, for starters, the financial institution component of that is almost completely discarded. The assumption is that those 'run' [under stress scenarios] which we don't think is correct. But anyway, it's not our call, it's the regulator's call.

And second, there's a discount effectively on corporate operating account deposits relative to retail. So I think we're in an extremely good position from an actual liquidity perspective, the ratios look very good. We've increased the quality of our corporate liabilities, corporate NFI liabilities enormously through hard work. And it's on the back of that that Diego or Sunil Kaushal can say, 'yeah, we can really manage our pass through rates very actively'. And the reason we can manage them actively is that clients want us for more than our interest rate and they want us more than our deposit rate. They want us because we're a core operating bank for them. And that doesn't give you a free lunch, but it gives you just a little bit of a bargaining room on the margin which we've used and have managed the pass through rates extremely effectively so far.

James Invine - Redburn:

Great. Thank you. And switching topics again, we've seen various tweets about the possibility of a BRICS currency and so on. I'll leave that to one side. But just in terms of RMB internationalisation, that certainly could increase with all the tensions that we've got going on at the moment. How does that affect your market position? So on the one hand you are ahead of almost every Western Bank in terms of your RMB product suites and your position in Hong Kong and China. But on the other hand, presumably it allows the Chinese banks to compete much harder. So where does it leave you as that trend continues?

Bill Winters:

There's no doubt that RMB internationalisation is a good thing for us. And it manifests itself in a bunch of ways. It manifests itself in FX trading and interest rate risk management where we're very, very active. Maybe the most active, I don't know, certainly in CIPS, China Interbank Payment System, which is the RMB Cross-Border Payment System. Until very recently, we were the only bank that had both an onshore and an offshore presence, i.e., our Chinese bank and our Hong Kong bank were both participants in CIPS. I think one other international bank has just been given that license and it will be some time before they can operate. But that puts us in a very special position.

Are we competing with the Chinese banks? Yeah, to some extent, but they are our biggest customers as well because we have different sources and uses of the cash that's flowing. So FM Trading is a big beneficiary of internationalisation. Cash payments, I think we're very strong. We're very strong in, they're just pilots at this phase but, all the alternative payment channels, whether it's using central bank digital currencies or tokenised bank deposits. Obviously, we've made a very big investment in digital assets as a bank, both in the instruments themselves, but in the uses of those instruments.

I'd say we were not alone, of course in having made that investment, but we may be unique in terms of the breadth of investment and maybe the depth in some cases. I think that's the future and I want to make sure that we're ready for it. But the cross-border financing is another one. Back a few years [ago], it was all about belt and road and Chinese companies and contractors investing outside, they still are but at a lower rate. And what we're seeing now is huge flows through the different connect schemes.

So international bond investors coming into China, actually been huge inflows into Chinese government bonds. It's particularly attractive on a swap basis and i.e., relative yields compared to other Chinese instruments or compared to U.S. treasuries. So every one of those is an opportunity for us. We make the money on the transfer, we make the money on the payment, we make the money on the FX, we make the

money on the swaps. And it's all coming from internationalisation. Now one day China could say, okay, it's a free for all. No more currency controls, no more restrictions, no more connect, none of this crap. It's just we are the United States. You move your money in, you move your money out. In that case, we'll have an interesting debate around here whether we're going to make more money with a market that's increased its volumes by 100x or more money dealing with the opacity of a semi-controlled market. Either way, I think we're okay.

James Invine - Redburn:

Perfect. Thank you. I know we've only got a couple of minutes left, but we spend a lot of time talking about China and Asia. But I think also you have a growing U.S. client base. Can you talk a little bit about that? How much of your business does it make up, regardless of where you actually book it and how can you grow it?

Bill Winters:

Yeah. The U.S. and Europe combined are about a third of our CIB client income and it's roughly evenly divided. So they're both growing quite nicely. The underlying dynamics are the same. In Europe, European companies are investing in our footprint because those are the growth opportunities for them. But the U.S. is a little bit different because of course there's huge growth opportunities in the U.S., given the strength of the U.S. economy right now.

But we interestingly are able to participate in some of that U.S. growth. So we're not a big onshore U.S. bank, but we get a share of the wallet for companies that we're serving globally back in the U.S. market. That's actually a big growth opportunity for us. And as you know, especially when you get into pay-to-play type stuff, we're typically not paying by offering subpar credit. We're paying by solving problems in complicated countries.

So when I hear that the CEO of one Fortune 20 company and then a second Fortune 20 company and then a third Fortune 20 company saying to me, you're going to get a share of our U.S. capital markets wallet because you solved our problem in Ghana or you solved our problem in Iraq or you solved our problem in Bangladesh. You're just exceptional in those markets, which always prompts me to say I'm delighted we could solve that problem for you, but we don't make a lot of money in those markets. And they say no, we know you don't which is why you're going to get a co-manager role on our bond deal where you're going to go into the top of our FX panel for G3 currencies which is not a giveaway, it just gives you a chance to compete. But people die for those chances to compete.

So that's the source of growth. Our market share amongst U.S. corporations is still very small. I think we've got the big global corporations but we don't have the mid-sized global corporations. Super exciting opportunity for us. I think we've demonstrated that we're differentiated and we will keep on pushing that.

James Invine - Redburn:

Great. Well, I think that's a great note to end on. Thank you very much to everyone who has logged on to listen in and thank you very much to Bill. It's been great to hear your thoughts on all those topics.

Bill Winters:

Thank you very much James for having me.

James Invine - Redburn:

All right. Thanks, everyone.