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In conversation with:
Bill Winters, Group Chief Executive, Standard Chartered

(Amended in places to improve accuracy and readability)

James Invine - Redburn

Okay, good afternoon, everyone, and thank you very much for joining us. My name is James Invine and I'm part of the financials team here at Rothschild and Co Redburn. And welcome to our CEO conference. This session is focused on Standard Chartered. And with that in mind, I'm very pleased to welcome Bill Winters to the virtual stage. As I'm sure you all know, Bill was appointed CEO of Standard Chartered back in 2015. So, Bill, welcome and thank you very much for joining us.

Bill Winters:

James, thanks for having me. Very nice to be here.

James Invine - Redburn

Just a couple of housekeeping announcements first. So, this session will run for 50 minutes. I'll invite Bill maybe just to make a few comments upfront, then we'll go into some Q&A from me. But for those watching live, there is a box on your screen for asking your own questions, and if you put them in there, I will then put them to Bill a little bit later on. So, with that out of the way, let's get started. And Bill, maybe over to you just for some opening comments.

Bill Winters:

Good. Well, first of all, thanks again for having me and thanks for the rest of you for showing the interest here. We feel like we've had a very good year. We're happy with the progress that we made strategically. Obviously, it's been a good environment as well, and the combination of those two things has led to really good earnings progression, and we think a very, very strong strategic positioning.

I thought I would just make a couple of comments about how Q4 is shaping up so that we could spend the rest of the time, James, on a lot of the questions that you and I have discussed that you might want to cover, which were more strategic or longer term in nature. Q4 is shaping up to be fine. Flow income continues to grow year-on-year in our financial markets business as we've guided to the expectation that should happen.

Q3 was particularly torrid in terms of the pace of growth, so I'm not sure we can match that, but we're quite satisfied with the steady progression of that flow income over time and into and including Q4. The episodic income by its nature is more episodic. We would expect that to be a little bit down, but from a very strong comparator last year. And overall, I think we look at our FM business as one that's very much on track.

The global banking has also seen good momentum with good and growing pipelines, good execution. There's still some important business that could come in either side of year-end as a practical manner. But we also note that Q3 was exceptionally strong in global banking. So, I think we're looking to returning to that good steady pace of growth that we've seen for some time without the extraordinary outperformance that we've had more recently.

Wealth, likewise, continues to show really good momentum. The leading indicators remain strong in terms of net new money flow. But we also know, again, we're in the fourth quarter, things tend to slow down a little bit and we've had some equity market volatility, which caused investors to be a little bit on the sideline for periods of time, but we don't see that as, in any way, changing the nature of the progression of that business over the medium term. So, all in all, fourth quarter in shape, but with a bit of slowdown from the exceptionally strong third quarter.

James Invine - Redburn

Perfect. Well, thank you very much for that, Bill. And I think I'd actually like to start where you just finished there on the affluent business. And it was actually a year ago today, wasn't it, that Standard Chartered laid out the vision for where this business is going. I think for the first question, I was wondering if I could just invite you to reflect on the progress made over the past 12 months, and perhaps in particular, where you've got to on your pledge to increase relationship managers by 50 per cent over five years.

Bill Winters:

Yeah. Yeah. If you'll indulge me, rather than just talking about the last 12 months, we could talk about the last 12 years, because this affluent strategy has been shaping up. It was well underway before I arrived in the bank 10 years ago, and it's been a pretty continuous story of growth and evolution since then. Of course, as a business, it's not completely linear because it's market sensitive in some ways, but the measures of ... Let's just start with some of the inputs. Customer satisfaction began to improve substantially seven, eight, nine years ago. And I think a lot of the net new money and net new client flows that we're getting now are coming word of mouth and through referrals that relate to the investments that we made to be a number one customer satisfaction wealth management provider in eight of our top nine markets and number two in the ninth. So, this has been a long progression.

But when we look at our market position over the past decade, we've taken some share up until a couple of years ago, we've started taking more share over the past couple of years, but we've been taking a little bit of share, but hadn't invested substantially in the business. So, we did a lot of remediation to get the customer satisfaction and fill a couple of gaps in the product suite, but there weren't many, but we filled those out. And of course, a year ago, we made the pronouncement of about \$1.5 billion over five years, which is very much on track. And we'll give some detailed breakdown of number of RMs (*Relationship Managers*) and amount of money of the investment that we indicated, the amount of money spent, at our full year results, but also in much more detail in May in our investor day.

But the investment is on track. The investments in RMs, we've added hundreds of RMs, and that is going extremely well. We find that we're, I think, a very attractive destination for RMs from very credible shops. The reason is, number one, we've got momentum and we're seen as a place that's clearly focused on their business. Number two, we're open architecture, which is a little bit easier for some RMs to deal with than having house product that needs to be fit into the mix someplace. Number three, we do have a complete product suite now, and we've invested pretty heavily in technology. We have much more to go to streamline our underlying infrastructure.

But if you're an attractive destination for the best RMs, and we clearly are, and you're an attractive destination for the best manufacturers, and we clearly are because obviously we're not competing with them with our own asset management products, but I think we've also found a way, whether it's using variable capital corporations in Singapore or other curated programs to have a broad range of products, but with a very specifically focused set

of curated products, which are very attractive to the best asset managers in the world who want to deal with us and want to distribute through us. So, all in all, I feel that business is in good shape. The investment program is in good shape, progressing at pace, at the pace that we desired, and the fruit is bearing from those investments.

James Invine - Redburn

And how are you feeling about the progression of net new money from here? So, I think it's quite notable that you are already running ahead of your target run rate over the next five years. And I guess a lot of those new RMs, you said you'll give us the numbers next year, but a lot of those, I guess, are not yet in the door. Most of them are not yet in the door. So, it feels like there's quite a bit more to go on net new money. Is that fair?

Bill Winters:

There is. There is. I mean, the net new money, this has been a good year for net new money. And like I said earlier, the leading indicators, which are just clients who were coming in the door. Obviously, we saw the surge in net new money in Q2 and Q3. It was slightly deposit heavy, which is perfectly natural in terms of where our clients put their money when they come in the first instance. And we saw the migration through Q3, and I would expect to see that continuing in the quarters to come into the higher margin wealth products. Keeping in mind that we love the deposits as well, and we would certainly not be turning away those deposits if that was the end destination. It's not. And we're seeing exactly the kind of progression that we had hoped and expected, and frankly, to which we guided you.

We have been adding material RMs for the past two years, three years, and we've had very little by way of attrition. So obviously people leave in the ordinary course, but we're not in a price war. We're not losing a price war and we're not fighting a price war. We're fighting a quality war, but we're definitely picking up the pace and we're definitely finding very interesting talent. Some has started. And this rule of thumb that it's one and a half years before we get full productivity out of a new RM, we're trying to find ways to shorten that as well by making it easier for the RMs to arrive to hit the ground and hit the ground running. Yeah, there's plenty more to go. But in the meantime, the pace of net new money is very much in line with what we've been guiding you.

James Invine - Redburn

I mean, that all sounds really positive. So, I guess when you look a little bit further out, so on a five to 10-year view, just how big could this business become? Because from what I can see, it's a very exciting business, the ROE, unless you correct me, is probably around the 35 per cent mark. So, if you're growing it, if you can double it, which it looks like you're on track to do, it really does have quite a material impact on the overall group returns on tangible equity.

Bill Winters:

Absolutely.

James Invine - Redburn

Where does this business go to?

Bill Winters:

Look, our view of the market is that it's a structural high single digit, low double digit growth market, and that's the growth that we've enjoyed for the past decade. Of course, there are ups and downs from quarter to quarter, but that's the structural growth in the market. Through investments, we'd like to pick up an additional one or two percentage points or more if we can, obviously we have this year, growth on top of the market, and that obviously is market share. And there's nothing that we see that should prevent us from taking market share entirely organically. It's not an inorganic play for us. Of course, if there was an extremely financially attractive opportunity on the table to accelerate that growth inorganically, we would, but we don't feel that we have to. In fact, we're sure we don't have to. So, we don't have to compromise at all in terms of returns to do something inorganic when we can grow the way we are organically.

And we think, and every indication is, that we can grow faster than market and with the investments that we're making. As you know, the RMs are RMs, and we've got a pretty good idea how we can convert that into earnings growth. The technology investments, it's a little bit of a new world. So, we've got leading edge AI tools (*Artificial Intelligence*), which for the time being are targeted entirely internally, so they're RM augmentation tools. But the benchmarking we do says that they're best or amongst the best in class in the markets in which we operate. Probably not the best in class in the world. I think there are probably some AI-driven apps in the US that are sharper than what we have, and we're learning very, very, very actively on how to match best in class in the world. Now, does that give us ... And we expect to be in the lead on that.

Everybody will talk about AI and everybody will say that they're the best at everything. We are not the best at everything. We intend to be the best at this, in wealth management and covering our affluent client population, exactly because we share your excitement about where this business can go. Does that give us some opportunity for an incremental uplift above what we can do through our day-to-day organic investments, RMs and basic technology? Yeah, absolutely. We're not building that into our guidance, but I think there's a ton of upside in this business as we focus on this as really one of our absolute core pillars.

James Invine - Redburn

Fantastic. And I think one of the things that has caused maybe a little bit of confusion is just the transfer last year of \$40 billion of assets from the custody business into this business. I think at the time, Diego, your CFO, said that you should, in time, be able to generate the same margin on this as you do on the rest of the business. Are you able to help us on the timeframe here? Because it really is a pretty big chunk of revenue. It could be about \$500 million. So how long does it take to get that \$40 billion portfolio fully invested?

Bill Winters:

Look, it definitely takes some time. You can imagine the nature of that kind of an asset transfer, which is somebody who's gone from a portfolio which was not actively managed to a portfolio that's actively managed. And the active management is, and obviously parking that money with us, the active management is what we intended to capitalise on.

I think we've seen it early signs already in terms of some redeployment. There's a reason that we redesignated the assets. The reason was a change in intention in terms of the management of that portfolio. And I don't think this is unique to Standard Chartered, I think you see this all the time. But you're right, it's a meaningful chunk of our AUM. We call that out very specifically because we didn't want to mislead in any way. Should we be able to get

to the same kind of margins on that particular \$40 billion that we earn on everything else? Yeah, we should. We can't control the timing, and I suspect it's more medium term than short term.

James Invine - Redburn

Okay, understood.

Bill Winters:

But it has begun. I mean, it has begun. We're not waiting for *(inaudible)*.

James Invine - Redburn

Perfect. Okay. Now, everything you've talked about there sounds very positive, but some investors have been asking what risks are attached to this business. And certainly, in the past, you've talked about the flows that come from offshore wealth originating from China or India. And in the past, we have seen banks trip up with the conduct risk around this. So how are you ensuring that your revenue growth today doesn't turn out to be regulatory or litigation issues in the future?

Bill Winters:

Yeah. No, it's a great question. And unfortunately, we're reminded all the time of things that happened 10 or 15 years ago that take a long time to resolve. So, as you know, and you know the history of our bank, we did have our compliance-related problems in the 2007 to '12 period, or something like that. And we very aggressively cleaned that up. It actually cost a lot of money to clean that up and it also cost us a fair amount of income because we ended up shunning a lot of business that had been income in the earlier incarnation. That's ancient history at this point, but we haven't relaxed our conduct and compliance standards at all.

So, you've seen when there have been the occasional scandals in the market, Standard Chartered has not featured in those scandals. It's not because we don't have a big market presence in Singapore or in Hong Kong or in mainland China or in India. It's because we are extremely diligent. Now, is there a cost, a day-to-day cost of being extremely diligent? Yeah, of course there is. I mean, there's business that we don't do, and that's exactly as it should be and exactly how we would want it to be. Are we properly calibrated? Yeah, I think so.

I mean, the way I look at this business, it is absolutely core for our bank. And to have a compliance or conduct violation that would have the effect of either calling us out of the strategy or deferring us or delaying the implementation of the strategy would be a very high impact event. And that's obviously at the heart of your question, but that's the way we treat it in terms of the control mechanisms that we put around that.

We vet the RMs very carefully. It doesn't mean that we could never hire a bad egg because of course we could, and we could have one. But that's not ... I think our vetting is quite thorough. The track record is good. When you talk about the risks of the business, they probably break into three categories. You focus on conduct and compliance in the first instance. I think best in class is an overused term, and I don't know how we would benchmark that precisely, but it feels like we're very, very good in that regard.

Second is market. And early in my time in Standard Chartered, there was a devaluation of the RMB. It turned out that many clients of every private bank in Asia had one variation or other of a carry trade in RMB that they lost a lot of money on, especially if they were leveraged, and that the market contracted for a quarter or two, and then it

resumed the previous trajectory of 9, 10, 11 per cent growth in the market. So, I mean, we should remind ourselves from time to time that this is a market sensitive business, not structurally, but episodically, and just know that. Not much you could do to hedge that other than make sure you've got a really good, diversified earning stream, which we do.

So, with our healthy component of bank assurance, the healthy component of lower risk funds, whether it's fixed income funds, with a good online broking capability that allows customers to trade themselves actively and then obviously with an increasing proportion of more market sensitive or less liquid product, we probably have a business that's as diversified as anybody, maybe more. So that's the only mitigant to the market impact on our business, but it's only a partial mitigant.

And then the third risk is the source of your future business, which you highlighted as well in terms of a meaningful proportion of our net new money coming from mainland China and Indians or global Indians, international Indians. Both of those, we understand the structural wealth accumulation and the structural need to diversify investment portfolios, and now the increasing ability to diversify investment portfolios. They're not the same by any means, but there's a similar set of underlying trends and observables.

It's not easy for me to see either why or how either of those would reverse materially. China has been opening up steadily and Chinese FX reserves are increasing, not decreasing. There's no capital flight from China. There's more money coming in than there is going out. Obviously, still running very substantial trade surpluses, which is part of that, but that's not the entire story. So, I think it would be a major, major reversal in China if they sought to tighten up currency controls. And as we've pointed out many times in the past already, the bulk of the money, the vast majority of the money that we're taking in from Chinese nationals is already offshore. It's offshore because they have businesses that are offshore, and the money has stayed there. So very little is coming as a direct transfer from the mainland.

That said, about 85 per cent of the new accounts that we have that are opening wealth accounts in Hong Kong, Singapore, Dubai, or Jersey for us already have an account onshore mainland China. So, we know them, we CDD them, we observe their business and trading patterns onshore, and then they move money, which is already offshore, into the offshore accounts of Standard Chartered so it feels quite protected, but that would be the third risk. All in all, I think you're quite right to highlight that when you're growing this fast, you've got to ask the question, what could go wrong?

Yeah, conduct, source of new clients and market are the three things. I think we're as well positioned as we can beyond all three of those.

James Invine - Redburn

Understood. Thank you very much. Now, if it's all right, I think I'd like to turn to CIB. So that is your biggest business line. I think this year has been an interesting year on the political front. It's been about eight months since Liberation Day. I think at that point we were talking about some of your clients diversifying their supply chains and so on. So, with the benefit of us being eight months further down the road, how many of your clients are actually going down that route of supply chain diversification? How far are they through that process, and what does this do for your business over the next couple of years?

Bill Winters:

Yeah, obviously it's hugely a topical question and we're studying it all the time. The first thing, maybe break the question into a few sources. There's Chinese corporations, there's other Asian corporations that had China or Chinese manufacturers as an intimate part of their supply chain, and then there's rest of the world manufacturers. All three of those categories were diversifying their supply chains pre-COVID already, and they were diversifying their supply chains because the cost of labour arbitrage, China versus alternatives, was narrowing. China was becoming more expensive. The labour pool is not growing at the same pace that the ASEAN, for example, or Indian labour pools are. So that diversification was already happening. COVID highlighted supply chain security as an additional issue beyond cost, which accelerated the supply chain reconfiguring. Tariffs and technology restrictions as part of the whole trade war further accelerated.

Every one of our clients, mainland Chinese, other Asian and non-Asian either have or are undergoing some supply chain reconfiguration. China plus one was the euphemism actually pre-COVID, if you remember, and that was just getting some diversity into your supply chain. That became the catchphrase, given that the supply challenges during and immediately after COVID. You can still say China plus one, but what's interesting is to see the shifting nature of where the manufacturing is going and how the supply chains are being either disintegrated or reintegrated for different product and different markets.

What we've seen with probably most notable in that has been the emergence of India as a China plus one destination, despite the geopolitical tension between those two countries. But it makes sense because India has the labour arbitrage. I think labour is cheap. For the right projects, it's relatively straightforward to invest in India. I say for the right projects because it requires a fair amount of government help, planning and otherwise. And the logistics are becoming far more favourable, including transportation logistics, and land planning, et cetera.

But the nature of those investments is a little bit different. I mean, mainland Chinese companies are investing heavily in India, but they're investing much more in a minority controlled joint ventures where the Indian counterparty might own 51 or 75 per cent. The IP (*Intellectual Property*) is frequently, certainly at the outset, coming from the Chinese partner, many of the components are coming from the Chinese partner, but with royalty payments going back and margins on the components, going back to China, to the economic interest of the Chinese counterparty is quite high.

But I think it's just worth noting that in this new configuration of supply chain configuration, China is becoming an exporter of IP rather than an importer of jobs. I mean, China's manufacturing prowess was built by importing Western jobs and importing Western pollution. It's now going the other way. So, China is now an exporter of IP. So, when CATL, the battery manufacturer, invests in Europe, they're not selling EV batteries to European car makers. They're building a battery manufacturing facility in Europe with CATL IP, getting the royalty payments going back home, but without sending labour out. It's a changing dynamic, and I think we can continue to see that.

India's a big player in that regard. The ASEAN countries I think have more or less equilibrated around the tariff differentials that are in place today vis-a-vis the US. Vietnam, nowhere near as hard hit as it was on April 2nd, but still at a relative disadvantage. The whole transshipment question is still open. How active will the US expect the different, in particular, ASEAN countries to be in terms of choking off transshipments through those markets? It's not perfect yet. We don't see it, I can tell you because we don't engage in that kind of activity, but we know that it's there.

And so, I think that the shifts will continue, but the investment pace is not materially abated, but the nature of the investment has, it's changed.

James Invine - Redburn

And you see this just as a clear positive for your business, more complex supply chains, I guess, means a greater need for more and varied financial products, deeper integration with the bank?

Bill Winters:

I mean, the best parts of this dynamic for us, probably the top of the list would be when a mainland Chinese manufacturer invests in an Indian or ASEAN manufacturing facility or, well, just a manufacturing facility, a factory or a mine, that's probably the best scenario for us because we go from having a role with that company in their China business, but we're competing with Chinese banks and with a very low cost of capital and a very low cost of funding. And when they invest in Indonesia or Vietnam or Malaysia, they need financing, they need local currency, they need FX hedging, they need to reconfigure their supply chain with local providers who are probably our clients. They need to export their goods either back to China for subsequent manufacturing or assembly or to third parties. And we have a higher market share in the domestic markets in every ASEAN market in India than we do in China, despite the fact that we have a super Chinese business. It's not a domestic business in the same way we are in the other markets.

So that's, I won't say nirvana, but that's a good scenario for us. Where other Asian manufacturers are diversifying their supply chain from China to other third-party countries, it's more or less the same, although we were probably providing facilities to those other Asian corporations in China as well because that is the mainstay of our China business, that cross-border money in, money out, goods in, goods out China. And then the third is other non-Asians who are diversifying their supply chain. And that's also fine for us. But again, we were probably banking with them in China in the first place. So, there's a little bit of give up both on the source and then pick up on the destination. But the value for us comes from the breadth of the relationships that happens when a supply chain reconfigures. We're extremely well positioned for that. And when you go further afield from Asia and India into the rest of South Asia, Middle East, Africa, we're just in very good shape. And as we've always pointed out, while by volume, the biggest China plus one undertakers are Chinese companies, but by value, probably the biggest impact for a bank like us is the clients that are coming out of Europe or the Americas, because we are somewhat unique in terms of our Asian presence relative to the other people that those companies bank with in China.

James Invine - Redburn

Understood. Thank you very much. And I think a lot of what you were talking about there is non-financial corporates, but another plank of your CIB strategy at the moment is to do more with financial institutions. So, could you just say a few words please on how that's going, what led you into that direction, and how accretive it could be for your returns?

Bill Winters:

Yeah. I mean the financial institution business is going very well. And you know this, but at the heart of that has been our correspondent banking business, which is a business we've been in forever, which in and of itself is a good strong returning business, and we continue to invest in that. It's very interesting, I mean, it's small in the overall

scheme of things, but the dialogue that we have with our correspondent banking clients around new payment methods and this whole question of whether there will be alternatives to the fiat-based money movement systems that we all experience today, and that is at the heart of our correspondent banking relationships. What's that going to look like in the future? We're such a natural counterparty for these banks to deal with. Of course, in many ways we compete with them in local markets, but that's fine. We're best friends when it comes to everything cross-border, and that's becoming more and more active. And I'd say that our position with those banks, banks and quasi-banks and neobanks and new payment method companies, is becoming richer and richer and richer. And I'm sure that that will lead to an underlying impetus for continued profit growth.

The areas that are growing from a much lower level, but growing very fast is our coverage of asset managers, including insurers, sovereign wealth funds, pension funds, and then go on to private equity sponsors and then go a little bit further into private credit. I mean, those areas are just booming for us. And we've had a view for a long time, certainly I've had a view since I sat on the Independent Commission on Banking in the UK post-financial crisis, that the capital burden on the banking system was inexorable. And we may see a little bit of pullback right now on the back of the mood shift and we got the FPC's comments yesterday and the stress test results and all that. That's good, but the capital burden on banks is still inexorable and the capital burden on non-banks is less so. And we built a really good business helping non-banks access the origination capabilities that are intrinsic to our business and to our business model.

That combined with the good, strong, and consistent underlying investment in financial markets and a really good and differentiated custody business. Obviously, we're a sub custodian, so serving those markets that the big global custodians are not interested in, so they become our biggest clients and partners. We're just in a really good place to offer a range of financing solutions, asset solutions, servicing solutions in fiat and in digital, digital prospectively, fiat today, to grow that customer base. We've invested quite heavily in customer satisfaction. I've shared the anecdote in the past of in my first year in the bank, one of my old friends at a very, very large asset manager said, "We only deal with you because we have to, because you're the only bank we can deal with in some of these markets where you operate. But your people are great. We love dealing with your people. But man, your servicing is just awful. Your operations are awful." Well, we took that as a clarion call to really double down on building the infrastructure to support that client base. Very demanding, very sophisticated, many of you are listening to this call right now. And it's worked.

I'm sure we're not best in class in terms of operational ease and efficiency, but we're very good. And where we have a shortcoming, we know exactly what we need to do to fix it. So, we can be a top three FX bank for a large asset manager or obviously a large bank or a hedge fund. We're also a pretty good partner. And I don't know why we're a good partner, to be honest. Maybe it's because Diego and I and Manus and David, we're all really nice people, but we just get on with people, but I think it's also because we're smaller. So, one, the partnerships mean more to us than they would to my old employer, JP Morgan. And I would never suggest that JP Morgan is arrogant, but what you've done as well as they have, you might figure you can just do it on your own and you really don't need anybody else to help. That's not our view. Our view is that there's a lot of horses for courses. And whether it's partnering with Ant Financial on a bunch of new payment method things or partnering with Apollo on a bunch of private credit related things, we see this as a huge opportunity to leverage the core strengths that we have as a bank for much broader and much bigger impact than we could all buy ourselves. And that's a key driver of that financial institution client franchise as well.

James Invine - Redburn

Lovely. Thank you. And turning specifically to the markets business at Standard Chartered, well, I think any market's business anywhere, investors generally put a lower multiple on it given the less predictable revenue stream. But you have split your market's revenues and you have the episodic side that is a bit more volatile as you've already talked about earlier on. But in terms of the flow business, that has just grown remarkably consistently. And I still don't think you quite get the credit for it. So, could you just give a couple of examples? What are the products in there? Why has it been just quite so consistent over the past few years?

Bill Winters:

Yeah. Look, it's an enormous frustration for me, but it's not a new frustration. I think my first presentation of this nature, James, to a group of analysts was at JP Morgan, I'm going to say it was in 1994. And I was probably running fixed income or markets or something like that at the time. And we had this zippy fixed income business with this great derivative business, and I got the question, "Why does the market not value that more highly?" I said, "Well, let me tell you why this is just a crown jewel," blah, blah, blah, blah, blah. Well, here we are 31 years later having the same conversation. I can tell you that the business at Standard Chartered is very different than the business from JP Morgan today or from JP Morgan in 1994, obviously. And the reason that we came up with this kind of contrivance, we don't run the business as flow and episodic. We do deals and then we determine whether those deals were flow deals or episodic along quite specific criteria.

And the flow business is its day-to-day hedging activities. And a lot of that is coming out of our transaction banking franchise, so whether it's coming out of the core payments franchise, the core trade franchise, or the core security services franchise. And I'm not saying that the customers who are executing their FX with us on the back of a trade flow or on the back of a payment or on the back of a custodial cashflow aren't serious about the way they conduct their business. They're very serious. But we're in a position to provide best execution to those customers. And if we provide best execution, it's kind of ours to lose. And it would be the same at Citibank or HSBC or JP Morgan who also have these flow businesses. It's just a bigger proportion for us than it is, from what we can see, than it is from the others. And there's no guarantee that, one, that we win every one of those trades. We don't. And two, there's no guarantee that we'll continue to grow. But we are growing our market share in these areas.

This is our target area for growth, is core operational services where we are... I mean, we never tell clients that we are their outsourced treasury centre because they're their own treasury centre, but we want to make the treasurer's life as easy as can be with a single portal that they can access all of our products and services through, that reconciles completely with their internal ledgers, that never goes down, that is very transparent, it's entirely cloud-based, you can access from your mobile phone, et cetera. And that's what we built. And so, our client interface is as good as anybody's, maybe it's better than most, I don't know. It's very good and customers love it. And that, it makes it very easy for us to capture that day-to-day transaction flow.

But then we also have episodic deals. We have the structured deals, big hedge around an M&A transaction, whether it's a contingent hedge or a non-contingent hedge. Capturing big asymmetries in markets where we have, through the benefit of our flow income, have an opportunity to capitalise in particular to benefit a client and to benefit ourselves on some anomaly in the market. And we call that episodic. And as you've seen, I mean, well, you saw in our Q3 report, I guess it was, we started presenting a rolling 12 months on the episodic because the episodic from quarter to quarter can be volatile. Very importantly, it's not been volatile on the other side of zero. It's been volatile between zero and a big number. And so, it's not rolling the dice where 51 per cent of the time you win.

Definitely not. That would suggest we'd have some big negatives from time to time. We haven't. Not saying we never could, but we haven't. But when you look on a rolling 12-month basis, it's actually quite stable. But it's the flow income that's growing. The episodic income is growing less, it's growing, but it's growing less. That's kind of by design because we really want to be that entry point for financial institutions and corporations to access financial markets through us.

And part of the reason that we're... And I guess you'll get to digital assets and AI at some point because that's all anybody really wants to talk about. But the reason that we're so focused on building this digital asset infrastructure is so that we can capture all the other engagements that we would have with a client. And if you're missing a strand that becomes important to a client at some point, even for six months, well, then they go plug into somebody else's system and you've lost an edge. So actually, at the moment, we have the edge, so we're getting market share. Even though there's not a lot of business going through digital asset rails, it's of no significance economically today, but everybody wants to know that their partner can deliver that set of products and services when they're ready. And that's our ambition. I'd say so far, we're on track for that. But that's what's going to drive our continued growth in flow income. And it's not very volatile because corporate cash flows, trade is not very volatile. Capital markets transactions are not very volatile. They're a little volatile, but not a lot. But we just want to take more share of that market, and so far, so good.

James Invine - Redburn

Very interesting. Thank you. I mean, why don't we stay on that theme of digital assets and all the new technology that's coming in? I think we can see it from two different directions. So, on the one hand, I think Standard Chartered has been talking a lot about this for a long time before it became trendy at other banks. So, does that, the fact that you've been doing this for a long time, position you particularly well today versus your peers, do you think? But then also on the other side, one of your competitive advantages is your network, is your footprint in all those local geographies. So do you worry that this new technology will make that less valuable if other banks find it easier to replicate your connected network.

Bill Winters:

Yeah. Well, on the second, no, I don't think it leaves us more vulnerable because I think governments and regulators are really reluctant to embrace, well, probably anything new, but in particular this, because there are risks. If you're in a developing economy, the risk is that your monetary base dollarises. And as quickly as people can get their money out of an insecure local currency, and I'm talking about countries where the domestic population has lost confidence in their own currency, it's always been the case, that surplus went into some hard currency, US dollars. But obviously, pre-digital assets went into bills, bank notes that you stuck under your mattress, or gold, or some other hard asset, properties in central London is kind of an obvious one.

But those are all hard to do. They're not portable, they're not very safe, subject to seizure, et cetera. Digital assets are none of those things. But we must recognise that when an emerging market or developing economy investor is owning USDC or USDT or some central bank digital currency, there was a black-market transaction at the heart of that. I mean, obviously, that you could buy it with your offshore assets, but at some point, if these are being held domestically, somebody found a way to get money out of the regulated economy into the unregulated. And of course, that's never going to happen through us. And we'll always be very, very careful about source of wealth.

But the local economies, in the long run, if they don't adapt and make their home currency an attractive one to hold and use for investments and transactions, they will lose control of their economy entirely. And so, in those circumstances, yeah, if we've got some special position domestically, we could find ourselves out. We're much more likely though to be the ones to support the local central bank, the local regulators, to put the mechanisms in place to make their market attractive. Our job is to contribute to the local financial infrastructure, so that foreign capital can come in on a hard currency basis and can go back out on a hard currency basis, to allow jobs to be created and economic growth to be generated.

Obviously, it doesn't always work that way, and we've seen many, many, many examples. I will say that through the ups and downs in developing economies, Standard Chartered has done very well. And we call out when a country where we operate have a substantial local presence, it goes through a restructuring process, we take a loss. And it's been quite small losses because I think we manage those positions very, very actively, but we're exposed.

When we take a loss, we then get a big chunk of the deposits in the country coming to us, usually at a very nice net interest margin, which allows us to recoup that loss over a relatively short period of time, which is why our Africa or South Asian business, which have experienced lots of these challenges, have consistently generated positive EVA (*Economic Value Added*) from year to year to year, and I think we'll continue to. And that's before you attach any value to the differentiation that that network represents to our multinational clients, which is material, whether the P&L shows up in those countries or not.

But anyway, back to your question, risks from digital assets, there's tons. And as we sit around talking with our management team and our board, we debate actively whether we're more preoccupied by the fear dimension or the greed dimension. Because the fear dimension is very clear. In extremists, there's a withdrawal of a substantial portion of deposits from the banking system that are then going into some digital asset that's probably backed by government debt rather than by bank deposits. Now, is there an alternative to that? Of course, tokenised bank deposits are the alternative, but there's some real operational challenges of getting the interoperability between one bank's tokenised deposits and another bank's tokenised deposits.

Not an insolvable problem. And markets like Hong Kong, Singapore, have been very focused on creating an interoperability. The UK, Bank of England, has indicated that that's a clear area of focus for it in terms of its regulatory focus. So, there's lots of ways that this can go. There's definitely a fear factor in terms of things that we do today that could either have their margin reduced or money flows that could go away from us.

The greed factor is, at the end of the day, people that manufacture widgets or that lend money aren't really focused on the plumbing that's behind their transaction. They just want to make sure that it's cheap, it's easy, it's transparent, it's safe, and they want to deal with intermediaries that can give them access to all of those things in the best possible package. And that's what we want to be. That's what we are today, and that's what we want to be going forward.

And we want to take a lot of market share by being a first mover in some of these areas, which our bet is that that will more than offset the losses to our current business. But when I was reflecting, actually with you, James, last night, that as we were talking about this, I set foot in a bank for the first time 42 years ago I'm I embarrassed to say or something. But anyway, there we are. And virtually, every year since then, my colleagues, and probably I, at various points, said, "Margins are coming down, competition is intense. Some special thing happened this year, which can't be repeated next year. So, I'm afraid our budget next year is going to be lower than this year. And so, I really need to get a big bonus now because next year I'm not going to get any bonus at all."

Every freaking year, I hear that. And in the subsequent 42 years, in about 38 of them, that's been wrong. About 38 of those years, business growth, whether it's volume or new products or new clients have offset the margin compression, increased competition, displacement of markets, disintermediation, et cetera. And the reason is because the global economy grows, and the people who are positioned to provide solutions to new problems will make a good living. It's always worked that way for me. I say 38 out of 42. There have been down years. I remember 2008 wasn't so straightforward, although where I happened to be working at the time, it was quite straightforward, but for different reasons.

But those are the unusual years. The good years are the industry presents opportunities to make money, and you're either going to get in front of the change or you're going to respond to the change. If you're responding to the change, it's going to be harder, and eventually you'll go away. If you're in front of the change, you won't get it right every time. We definitely don't get it right every time, but we'll get it right enough of the time that we can capture the opportunities as they come up. So, fear versus greed, I will bet on greed winning out in the medium term.

James Invine - Redburn

Perfect. Okay. Thank you, Bill. Maybe just switching gears a little bit. I wanted to ask you about your deposit performance, because it actually seems to be really pretty good this year. So, it looks like relative to HSBC and DBS, you've lowered the cost of your deposits, but meanwhile, you are growing them faster than those banks. So, what is it that's driven that out-performance and can we see it continue in future years?

Bill Winters:

We were quite unhappy. If we went back six or seven years, we were quite unhappy with the quality of our deposit base. And it wasn't something that... We just hadn't focused on it as much as we should have. And at the core of the quality of a deposit base is how consistently are you providing a good service to your corporate or individual customers so that they want to use you as their main transaction bank? And what we found, even in the wealth area, which was very good for the bank six, seven years ago, we were frequently not the main wealth bank. We were the second or third wealth bank, meaning that the surplus balances were sitting with whoever was first.

And so the investments that we made in customer service and core infrastructure, together with, I think, a much more agile approach to pricing. So, we have, as you would expect, substantial, local autonomy to local treasurers and CEOs to run the local balance sheet. But the bulk of our current accounts and savings accounts (CASA), and the interest cost is sitting in the big hubs, the fact that the wealth business is growing as nicely as it has, obviously there's a significant deposit flow there, and that's a very attractive deposit base for us.

In terms of corporate deposits, we're winning cash management mandates. We win virtually all of the RFPs where we're the incumbent. We retain the position, not 100 per cent, but pretty close. But where we're competing head-to-head on a piece of business that isn't ours, we've got a win rate of roughly 50 per cent, and that's an obvious way of saying, "we're gaining market share."

And when you gain market share, you gain deposits. And when you go from being the second cash bank for a company in a country or in a region to the leading cash bank, you get a larger portion of the surplus deposits. So, we're focused, it's growing, and I think we've got a long way to go. We have far from 100 per cent market share in any of the markets where we're operating. So, I think we should be able to continue to improve that deposit base.

James Invine - Redburn

Good. Perfect. Now, I know we're running out of time, but I was wondering if I could just ask you about one more topic, which is tax, a bit techy in some ways. But when you look at standard charters tax rate, it really does seem to be a bit of an outlier versus peers. So, if you put together your geographies, it feels like it should be in the low 20s, but actually last year it was 33 per cent. I know you're guiding that it comes down to the high 20s, but can you run a bit faster on this? It could be a really huge upgrade for net profit if you could get your tax rate down.

Bill Winters:

It's a great question, and it's a huge area of focus for us. It's enormously frustrating to literally be having a thirteen percent tax or thereabouts on our ROTE relative to some of our peers, but it's not easy to fix. And at the heart of our tax problem is that we, through our 170 years of history, accumulated a big cost base that's not in locations where we have an offsetting revenue base. So, an element of our taxable expense or tax-deductible expense is not shielded by income.

We also operate in a number of developing economies that have very high tax rates outright and prevent us from doing some basic things like recharging central group costs, including costs of capital and MREL. [inaudible] back into that local market. And of course, we have the option not to operate in those markets. And in extremis, we don't operate in places where the tax disadvantage is so high that on a standalone basis it's generating negative EVA for us.

But those problems we dealt with for some time, but we do still have some structural obstacles that can only be overcome bit by bit, moving the income generation units into those locations of higher expenses and then moving capital out of the very high tax or trapped, call it trapped tax jurisdictions, into markets that don't offer that or don't deliver to us that negative. So, we're making progress, but I'm afraid it's not an overnight thing. And if it was... Of course, if you have any ideas on how to do this better, James, we'll gladly accept it because it's super frustrating to us.

James Invine - Redburn

Perfect. Understood. And sadly, with that, I think we are out of time. So, I just want to say thank you very much to everybody joining. And of course, thank you very much to Bill. I know you're a very busy man, so thank you for giving us your time this morning.

Bill Winters:

You're all busy, especially at this time of year. And so, I really appreciate taking the time to listen in and to give me a chance to share some views on a bank that I'm really quite proud of at the moment and for some time to come.

James Invine - Redburn

Fantastic. Thanks, Bill. Thanks, everyone.

Bill Winters:

Bye.