

Redburn CEO Conference 2022

In-depth conversation with:

Bill Winters, Group Chief Executive, Standard Chartered PLC

November 29, 2022

(Amended in places to improve accuracy and readability)

<<Fahed Kunwar, Redburn>>

Hello everyone and welcome to Redburn's Annual CEO Conference. We are delighted to be hosting Bill Winters today, the Standard Chartered's CEO. This is a pre-recording. If there were any follow ups, please do not hesitate to get in touch with either myself or the Investor Relations team from Standard Chartered. So, the format for today will be a Q&A with Bill and myself and we'll just jump straight into that. So, thank you Bill for joining

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

Thank you for having me.

<<Fahed Kunwar, Redburn>>

So maybe we can start with a kind of top-down strategy. I mean, since your tenure, you've dealt with a very low interest rate environment and the balance sheet of Standard Chartered has changed a great deal. As we head into the kind of new world of higher interest rates, how do you think about your footprint and your product focus in a higher interest rate world versus the kind of last seven, eight years that you had to deal with in the low-rate world?

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

Probably because of where we started, we don't see big changes in terms of the business approach. We've put a lot of time and effort into increasing the quality of our deposit base. That's critically important in a low-rate environment, of course, it pays dividends in a higher rate environment. And that's we've obviously seen a fair amount of that flow through the P&L already, and we expect that to continue to improve as we get the follow-through on the existing rate rises and then obviously a few more rate rises or a couple more, I won't speculate on how much more we have to go; a bit more for sure. We've also focused a lot on generating real growth from our non-balance sheet businesses. So, our non-financing income as a proportion of our total income has gotten to around half from around third at the time that I arrived.

And that's come in all the areas that we comment on regularly, whether it's Wealth Management, which is having a bit more difficult time right now, but where the outlook is still bright, or parts of financial markets that are not NII driven, which is having a particularly good time right now and long may it continue, but you will no doubt probe a bit more on that. But everything in between as well, whether it's the broadly defined originate-to-distribute credit business, which means that we're seeing much more flow-through of credit in our books, without the commensurate increase in either balance sheet or risk weight assets.

So that strategy approach, which has been to emphasize non-balance sheet sources of income over balance sheet while improving the returns on balance sheet substantially have stood us in relatively good set right now and will continue on both and clearly in a higher rate environment with higher NIM looking at 140 basis points or so this year going up to 165 basis points or so next year, the attractiveness of some balance sheet businesses is greater than it has been at any time since I've been in the bank and of course we'll take advantage of that, but we can call that a little bit more asset allocation of the margin rather than any kind of a fundamental business shift.

<<Fahed Kunwar, Redburn>>

That's great. Thank you. And following on from that, if we think about the investment opportunities open to you and they're still very, very large, but obviously you have a lot of cost inflation pressure as well. So how do you balance up the need to offset the cost inflation with the fact that better revenue environment allows you to invest a lot more in your business going ahead?

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

We've put pretty severe expense constraints on ourselves consistently for the past seven years. So, that will probably come out this year around \$10.6 billion in expenses. The number when I arrived, if I recall properly, was about \$10.1 billion. There has been a lot of inflation in our markets in the meantime. So, when you think of 2022 or even 2021, as being the period of inflation after a long period of disinflation, this hasn't been the case in the markets where we operate, where inflation has routinely been quite a bit higher, but not least in important markets for us like India, where we also have a very large cost base. So, we've absorbed a lot of inflation and we've done that by being very selective about the areas in which we invest.

We've had a very full investment program, as you know, we've gone from investing at a strategic level something like \$800 million a year to something closer to \$2 billion. So, we've absorbed inflation plus a steppe- up investment program in what has broadly been a flat expense base for the better part of seven years. But you're absolutely right that inflationary pressures are acute and of course compensation pressures are stepping up independent of inflation because of the performance, our own performance, but the performance of banks globally and particularly in our region. So, that means that we've got to be even more focused on the productivity agenda. The only way we've been able to fund the growth that we've experienced and the investments without having a blooming expense base, is to have an ongoing productivity program.

As I said to you, I think, when we spoke last year the good news is we made good progress. The bad news is, which is also a good news, there is much more progress that we can make in terms of completing the end-to-end digitisation of our business, the significant increases in automation, in what are still manual processes, some of the very large programs that we've been investing in for several years now.

We're migrating to a single core banking system across all of our markets. We're about two thirds of the way through the relatively straightforward markets. And we're at the early stage, should be completed by the end of 2024, of the difficult markets, which for us are Hong Kong, Taiwan, and Korea, because they are on completely different core banking systems today. And that's a big spend. And, of course, that will be an avoided spend going forward. But there also is a pretty substantial efficiency opportunity. Having a single core banking system that's only adapted for local regulatory requirements makes it much easier to roll out new applications on top of that, you only have to test them once rather than test them, currently there has been the case of 30 times, et cetera. So, that's a productivity opportunity and an avoided investment opportunity for us in the coming two, three years.

We are probably three quarters of the way through an Oracle to SAP migration. The HR part of that is finished. So, we migrated all of our HR systems to SAP in a private cloud. The finance systems have another couple years to run; another major spend that will be avoided, and again, great efficiencies that come out of the backend. We are decreasing impact from there, but a number of other large programs including rolling out the next generation of our fully converged digital banking infrastructure and mobile banking app. We are largely through but not completely through the rollout of our fundamentally revamped system for connectivity between our corporate clients and the bank called Straight2Bank or Straight2Bank NextGen, as this project is called.

So, the point of all this is we've got a pretty good track record, not perfect, but a pretty good track record on delivering on major programs. The programs that I have mentioned are sort of on track and they will be completed over the next two, three years which will create capacity for other investments and will also generate a much more efficient underlying operating environment for us, which will lead both to better quality in terms of customer outcomes or controls, but also lead to better efficiency.

So long story short, that's how we get comfortable saying, yes, we think our income is going to grow healthily, right, 13% this year. And we are comfortable maintaining a level of 2% jaws in coming years. Obviously, if income surprises to the upside, let's say, then the jaws could be higher. And that's certainly what we would hope for as we get into the last stage of the interest rate benefits next year.

But I know your question was around how do you handle expenses and how do you prioritise your invested expenses and investments in a high inflationary environment? And the short answer is we get more productive through fundamental system refresh which we are reasonably advanced at executing but still have more to go.

<<Fahed Kunwar, Redburn>>

That kind of leads quite nicely onto the next question. One of the new things that you've kind of outlined, very helpfully, the Ventures division. We've obviously seen fintechs around the world struggle and their share price and cutting costs, so it feels like the opportunity is even bigger. How do you think about that Ventures business now? Would you think about inorganic investment as well as the kind of significant organic investment you are making in this space, given the direction of travel of the fintechs and yourselves, it feels very different than it has been in the last decade?

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

Yes. Early on we got the question when are the fintechs going to eat your lunch? And we said, well, but they are not. One, because most fintechs are our friends and partners or we are their customer. That continues to be the case. Second, because they will not be as good at a lot of things as we are. They are not as good at operating in a regulated environment as we are. They don't have the same access to regulators or licenses as we do. And they will struggle to catch up on the compliance sides in the way that we have over the past ten years as an industry and as a bank.

Obviously, what they also had access to was very cheap capital and an incentive structure that allowed the operating cost to be quite low as well, because people had equity, they all went up in value, everybody became a billionaire and could ride off into the sunset happy. But obviously the game is changed and like everything the stratospheric valuations have come closer to earth, I'm not sure they're quite landed yet. But we have an extremely impactful FinTech ecosystem, both in terms of the ones that we built and the ones that we've invested in. So, you ask about organic versus inorganic, and I guess the question is, are you going to buy some of these guys up now that they're cheap and/or cheaper and we have made, I don't know the exact number, dozens of investments in FinTech. Some have been small, \$5 million into somebody that we're buying products or services from, where we understand the proposition because we're a client or a partner. We help them build the business, the investments that we make and the nature of the business that we have with them in and of itself, is creating a lot of value.

And we've been very happy with those investments. Not everyone's been a home run. Very few have been write-offs and most look like they're going to be pretty substantial value creators for us and obviously for the people that founded them. That's inorganic. But you define it as you wish, it's organic in the sense that it's an integral part of our business. It's inorganic in the sense that we're paying something for somebody else's business. But we'll continue to do that in the small-scale deals, that's ordinary course. We've invested as well in typically larger investments. So, the one that's immediately comes to mind, Advanced AI which is a consumer credit business that operates across Asia. We invested in that company at effectively the intermediate holdco level in a private funding run, a material investment for us.

And associated with that, we have a partnership with them across 11 markets in Asia originating consumer credit, typically through merchants that will end up on Standard Chartered's balance sheet. We think this is a very good business. The partnerships are up and running in a number of markets. We're building some reasonable, not huge as yet receivable balances. And this is something that over time, you'll see in our P&L, you're not going to notice it in 2022.

Most of these partnerships just started since the summer. But these are – yeah, the strategic investment that we made in the company, even with the compression in FinTech values, we think is a very valuable

investment. We're helping to make it a valuable investment, and they're helping us to originate credit that is making a difference certainly to our mass market proposition. I'd say it's the linchpin of driving that mass market proposition to be EVA positive, which it is not today. And that kind of symbiosis on the consumer side, we've got a number of those. That's the biggest.

On the wholesale side, I'd call out the investment that we made in Linklogis which is a deep tier supply chain finance and associated data analytics company where, again, our payoff will come from an expansion of value of the company, which is well on track because it's a profitable company. But as important to us as the strategic value we get in terms of supply chain finance and trade finance, coming out of the much deeper insights than we get through our position as an uptaker of data and information. So, is that organic or is it inorganic? Well, it's hybrid.

Of course, along the way, if there was some capability that we were lacking, and there was a FinTech that was nicely packaged out there where it looked like it should be worth more to us than it would be to somebody else that owns it or perhaps somebody has to sell it and they can't find another buyer. Yeah, of course we look at it, but frankly, we've had such a good time building our own ventures and we look at how we're going to fund the success of our own ventures. That's an important consideration now because the success means that a typical venture investor would be into their C,D or E round, and they'd diluting themselves significantly. We've done that to a small degree, sold a 10% stake in our SME platform which is called Solv. We sold a one-eighth stake in our retirement and wealth platform called Autumn. In the overall scheme of things, these are small deals. We sold upfront stakes in our digital banks in Hong Kong and Singapore, and we sold those to strategic partners who we thought could fundamentally change the value of the proposition by bringing their customer base into our digital bank.

That has in fact worked, Mox in Hong Kong. It is the best-in-class digital bank. Not the biggest in size, it's number two, but it's certainly the highest in terms of customer approval ratings. And I'm sure we could be the biggest in size if we threw the kind of incentives at that market that would allow loan and deposits balances to balloon, but we haven't needed to. We've been winning the fight based on quality. And there's a clear path to profitability in that bank as we go to a full range of credit products, and we are the fastest growing credit card in Hong Kong, have been for the better part of this year. Layering on personal loans on top of that, we'll be rolling out. We've got single stock trading in place already. We'll be rolling out of broader Wealth suite over the next few months. So, these are things that will drive us to profitability, you can call it organic, although we did it in partnership in that case with Hong Kong Telecom and Ctrip.com.

Trust in Singapore has been an even greater success, close to 400,000 customers in two months. The partnership with NTUC, which is a Trade Union Congress, but they own the biggest grocery store chain with about half the population market share. And they have a fund and involved distribution business as well, very familiar to the citizenry of Singapore and an extremely involved partner that's helped us build an outstanding customer proposition that's linked to their rewards program and customer promotions, things like that. These 400,000 customers we've acquired, average acquisition costs are \$35 per customer, the market standard for acquisition costs per customer in Singapore is somewhere between \$150 and \$200. You can obviously see the impact.

And that comes because we've got a best-in-class tech stack. And obviously we took Mox, customized it for the Singapore market, led with a credit product. So, we led with credit cards, obviously, also current accounts and the like, but the initial launch was around credit cards. Which means we'll get the profitability faster. With a very low acquisition cost, why is the acquisition costs so low? Because the value proposition is differentiated and exceptionally good.

And we have an excellent partner who's linking to their rewards program and it's been great business for them as well. It's actually driving shoppers into their shops initially to open an account, although that's not the best way to open an account. The best way is to go on your mobile phone, 2 minutes and 30 seconds is the average onboarding time, 3 minutes for a credit card account, fully approved, limit allocated, spend three minutes after that. So here Fahed, you've asked me a question about investments and expenses, and I've shifted all the way into our outstanding digital banks. So, I'll let you drag me back where you want to take me.

<<Fahed Kunwar, Redburn>>

No, that makes sense. A third way, if you will, hybrid which is organic and inorganic, but very much still in train. Maybe kind of shifting tack to just kind of nearer-term revenues, obviously your largest international peer was talking about peak NIMs in Hong Kong and migration towards time deposits. Are you seeing a similar phenomenon in Hong Kong too?

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

Well, not yet. The indicated NIM guidance we've given is 140 basis points this year to something like 165 basis points next year. Obviously reflects further NIM expansion in Hong Kong, as well as other markets. But we modeled at the beginning of this rate cycle, our sensitivity to rates that was a function of pass-through rates and the function of migration from current accounts to time deposits.

With the benefit of hindsight, our forecasts were shockingly accurate. Andy and I stood up in February and talked about the impact of a 100 basis points rise equally, obviously, we moved well through a 100 basis points rise. So, we're into a zone that we didn't guide specifically on. We've been updating the guidance quarter by quarter, but the pass-through rates have been pretty much exactly what we expected, which is in the big market, Hong Kong was zero for the first 100 basis points. That's exactly what we experienced.

We indicated that, of course, the pass-through rate would increase above zero as we got past the first 100 basis points, and it has, but very much in line with prior cycles experience and our own estimates. We also forecast relatively little migration from current [accounts] to time [deposits] for the first 100 basis points and increasing migration subsequently. And that's exactly what we've seen, and no more or less than what we expected.

Keeping in mind that the time deposits are still a profitable business, the time deposits still come with a margin attached to them. Less so the case, obviously on the corporate side, where as corporations manage their balances, they tend to iron out the stickiness of a time deposit market relatively quickly. Not so much for operational balances, much more so for discretionary balances.

But in both cases, the deposit migration has been more or less aligned with our expectations. Of course, as time goes by, we expect the migration to continue at pace. Some people take six or nine, 12 months to decide to optimise the returns on their savings pool, and other people move right away. So, we're pretty happy actually with our forecasting skills and pretty happy with underlying customer behaviors. And that at a time, when I think it's in high inflation environment, people really are focusing on getting the extra bit of juice out of whatever savings they've got.

So, it's not that people are that happy, everything's going well, just get lazy with managing my personal finances. People are very focused on their personal finances. And behaving in a way that's consistent with a really good business for us. So, will NIM peak? Yes. NIM will peak at some point. Are we there yet? No, we're not.

<<Fahed Kunwar, Redburn>>

Great. Thank you. Two other big areas for you have been financial markets and wealth management, two areas you've done very well in. So maybe starting with what you think about the two of them. Actually financial markets did a very good run recently kind of does that carry on from here? Are there any thoughts on any trends in Q4 that we've seen? And a similar question for wealth management, but on the other side, do we see this pick up now, we've seen some rumors or murmurs of China potentially opening up or changing those zero COVID policy. What's the outlook of wealth management as well going forward?

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

So, on financial markets, there's the cyclical phenomenon, which is macro trading and commodity trading. It's been a very benevolent environment. That's not to say that everybody, that is active in those markets, has had a great time. Not everybody has. But generally, it's been a really good environment for macro and commodities, and it's been a really tough environment for credit for all the opposite reason.

And we have benefited from that cycle. I think certainly in our assessment, your audience would form their own views -we've outperformed in macro and commodities, moderately, but against a very good backdrop. And we outperformed in credit by not having as difficult a time as some others. And as difficult a time means we made less money, not we generated big losses, we haven't. So why do I think we've outperformed?

I think, Simon Cooper, Roberto Hoornweg and that team have been investing in creating a much higher quality business for the past five years. It was a little bit rough in the beginning. We didn't get everything right on the first pass six, seven years ago. I think we got the current team in place four or five years ago, fully in place. They focused very much on, I won't say diversifying the business. Because diversity as an objective is not one that I hold dear to my heart. But to build out the complementary parts of our business, complementary to each other, and also complementary to the rest of the bank. So, I think we now have a very strong Credit Trading business, it is also a key partner for our credit portfolio management function for the bank as a whole. We invested reasonably heavily in rates and FX options to complement what was a very strong FX business and we reinvigorated our commodity franchise. It's significantly slimmed down since, call it, pre-2015 days when the bank was arguably quite overweight commodities. We slimmed it down a lot and we've been building that back up.

So, it's a higher quality, better diversified business. It was never particularly proprietary and it's less proprietary now. So, the focus very much on the investments that would allow us to pick up a higher proportion of the flow business, meaning for starters our in-house flow business, so, digital connectivity between the different strands of wealth management and transaction banking through to the market. And you might scratch your head and say, what were you doing before? The answer is not much. These internal units were trading as much outside of the bank as they were inside. And they're not trading inside now because they're required to. They're trading inside because we work together to build digital connectivity and an excellent customer experience. That means that the customers getting the best price and the best execution from the Standard Chartered channel.

So that's been a big pickup. It's increased the quality of the business a lot. We've invested in electronic trading broadly. So electronic and algorithmic trading, externally. We focused heavily on servicing asset managers. Asset managers were a very small proportion of our financial markets business five years ago. I think I probably mentioned it on a meeting with you Fahed that we had one of the largest, maybe the largest asset manager in the world, say, your number 17 out of 17 in customer service. But we deal with you anyway because we have no choice because of the markets where you operate, but we hate it every time.

We love you, but we hate it. Not me. We love the bank, but we hate dealing with you. That was six years ago and we'll never be their biggest dealer because we don't trade in equities and a few other things like that. But in the markets where we operate, including G10 FX, we're top tier. And it's because we've invested heavily in operational capabilities, in customer service. We've linked this very well to our custody offering, and we brought the custody business, security services into the financial markets business so that operation is now seamless. Anyway, long way of saying we have a much higher quality business, I think that's allowed us to outperform. We maintain strong risk discipline throughout. It will not always be as good in macro and commodities as it was in the first part of the year. It will often be better in credit markets than it was in the first part of the year.

And does that mean every quarter is up from here? Of course, not. Is it a structural growth story? Yes. I think it is based both upon quality and positioning in our markets. So how's it going? I think we indicated, or maybe Andy in some public form that October was looking good. Well, that's still the case. That hasn't changed. November slowed down, and I expect December to say modest as well. It's been an exhausting year in the markets for market participants. Things are still moving around quite a bit as we see but the level of activity has fallen off a bit. So, we're not forecasting as some sort of unbelievable fourth quarter but we have guided to 13% income growth year-over-year for the Group, which is what the first nine months have been.

And obviously the financial market has been a chunk of that growth in the early part of the year. And it'll be an important part of the growth in the fourth quarter as well, which kind of takes me to the second half of your question, which is the business is also very market sensitive. That hasn't had as good a time, which is wealth management. We've been hit quite hard by the drop in wealth management in Hong Kong and in China. We've had actually very resilient performance in other markets like Singapore, which is pretty big for us, but not as big as Hong Kong. And the rest of ASEAN, which is quite a bit smaller. India, which is small, but growing nicely. Korea's been tough.

But the good news is, well, two pieces of good news. All of those markets are improving, even including China, although that continues to struggle. Hong Kong is very much back on the road to recovery, as Hong Kong opens up nowhere near the peak daily transaction volumes or few levels. And I think that is explained by in the case of Hong Kong, the continued lack of travel between China and Hong Kong. That's one source of wealth management income. People, mainland Chinese account holders like to talk to their RM in person from time to time, like anybody who's managing their own money. And that's been almost impossible over the recent months, recent years, really. And so Hong Kong is recovering, but not yet fully back on track.

And of course, equity markets have been extremely weak, in particular in China. The current recent period of reversal, which will be helpful, but investors, as we've seen from prior periods of correction, will stay on the sidelines for a while, but probably missed the first part of the recovery of markets. And then they'll come gradually in, and then come in more whole-heartedly. So, we've got good operational performance. We've got number one net promoter scores in six of our nine largest markets, and top three in the other three. For those of you that have watched Standard Chartered closely, that marks a sea change from where we were in terms of customer service five years ago, where we tended to be in bottom third, not the top third. And we've had account numbers growing steadily with about [two]-thirds of new accounts coming from within the bank. So, coming from our mass market or premium mass, and we call it premium, but it's the top end of mass or the bottom end of Affluent.

So about [two] thirds of those priority customers, Affluent, are being graduated from within, [one]-third are coming from outside. And obviously is what follows from a strong net promoter score, the word of mouth referrals and then customers take them into Standard Chartered. Deposit balances have grown, on the back of that which is obviously going to help increasingly profitability in that business. It continues to be a very profitable business line and segment. And markets are beginning to recover. So, all in all, we feel pretty good about the road to recovery and very good about the prospects in the medium to long term. We see no reason that we shouldn't go back to the compound annual growth rate of 10% that we've had, which of course, in some periods has been much higher, and other periods like the last six months have been much lower.

But the underlying growth story remains intact, our positioning for that growth story, supported by all the leading indicators around client volumes, net new money, AUM, deposit balances et cetera. I don't have to state this, the obvious, deposit balances is money that's waiting to be invested, so makes it makes money on the deposits along the way, but it bodes well for future activity. So, all in all, we feel good about the future of the wealth business, it is on the road to recovery, but e far from the peaks that we saw in the first quarter of this year or last year.

<<Fahed Kunwar, Redburn>>

Got it. That's great. Thank you very much, Bill. Maybe just shifting back a little bit to loan losses as well obviously the Chinese property market has been a key point in discussion over the last few months. You booked several hundred million dollars of impairment so far. How do you think about that sector going forward? How do you think about your kind offshore versus onshore exposure in the commercial or this Chinese property market?

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

We're all trying very hard to get a read of the tea leaves that came out with the 16-point real estate recovery plan. Obviously, the objectives of the Chinese government are to complete the builds on existing properties where homeowners are feeling that they've been left behind, obviously, making mortgage

payments and with units that are being delayed in terms of delivery. That's a key political issue for the Chinese leadership. I think they're also quite keen to reinstate that industry, which has been an engine for growth. I don't think there's any aspiration to get back to the GDP contributions that we've had in years gone by. And of course, I'd like to get back to some element of growth and that requires recovery, and it requires restoration of buyer confidence, which is completely lacking right now.

I don't think they're particularly concerned about loss being taken. I don't think they're concerned at all about losses being taken by international creditors. And I don't think they're particularly concerned about losses to be taken in China. And I think they're keen to remove, this is me speculating, but keen to remove the moral hazard that had set in the credit markets more broadly in China and to say, it's time for us to allow the market to find its level and if that means some losses so be it. So, on the back of that, we've had that view for all the way through this commercial real estate crisis. We provided quite proactively for that both with overlays and we still have, I think, [\$153] million overlay. But also with provisions where it was appropriate to take single name provisions.

We've never said that we were done, and we're still not saying that we're done because this obviously could get worse. There could be some incremental losses. But we have said that we thought we were ahead of the curve. And I think the facts for sure have borne that out. We've been cautious at each step. But the situation has definitely deteriorated from quarter to quarter. Is this 16-point plan going to work? That it's definitely going to work in some regards. I think the kind of the directed lending and the relaxed limits on locals banks to provide the funding or delay repayments to allow underway projects to be completed. We expect will be successful. At what point does that restore confidence in the mind of buyers, so they can come back in and buy the home that they were looking to buy for the past year, but have not had the courage to step in, because I think prices are going down or they are concerned that a project might not be completable or completed. It's probably a little way away, but definitely trending positive.

The onshore/offshore is a really interesting one and slightly vexing. There's really two elements of consideration in the onshore versus offshore. First is the offshore company, Hong Kong, almost always being funded by dividends from the operating company onshore? Or is it being funded under contractual payments? So, debt payments. And are those debt payments senior to or pari passu with or subordinated to other local currency obligations. So that's one consideration. If you're lending offshore, how subordinated are you?

And then the second is local currency versus foreign currency. The offshore lending is almost always in U.S. or Hong Kong dollars. And the onshore lending is almost always in RMB. And so is there anything around the nature of the currency controls or currency movements or depreciating RMB that disadvantages the offshore lender. So, in the first case, some of the offshore borrowers or lenders are definitely structurally subordinated because they're reliant on dividend flows coming out of the onshore companies. And the onshore companies are being prevented from making dividend flows by local lenders who obviously are, through restructuring discussions, are requiring that those onshore loans be paid before any dividends are paid. That sort of structural subordination is very well known to the offshore lender at the time they make a loan. The credit ratings should reflect that, and the credit scoring and associated RWA weightings should reflect that as well. In our case, they always do.

It doesn't mean it's a happy outcome. Offshore loans can go bad where onshore loans are being serviced, but I think we flagged that pretty well, and we understand that. There is a question whether the dynamics between onshore and offshore loans where there is not structural subordination and where there's a contractual obligation to make the payment from the onshore company to the offshore company. There's a question whether tools are being used to either prevent or disproportionately affect payments from the onshore of the offshore company.

We've not seen that manifest itself yet in restructuring formal or informal discussions. But it's not to say it couldn't happen. So, we have in terms of the more at-risk parts of our portfolio where we're already quite well-provided we don't have a big onshore offshore problem that we haven't already provided for. There's incremental pain that we could take. But I put it into the bucket of incremental rather than fundamental. I

think if your only portfolio was offshore and you were relying exclusively on credit rating agencies who for the most part, haven't made the distinction between on shore and offshore. If that was your premise and it has not been ours then you could have some provisions to come that you haven't taken yet.

<<Fahed Kunwar, Redburn>>

That makes sense. And when you talked about deterioration quarter-on-quarter, Bill did you mean Q3 on Q2 or Q4 on Q3?

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

Sorry, which deterioration you're talking about?

<<Fahed Kunwar, Redburn>>

You made the point that there's been deterioration. Product deterioration in the property market, yeah, was that Q4 or Q3?

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

As we've gotten into Q4, the situation has improved, but it's a situation of sentiment rather than cash flow.

Sales have not improved. New unit sales are still severely depressed. There's a bit of money flowing into these projects that had stalled. So, we can see the contractors gearing back-up to complete those projects, which should chip away at the social issues that are so concerning to the government, quite rightly. So, there are signs of improvement, but the underlying prices haven't gone up, sales haven't gone up, not materially, so I guess you could say it's improving, but it's not deteriorating, which is helpful.

<<Fahed Kunwar, Redburn>>

Yeah, that makes sense, the deterioration getting a little bit better. And then on the loan loss question, when you think about, the balance sheet again has changed so much under your tenure and obviously de-risks hugely, when we think about a through cycle loan loss rate and how confident are you that you know, what a through cycle loan loss rate is, given just how much the balance sheets changed? We can't look at the previous cycle for yourselves and your bank has changed completely. So how do you think about the through cycle loan loss in a higher rate environment?

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

Well our guidance has consistently moved down. I think the first time Andy and I gave guidance was probably four years ago. And I think we refreshed our guidance from 60 basis points through the cycle to 40 basis points through the cycle. We're now at 30 to 35 basis points through the cycle, and we consistently delivered actual loss rates that that were well below the lower end of our range. We always remind everybody that our guidance is a through the cycle guidance, which means there will be periods when we're below and there will be periods when we're above. So, we definitely don't preclude the possibility we'll have a 60 basis point quarter, or even a year in the same way that we never precluded that we could have a 20 basis point year, as we have had.

We're very happy with the performance of the portfolio especially in the context of our business. So, with loss rates have clicked up this year, and we know precisely why it's, it's Chinese commercial real estate, and it's downgrades/ defaults in a handful of vulnerable sovereigns led by Sri Lanka but we've also taken downgrades in Ghana and Pakistan where we have a meaningful business. And we know that there are others that are on the watchlist. And we've been able to absorb that into a very strong otherwise business. So still low relative to guidance and relative to the more distant history of the bank.

And relative to some peer benchmarks, it's still low. But it has clicked up and we see the risks on the horizon. There's a recession coming or something like it. There is a dollar that stayed pretty strong, despite a little bit of a correction. And there are real stresses in a number of sovereign states that could kick in. And there may be some zombie companies in the portfolio. They're not going to be the big ones I can tell you, but there could be some smaller ones that could be exposed by 5% rates in a way that they weren't at a 25 basis points rise.

So, there is a fair amount of art, rather than science, but we look at the migration in terms of earnings profiles and the early stage of this upswing in interest rates and downshift in the economy. We look at earnings and cash flow migration patterns and relative to this kind of environment and we extrapolate and we see that reaffirming guidance at the 30 to 35 basis point level feels appropriate, but there's some art in there for sure.

<<Fahed Kunwar, Redburn>>

Of course. But I guess they can have long-term structural argument here is your margins going back up to where it was when rated as high, but the loan losses are lowest. Your risk adjusted margin structurally should see massive improvement versus where we were, the last time rates were this high, which is going to lend itself to why the return profile should be, substantially better than 10% as we head into, is that a fair summation where we are?

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

That is a fair summation and the balance sheet question should steadily improve for the other dynamic that we've been very gently, but determinately adding to our unsecured consumer credit portfolio. We get the question quite naturally? Why would you ramp up that business now, when we're going into a recession with higher interest rates. And the answer is this is the best time to have relatively small, you could call it experiments, but we are past the experiment phase, but they're still relatively small and we're ramping up quite gently to understand whether these massive investments that we made in data analytics and new distribution channels, whether they're working the way we expect them to. I got to say, so far it's very encouraging.

We'll learn some, we'll get some of that wrong, but I doubt you'll notice the failures unless something really catastrophic happens. But it will give us confidence to then really boost that up and then really grow as we come out the back end of a downturn, be it shallower or deep. And that's high risk adjusted margin business.

<<Fahed Kunwar, Redburn>>

That's fantastic Bill. That's probably a good place to stop. So, thank you very, very much for your time today. And if there were any questions, for either kind of Standard Chartered please contact Adnan and Gregg or let me know as well. So, thank you once again, Bill for your time. And thanks everyone for listening. Cheers.

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

Thank you very much.