Standard Chartered's Investor Event
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Delivered by:
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Manus Costello: Hello, everybody, and welcome to Hong Kong. I am delighted to say that I know most of you in the room already, but for those online who are less familiar, my name is Manus, and for the avoidance of doubt, I am not Manus, the AI agent, which appears to have appropriated my unusual Irish name, and nor has Meta tried to invest $2 billion in me recently.

I am, in fact, the Head of Investor Relations at Standard Chartered, and for the last 24 hours, the interim CFO. I joined the Bank a couple of years ago, and I have been looking at the Bank for a very long time, because I was a sell-side analyst previously, and so I have seen Standard Chartered through many different cycles. I can genuinely say that this is an extremely exciting time to be taking on this role. It's exciting because of the foundations that we have built. Those are foundations in terms of client relationships, foundations in terms of our core technology, and foundations in terms of our strategy. It is because of the strength of those foundations that we are now ready to enter into a phase of acceleration, against the backdrop of those trends that Bill has talked about.

But before we get into the future, let's just look a little bit about those three phases that Bill talked about already: reposition, execute, and compound. Back in 2015, the Bank had to go through a significant period of repositioning and restructuring, as it removed a number of high-risk assets from the balance sheet, and that meant that for a period of time, both income and costs were broadly flat.

By 2019, the Bank was ready to grow again and to distribute capital again. In fact, we'd initiated a share buyback at that time. But of course, just as we got going, COVID hit, which slowed our momentum, in particular, had an impact on net interest income. Coming out of COVID, growth has accelerated. But the important thing to understand is that that acceleration in growth has not just been because markets have been conducive. It's been the direct result of the foundations that we have put in place over time. We are now poised to continue that, and to compound that growth going forwards.

Let's look at the last couple of years in a bit more detail. Back in February '24, we laid out a three-year plan, and I'm delighted to say that we're able to deliver on that three-year plan in two years. We managed to deliver revenue growth of 16%, which exceeded our three-year growth targets within two years. We delivered positive income-to-cost jaws over that timeframe. We delivered an underlying return on tangible equity of 14.7%, which well exceeded the 13% we were targeting, and which itself had already been upgraded, and we were able to distribute capital.

But not only did we do well, we did well relative to peers, we think, as well. We showed the best RoTE improvement amongst our peers over that timeframe, we showed the strongest income growth, and we had exceptional EPS growth and TNAV per share growth, as well. Those latter two were powered by a 15% reduction in our share count over that period, and that was enabled by the over $9 billion of capital distributions that we've announced since

February '24. That $9 billion, just to take a pause on it, represented 45% of the market capitalisation of the Bank when we announced it.

But I know you know these numbers already. There's also an awful lot that's been going on beneath the surface during the course of that last couple of years. We have fundamentally been engaged in a transformation of the core of our Bank, and you will hear more about that through the course of today. We have changed our organisational design, and made our processes significantly simpler across the Bank. And I think, I hope, we now present the Bank to you in a way which is easier for you to understand, and on a reported basis, more accurately represents the banks that you own as shareholders.

So, let's look at the financial targets. Bill has already mentioned the RoTE and the EPS targets. I'm going to spend time talking to you about the building blocks to get there.

First of all, we will deliver a CAGR in our income of 5% to 7%. That will be driven both by the macro trends, but also, importantly, by the investments that we've made to take advantage of those trends. We will deliver a cost-to-income ratio of 57% in 2028. That is down from 63% last year. We continue to expect our loan-loss rate through the cycle to be 30 to 35 basis points, and we will operate across our CET1 ratio range of 13% to 14%. Lastly, we will deliver a dividend payout ratio of at least 30%, which will lead to a progressive dividend per share over the course of the plan. Combined, those are the factors which are going to take us to a greater than 15% RoTE in '28 and to a high-teens EPS CAGR over the course of that period.

So, how does that look in terms of our RoTE walk? Well, I've given you two separate ways to think about the RoTE walk here. The first is a more simple P&L view. Put simply, we're going to grow revenues more quickly than we grow our expenses, and that's because we believe we have powerful top-line trends, and we are investing to ensure that we can scale our revenues at lower marginal cost, a topic we'll come back to frequently. This will be offset by an assumption that there will be some normalisation of impairment, if our impairment moves back to the 30 to 35 basis point range, which we see is through-the-cycle.

We delivered 19 basis points of impairment last year. For the avoidance of doubt, we're not seeing any new risks on the balance sheet at the moment, but 30 to 35 basis points is the assumption for planning purposes, and we will see a small uplift from operating dynamically across the CET1 ratio range.

But I think more interesting, and that I'm going to spend more time on, is the second part of this RoTE walk, because really, what drives this RoTE improvement is a mix shift in our business. We are going to continue to see our WRB business, our retail business, move towards the affluent space, and our CIB business will continue to see its growth being driven by the network and by financial institutions clients, and combined, those two factors will drive an uplift in RoTE of almost 400 basis points over the course of this period.

So, let's take a look at that mix shift in a bit more detail. You know about our CIB and WRB businesses, because we've had investor seminars on them over the course of the last 18 months. In CIB, we are expecting our revenues to move from 54% financial institutions to 60% over the medium term. Our network income will move from about two-thirds of income to 70% of income by '28. In WRB, our affluent business will move from 70% to 75% between last year and 2028. Those are the mix shifts we're seeing, and they have a number of important impacts which will drive our returns higher going forwards.

Firstly, moving into these businesses means we are moving into businesses which are higher income return on risk-weighted assets. So, within CIB, our network income and our financial institution, FI, business are both about 200 basis points higher, in terms of income RWA than the domestic business and the corporate business respectively. Within WRB, our affluent business is much higher return on risk-weighted assets than our non-affluent business.

But this is about more than just a more efficient use of capital from that mix shift. Moving ourselves into those customer segments also allows us to move into much better areas of growth, which really tap into the areas that Bill has talked about already, and which you will hear plenty about during the course of today. We also think that by moving into those areas, the customers that we serve will be stickier, and they'll be stickier because they tend to bank with us across different geographies, and because they take multiple products from us. So, it's a higher-growth, stickier customer base that we're moving into.

The great thing is, we have already invested in the platforms which are allowing us to deliver that growth. So, we expect to see strong operating leverage by focusing on those customer segments which we know well.

Lastly, we think that that mix shift will lead us to a lower risk profile as a Bank overall, which I'll come back to discuss in more detail later. We think it will drive higher connectivity between our affluent client base and CIB.

It's not just about a revenue mix shift, though. There is also a shift that we expect in the balance sheet as a result of our business moving. Put simply, we are seeing an increasing surplus in our WRB business, as it generates cheaper liabilities. The cheapest form of funding we have comes from WRB, our CASA liabilities in WRB, and we are continuing to generate a surplus of liabilities, i.e. there's more deposits than ways to deploy them at the moment in WRB.

Within CIB, lower-cost, higher-quality deposits in our CASA base, the operating accounts, are also continuing to grow very effectively. What that means is two things. First of all, of course, it means a lower cost of funding going forwards. But secondly, by having those high-quality liabilities, we have options for deployment of those liabilities into different areas of the balance sheet, be that into the banking book or into the trading book.

Now, that means that the treasury portion of our balance sheet, which has already fallen in recent years, is likely to continue to fall. That's important, because we estimate that going forwards, it will generate about a 50 basis point uplift to our RoTE through the course of the plan.

Now, that 50 basis points, to be clear, is already embedded in the RoTE walks that I've given you, so it's not incremental. But I thought it was very important to highlight it to you, because it is very fundamental to what we are doing as an institution. It's something that we've seen over recent years, it's something that we think is durable and will continue over the course of this plan, and we think it will carry on for the future, driving the synergies between our WRB business and our CIB business on the balance sheet, as well as operationally.

Let's look at the revenues in a bit more detail. We've grown revenues by 16%, as I said, over the last couple of years, and that's despite NII headwinds because of the rate environment. Rates have really affected the blue bits of this chart, so our Transaction Services business has seen good growth in operating accounts and good growth in fee income, but it's had NIM headwinds, which means it's gone backwards for the last couple of years, in revenue terms. Similarly, our Deposit & Mortgage business within WRB has been broadly flat, largely as a result of net interest margin headwinds.

The real drivers of growth have been coming from what we call our engines of non-interest income growth. Our Global Banking business, which has grown at 13% compound, adjusting for our Aviation Finance business. Our Global Markets business, which has grown at 12% compound, and our Wealth Solutions business, which has grown at a fantastic 26% compound. Together, those non-interest income engines have meant that we have managed to grow our non-interest income by a 13% compound rate over the course of the last couple of years, and that is what we expect to continue going forward.

So, we are expecting growth of 5% to 7% compound over the next three years. Within that, we think that non-interest income will continue to grow faster than net interest income. We already generate 47% of our income from non-interest income, which is higher than peers. Because of that momentum that we're seeing, we expect that to move to north of 50% by 2028, well higher than peers. It is a unique feature of Standard Chartered that we are able to continue that growth, and something which we think is critical to the future for the Bank.

For the avoidance of doubt, we're not changing our net interest income guidance for 2026. We continue to expect 2026 NII to be broadly flat on 2025, but we do expect some modest growth in net interest income thereafter.

Now, turning to expenses. We've talked a lot about revenues, but we know that we have structural inefficiencies in the Bank, which we need to address. We have invested, including through FFG, in efficiency programs, which have allowed to keep our back-office costs broadly flat over the course of the last couple of years. We know that we now need to ensure that we can deliver improved efficiency for you going forwards, without asking for any additional large below-the-line charges, and that is the commitment that we're going to make for you today. We know that our operations and functions continue to benchmark somewhat less efficient than peers.

You're going to hear later today from Noelle and Tanuj about all the efforts that we are making to ensure that our Bank becomes simpler, more connected and faster, to drive better efficiency going forward, because the outcome for you, as shareholders, is clear. We are going to move from a cost-to-income ratio of 63% to 57% over the course of this plan, and we will deliver positive income-to-cost jaws in each year during the course of the plan. We will also ensure that the revenue productivity of our employee base continues to improve, and that will be enabled partly through a rationalisation of our operations.

We are a Bank that is investing to grow. We have tremendous opportunities, and we will continue to invest to grow, but I know that there are still inefficiencies in this organisation which we need to address. Our challenge now is to move to a process of continuous improvement, to ensure that not only do we grow the top line each year, but that we also improve efficiency and returns each year, and that is what we're aiming to deliver. Let me be clear. We know, and we are committed to ensure that the top-line growth that the Bank is going to deliver over the next few years will deliver the maximum possible profitability for shareholders.

Let's look a bit at risk now. Now, I talked before about how the business model is moving us into lower-risk customer segments, and I think that is really fundamental to what we're doing. This is not just about taking individual underwriting decisions differently. This is about an entire shift in the way that we think about the business. But let's look at it in numbers, first of all.

So, within our CIB business, you probably k now already that the investment-grade proportion of our exposures has moved from 42% to 74% over the course of the last decade. Even in more recent years, if we look at the probability of default within our corporate book, it's continued to fall - this is based on Pillar 3 data. It's continued

to fall quite sharply in recent years, and we think it now benchmarks very well versus peers, and we're very pleased with that.

Within WRB, we have been moving to focus on affluent clients for some time, and that has enabled us to exit certain single-product, unsecured relationships with customers, which means that the proportion of unsecured balances on the WRB balance sheet have moved from 19% to 12%, a 7 percentage point drop over the course of the last decade. So, again, moving us to a lower-risk place.

Now, having said that, the world is an uncertain place, and we are very happy to continue to guide to an expected through-the-cycle loan-loss rate of 30 to 35 basis points. But we fundamentally believe that the mix shift that I talked about previously will not only drive better income to return on risk-weighted assets, but will also drive us into a lower-risk business model that is enduring.

Let's talk about the balance sheet and capital. We have maintained a very strong balance sheet over the course of the last decade, and we certainly intend to maintain that position going forwards. We have a CET1 ratio target range of 13% to 14%, and we've tended to operate, if you look back at the last seven years, at the upper end or even above that range. Indeed, at Q1 2026, we had a CET1 ratio of 13.4%, and that gives you an indication of where we expect to operate going forwards. We will now operate dynamically across the range, such that on average, you should assume we'll be at the midpoint of the range.

We are a very capital-generative bank, and we have generated more than 330 basis points of capital since 2023. If you look at the uses of that capital in the last couple of years, we've retained about 25% and distributed about three-quarters of that capital to shareholders via dividends and share buybacks. Going forwards, we expect to generate more capital, because we're going to be a more profitable institution. Very broadly speaking, you should assume that the uses of that capital will be about a third for RWA growth, a third for dividends, and a third will be available capital, including for buybacks.

Let's look at that framework in a little bit more detail. Our first use of capital, as Bill mentioned, will be to support our business growth. We expect to grow the top line, as I've said, between 5% and 7%, and we expect our average risk-weighted assets to grow less than that. In other words, we are expecting our income return on risk-weighted assets to improve over the course of the plan. Secondly, as I've mentioned, we will deliver a dividend payout ratio of at least 30%, with a progressive dividend per share. We believe, after those two uses of capital, we will continue to have significant available capital for us.

The first and most likely use of that capital will be for share buybacks, because as Bill said, we continue to think that our shares represent exceptional value at these levels. However, we need to be aware, as well, that we operate in markets which offer us growth opportunities, which we think many of our peer set do not have. Therefore, if we are able to find opportunities to deploy our capital in a way which both drives income growth above that 5% to 7% expectation and meets our income return on risk-weighted asset hurdles, we will consider that as an option.

Lastly, we will continue to consider inorganic growth opportunities, but these will always be in line with our strategy. For the avoidance of any doubt, there is nothing included in the plan for inorganic growth, and we don't have anything that we are planning at the moment, and there's nothing on the table for that. The guiding principle

of our capital allocation is actually relatively straightforward. We will allocate capital in order to drive the maximum economic value for our shareholders.

So, let me summarise what we have been saying, both Bill and I, during the course of today. We're going to deliver a RoTE in 2028 of over 15%. What's going to take us from that 12% level we did last year up to 15% is income growth, driven by some strong structural trends, supplemented by the investments that we've made in core areas.

We are shifting our business mix into areas which enable us to access that growth and deliver higher returns at the same time. Because of the work that we have done on transforming the core of the Bank, and will continue to do, we're going to be able to scale at a lower marginal cost. So, we will see strong operating leverage during the course of the plan. We will maintain tight discipline on risk. We will maintain a strong balance sheet, and of course, we will continue to distribute excess capital to shareholders.

All of those factors can take us from 12% to north of 15% in 2028. But importantly, all of those factors continue past 2028. It is exactly the continuation of those factors that we have enormous confidence in, and which will take us to an 18% RoTE in 2030. We've repositioned the Bank, we've been executing very strongly against the plan, and we're now excited to be entering into a phase of compounding growth.

Thank you. With that, Bill and I are happy to take some of your questions.