Standard Chartered's post second quarter 2024 results meeting with analysts

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(Amended in places to improve accuracy and readability)

<<Manus Costello – Standard Chartered>>
In terms of how we would run today, to let you know it's recorded, and it will be transcripted, so when you're asking questions, if you could give your name and your institution, that would be very helpful for the transcript. Thank you very much. We'll take questions in the room, then we'll take some questions from Teams, David is going to manage that. So, if you want to ask questions on Teams, and thank you very much everyone for joining, I should have said that before, thank you to those on screen, please raise your hand if you've got questions and we'll come to you after a few minutes, and then we'll come back to the room. And as I say, we'll try and be done by 9.00am.

<<Diego De Giorgi – Standard Chartered>>
I'd say just one very quick thing. The objective today is to show the depth of our team. The three of us literally take all of the decisions that you see the effect of when we get to talk. It's these three people meeting at some ungodly hours and putting them in place. You know I'm not particularly shy, although you'll see that they are even less shy than me – but the objective is to hear from them. So, I'll try to speak a little bit less, and you'll hear a little bit more from the others.

<<Manus Costello – Standard Chartered>>
Good. So, who would like to ask the first question?

<<Jason Napier – UBS>>
Most of the questions that I have really are about hedge capabilities, what it is you're doing differently from before, and the references that you made about illiquid markets and securities profiles and so on. Just additional colour that you could provide around how that rate sensitivity has come down so much, because it seems that you don't actually need that much volume growth to hold NII stable on the new numbers; so, questions are around what's changed, whether there's more to do and what the risks are. Clearly the market yesterday decided there were a lot more risks in the outlook than before. What kind of an environment is harmful to the set-up you now have with the balance sheet.

<<Dan Hodge – Standard Chartered>>
So, let me talk a little bit about what the approach was in the past and I think to an extent how we responded to that. So previously, and obviously, we thought 'where does most rate sensitivity come from?' It comes from structural balances, it comes from rate-insensitive equity and the piece of your deposits where you're not passing through movements, including non-interest-bearing current accounts. So, we've always had some duration against that, but in the past, we were using fair value through OCI securities to do it. We were

behaviouralising our deposits quite short, and therefore the tenor of the FVOCI was also quite short. So they were broadly matched, but of course because the FVOCI was quite short dated, there wasn't a lot of programmatic income smoothing through the cycle. And so therefore, when there was a fall in rates in 2020, clearly, the NII went down quite a lot relative to other peer banks.

Since then, we've basically been doing two things contemporaneously. We've been behaviouralising our deposits and equity longer, and we've been building more programmatic duration – or, as we call them, structural hedges – and we've been using HTC and some interest-rate swaps in order to achieve that. And we've been building that over the last few years, as you can see. So, we've gotten up just over $50bn at the half-year. On top of that, we also have some fixed receipt mortgages; that's about $20bn. We deliberately don't swap them to floating, so we keep that as duration as well. So actually, if you think about term, structural receipt positions, then it's closer to $70bn right now. We still have fair value securities, we don't include them in our structural hedge designation, because the weighted average maturity of about a year or so isn't quite long enough for us to claim that there's a lot of smoothing value in that, but they are still matching shorter behaviouralised in some of our markets, and it's customary in some of the emerging markets to behaviouralise deposits a bit shorter now.

We're not stopping at the $70bn; we're still going, we still want to build that smoothing position, that structural position. And as Diego answered on the call earlier in the week, we're confident we can replicate the increment this year that we had last year. So, we're pretty confident that $70bn will be closer to $80bn by the end of the year, and we want to keep going. The reason we can keep going is we can continue to find swap capacity. What do I mean by swap capacity? You have to find enough floating-rate assets in the same currencies and entities as your structural liabilities are and you need to put in place a hedging relationship on those. So, historically, that's been a little bit hard for us and for a couple of reasons, you've got to identify assets with the same basis as the swaps you would put on, to make sure it's an effective hedge; and you just need deep enough derivative markets in those countries as well.

So, for us, it's been a little bit harder. You've had to basically scrub the balance sheet and mine those assets to build the swaps. But the more of that we work on and the more originating the right floating assets, the more you can build, which is why we're confident that we can continue to build the notional of the structural hedge position higher and higher into next year and beyond. So, now we have much more protection to a falling rates environment than we have in the past, and that's all very deliberate. And we have that protection across a broad range of currencies as well. Previously it was probably more focused on dollars. So, yes, that's the story.

<<Jason Napier – UBS>>
And to the second part of the questions, what is the environment that is negative to this outcome?

<<Dan Hodge – Standard Chartered>>
We get a much lower rate than is anticipated, but that's exactly why we put these positions on. The kind of disclosure we give around the 12-months annual earnings at risk is not a great predictor of your actual NII, for the same reasons we've given in the past. We're not likely to see a 1% shift down across the whole yield curve, certainly not at the start of the year. So, you would see some of that coming through over time, rather than the first 12 months. That's the risk. On that measure, that's come down by 60% over the last two years, to give some sense as to additional protection that we have. So yes, we continue to build. We'll try and originate the

right customer assets as well, so floating assets we can hedge or even, where we can, perhaps some more fixed receipt duration assets that are held with us as well.

<<Andrew Coombs – Citigroup>>
Just to follow up on that and then I have a fresh question. HSBC gave additional disclosure, as you may have seen, around the structural hedge. They talked about 10% of the hedge maturing in the second half and about 20% next year, with an average yield of 2.8%, I think. Can you give anything on the maturity profile and the positions that are rolling off?

<<Dan Hodge – Standard Chartered>>
Yes, sure. Yes, think of it at about a sixth of a structural hedge which is rolling every year, which won't surprise you when you look at the weighted average maturity of the three years. Because the way this works programmatically is you have what's a rolling caterpillar, so if you have a three-year weighted average, then you've basically got a sixth maturing in a year and it rolls in; and then what you do is you refinance it as six-year on average. Now, it differs by currency, but think about that as constantly replenishing it at the longer end of the curve to maintain that weighted average maturity.

So you obviously saw we got a pick-up in the yield, about 30 basis points in the first half of the year; that's obviously very helpful in terms of a tailwind. There should be in current forwards a bit of a tailwind from 2024 to 2025 as well. Wouldn't necessarily expect it to be of a similar magnitude to the tailwind we've seen for the pick-up in the average yield from 2023 to 2024. And that's really a function of the rate of the current stock of structural hedge positions; the average rate of that is and what they're likely to roll into next year. This year, we probably have more lower-yielding positions maturing than we'll have next year in terms of lower-yielding positions maturing. But nevertheless, we still view it as a tailwind going into next year. There's also the short-term hedge, which will also be a tailwind, if you compare 2024 to 2025, there were two quarters this year, we had that roughly \$40-\$45m drag a month that will not be replicated next year, and that was \$90m or \$100m, so pick-up from the short-term swap not being around next year.

<<Andrew Coombs – Citigroup>>
Perfect. And my other question, completely unrelated, was on the RWAs again, which you touched on, on the call. We had this debate about how sustainable the reductions in the quarter is and how much it is one-off versus normal. So, I was hoping you might be able to elaborate a bit more on three things really. One is the \$2.2bn asset growth mix: how much of that is mix effect and what's driving that? On the \$2.9bn asset quality, that predominantly I presume is a sovereign upgrade, is there anything more you can say on that, and anything else that's on watch? And then finally, the \$1.9bn on market risk as well: what was the driver to that?

<<Diego De Giorgi – Standard Chartered>>
The same man that answered the previous question will answer this one, with one caveat. First, I'll talk for a second about the sovereign upgrades. Yes, it is sovereign upgrades almost entirely, there is a little bit of actual reduction of exposure to certain sovereigns also, so not just the mechanical part of the sovereign upgrades but also a little bit of reduction on sovereigns, particularly in Africa.

<<Dan Hodge – Standard Chartered>>
In terms of the asset growth and mix, there was some net growth in the asset book, which we called out in terms of the disclosures around underlying customers' loans and advances coming through from Banking. So,

there was actually an overall net underlying growth in credit risk RWAs for CIB. And it was broadly flat in WRB. So that's been reflected there.

In terms of the market risk, so reduction in VaR generally was the biggest driver of that, both general and specific interest-rate risk. We also had a movement from some credit risk to market risk, which would reduce headline credit risk RWAs but actually increase market risk RWAs. So actually, there was a larger gross fall in market risk RWAs than perhaps you've seen from the disclosures, so the amount of VaR and risk not in VaR, and specific interest-rate risk that CIB were bringing down is actually slightly higher than the $1.9bn. The reclassification was because we took some Pakistan bonds that were being held in Treasury, which is liquid, in the banking book, and essentially, we've put that liquidity to use with some bonds in the trading book in Global Markets instead, which is essentially picked up in market risk. There is an overall net save from that move, the credit risk down and market risk up. So that's just worth calling that out as well. These are still liquid local government bond positions in Pakistan, so still counts for LCR.

<<Peter Burrill – Standard Chartered>>
I think on the sustainability point though, it's not that the reductions are going to reverse. It's just we wouldn't point it as same level of reductions. So, there's nothing in there which is happening this quarter and it's going to flip and go back the other way if that's part of your question. They're sustainable from that point**, I** just don't think that that trend is something that will be repeatable every quarter. I think that headwinds and tailwinds comment, was more around that.

<<Dan Hodge – Standard Chartered>>
Absolutely, and we have capacity to grow RWAs over the rest of the year, so we've actually allocated some RWAs, particularly to CIB. So, should the opportunities exist for them to put on those RWAs in a RoTE accretive fashion, then they will do so, whether that be market risk or some more credit risk RWA growth.

<<Manus Costello – Standard Chartered>>
If you look at the RWA walk in the report by business, you can see that there was asset growth. You can see it quite clearly that CIB has grown during the course of the year, WRB flattish, which is what gives us confidence to say we can grow in the second half of this year.

<<Dan Hodge – Standard Chartered>>
And you mentioned watch list as well on the asset quality. So, we always have a list of things that we're on the lookout for, and there's usually about nine or ten countries on the list. But actually, we don't see any particular imminent danger. Risk ascribe a probability to each country of a downgrade. We then basically determine what the RWA inflation would be for all of those countries where there's a greater than 25% probability of downgrade are. And actually, if that were to happen, which is highly unlikely, if all of those ten countries would be downgraded, it's actually very manageable for us in RWA and basis point terms. So right now, we're feeling pretty confident about the trajectory and our exposure across the markets. And in many instances, that's because of some deliberate de-risking that we've achieved as well. So, in some of the slides we've shared in the past, you see the likes of Sri Lanka, Ghana and Pakistan. And that's quite deliberate. Where we eye a potential risk of downgrade, we do reduce the size of the balance sheet and the scale of the exposure.

<<Amandeep Rakkar – Barclays>>
Hi, it's Aman Rakkar from Barclays. Thanks very much for this, by the way. Very helpful. I have two questions, one on capital but one on pass-through, which I might ask first. Can you just remind us of the pass-throughs that are implicit in your rate-sensitivity disclosure? And the sensitivity, say, if it was to come in 10% higher, so a more favourable outcome for Standard Chartered and how that might flex from here? Something that we can then go away and model as the rate cuts come through.

<<Dan Hodge – Standard Chartered>>
We know the precise numbers, but it's not something that we want to guide on externally. What I would say is directionally, the pass-through rates, they're not that different to what we have been experiencing on the way up, except for the fact that in CIB, there'll be a bit of a lag, so the pass-through rate won't quite be as high on the liability side as we've seen in the last 50 or 100 basis points on the way up. And so, the fact there's a lag effect obviously is quite conservative in our assumption. That has been reflected in the $650m IRRBB downside disclosure that's been provided. The reason why we think there's a lag is whenever there's a change in the cycle, a pivot in the cycle, there is a bit of a slow response across the market, so we think that's in line with perhaps what some of our peers are assuming as well. Also, it's quite sensitive in terms of the $650m to the pass-through rate assumptions, it's probably the most sensitive single assumption behind the $650m.

<<Amandeep Rakkar – Barclays>>
So, around capital, a two-part question really. Your CET1 ratio has been very strong in the half, and I think you're set to end the year with a surplus CET1 ratio. I don't think that's a great revelation or insight from me. That obviously lines you up to doing some surplus distribution in a similar fashion to H1. But I do look at the CET1 ratio in 2025 and the outlook for capital generation looks a bit more complicated because you have the heavy restructuring charges, I think you've got some regulatory RWA inflation that's come in, notwithstanding the uncertainty around Basel. So, my question is, are you tempted to print a surplus CET1 ratio at year-end, to budget for the various moving parts on capital in 2025? And then, given the expertise in the room, what are your insights around Basel finalisation. Because I think you've guided for the bottom end of 5 to 10%, but it would be really good to get your view whether that's realistic, conservative or whatever.

<<Diego De Giorgi – Standard Chartered>>
I'll talk for a second about the capital ratio and then I'll pass it on to Dan and Pete on the Basel 3.1 and doing a little bit more of a deeper dive, and hopefully, now that the [UK] elections are over, we're going to hear soon on that, and we will take the uncertainty out of that. I will reiterate what we said. We do not need to pre-fund capital distributions for next year. It is a pinch point, for exactly the reasons that you have described, but we don't aim to print an oversized print at year-end because of that. We intend to manage ourselves within 13-14%. And I would also reiterate once again that while right now we can do large capital returns and invest in our business and grow our top line without having to go that far inside our 13-14% range. We're absolutely ready to go as far deep into it as it needs to be, if we are in, I'm exaggerating a little bit, a scarce capital situation next year.

<<Dan Hodge – Standard Chartered>>
Shall I pick up on the Basel 4 or Basel 3.1, depending on where in the world you talk about it. So, the guidance is definitely the low end of 5 to 10%. In fact, we're saying it's unlikely to be more than 5% of our RWAs. We definitely remain of the view it's unlikely to be higher than that. If anything, it looks a little on the conservative side. In terms of the timing, we would expect it to be coming out in early September, the final rules. I know

that HM Treasury are looking at it at the moment. The PRA I think are broadly happy with those final rules. So, unlike the US, there's not a determination that it needs to be a fundamental rewrite. And I think you can probably read into that there's not an expectation that this is going to deplete capital in the UK banking system in the way that perhaps it would have done in the US with the changes to the standard rules on operational risk, which is, you know, hopefully good news across the UK banks. So, we should find out soon enough.

In terms of where the impact is coming on, it's largely through the CIB credit risk side. Not so much coming through in terms of fundamental review of the trading book. But obviously we need to await the final rules and to know precisely what the impact will be. But at this point, we're pretty confident that it will be manageable. Within that 5% there's not a lot of customer-driven management actions there. We largely get there through data and our interpretations of the draft rules when they came out. So, it's not that we have to fundamentally reorient our business in the impacted products in CIB to get to that level. So, we feel like it is very manageable at this stage.

<<Manus Costello – Standard Chartered>>
Perfect. Thanks. And let's go to Asia.

<<David Lock – Standard Chartered>>
I think Kunpeng has a question. And just a reminder for anyone who's online, just raise your hand using Teams if you want to ask a question. So, Kunpeng, if you could go off mute and ask your question.

<<Kunpeng Ma – China Securities>>
Good morning, David and guys in London. This is Kunpeng with China Securities in Hong Kong. I got two questions, and the first one is pretty general, and the second one is specific. The general question is regarding the outlook of our operating income in the future, because we talked a lot during our conferences, but I think it's a small group meeting so will better dig it deeper quantitatively. Because we are expecting rate cuts going forward, and I know it's very hard to predict precisely about the impact on future operating income trends, because there are many moving objects. The negative objects will be the falling rates, but there are also some positive objects, like increasing demand, increasing non-NII and decreasing pass-throughs. So, if you can give us some of the estimates or your expectations about the thresholds for such positive moving factors going forward to support your operating income outlook. Say, if we base our negative factor on the third scatter plot for the rate cuts going forward, so what are the threshold levels of loan growth, non-NII growth and pass-throughs? What are the thresholds to support your outlook or your guidance of operating income?. And the second specific question is regarding Transaction Banking. Because we see the Payment & Liquidity income starting to decline in Q2; maybe it's from a rising pass-through. And the other part about Trade & Working Capital, it also kept declining in Q2; maybe it's due to declining or low demand due to high rates. So, if the Fed starts to cut rates going forward, when should we expect those two income streams to start to increase going forward? What's the time or when should we expect a turnaround in such two incomes streams? Thank you.

<<Manus Costello – Standard Chartered>>
Thanks, Kunpeng. I think I'll ask Pete to address both of them and maybe Diego will chime in a bit as well.

<<Peter Burrill – Standard Chartered>>
Yes. happy to. So, I think when looking at the income outlook, and I'll bring the answer on Transaction Services into this. On the NII piece, we've talked a lot about the moving pieces on NII and the fact that yes, falling rates will depress income. In Transaction Services income that you mentioned on Payment & Liquidity is the cash management, which is the deposits, and the pass-through rates clearly going to impact that. So, I think in that product particularly, we also need to look to grow deposits, and so, we've got a volume effect there. The other half of Transaction Services which is also quite interest rate dependent is Trade & Working Capital. Trade's quite a low-margin product, so it's not necessarily going to move the needle overall, but again, we're looking at ways to grow the Trade portfolio if we can do it on a RoTE accretive manner. Now, I think that if you broaden that out to the rest of NII, we do have a view that loan growth and volume growth as the interest rate cycle turns will be able to offset the headwinds that we see on the rate-specific side.

If you pivot to really the areas that we're focused on for growth, and have been for a while, and are now more than half of our income stream and growing, is really on the non-NII side. If we look at the non-NII, Global Markets is one which we showed for the first time the historical trajectory, which has shown a 9% growth in underlying flow income time after time after time, with some volatility around the episodic income. But we do expect that there'll be episodic opportunities and that the flow can continue as we add products and meet our clients' needs and focus more on financial institutions.

The other thing which obviously has been a huge success in the first half, and we see no reason why that should slow in the near term, is on the Wealth Solutions side. Net new money continues to be good, the growth of Affluent in Asia, and really our sweet spot there is really the Affluent base, not the ultra-high net worth space, so we don't see that that's a one-time shift, but more of a secular trend that we expect to be able to continue. So those are really the key engines, as well as the Banking side, as rates come down, we do expect more opportunities in our Global Banking in CIB, as credit demand continues to increase. So, I think we have reasons that we're quite positive and optimistic on the non-NII front which is why we've put the 5-7% growth targets out there for a number of years, somewhat independent of where we are on the rate cycle. Now obviously with a tailwind this year, we're going to be, as we've said, a bit higher than the 7%, but we think that those non-NII factors are really the ones that are going to drive it going forward. I hope that addresses both your Transaction Services question as well as your question on income.

<<Edward Firth – Keefe, Bruyette & Woods Limited>>
A key question that certainly was running around the market yesterday is what is a good interest-rate environment for Standard Chartered? So, what I mean by that is, there's an argument you can play both ways, that, if the current rates stay where they are, that's great for your NII, but we can see what's happening in Hong Kong and I suspect that will just get harder and harder across the whole of Asia; and so, a falling rate environment should be good for the economy, should be good for the volumes, etc, but then clearly it's going to hit your NII. So, how do you look at that? Is it good for rates to fall now, because that's going to be much better for the economies you're operating in, and we just have to take the NII hit, but you'll get better volumes? Or is it better if interest rates stay reasonably at this level and the volumes will come back over time? So, how do you think about that, and how should we think about it externally?

<<Diego De Giorgi – Standard Chartered>>
So, a couple of considerations on this. First of all, everyone in here has been around the block a few times and we all know that there are relatively elevated level of rates compared to the ones we've seen over the last 15 years. These are actually excellent for banks. So, the question is a very relevant question. There's a generation

of investors over there that you guys talk to every day that literally believe that 3% rates are sky high, 3% rates are fantastic rates for banks to operate in. Now, is there such a thing as a sweet spot? I don't know. I don't think that there is a threshold that activates all of a sudden volume demand.

But what is clear is that the market now has conviction, in terms of the direction and I would say almost also on the speed of the rates at this point. I don't detect what I was detecting three or four months ago, where every investor I was talking to had a different view on how many cuts and when they would be happening. That is actually what we need the most. It's not so much the absolute level of rates. It's a conscious view by management teams fundamentally that they can understand what kind of rate environment they are operating in. So, the adjustment to an environment in which the world has a view, a commonly held view of where the interest rates are going to settle, that is what we are looking for. And I think we are going in that direction. Whether that rate ends up being 3.8% or 3.2%, I don't think it makes a huge difference, because we have de-risked our exposure to interest rates vary substantially. So, we knew we were coming to this slightly different world, we have positioned ourselves as well as we can and we continue pedalling hard, as Dan mentioned at the beginning.

And in the meantime, the clarity on the situation, wherever the situation ends up settling, will give investors and management teams a little bit more animal spirit. Right now, it's the animal spirits that are lacking. You point out to Asia. I would respectfully caution that Asia is not an entity. I mean, there are immense differences. We were with our Board in India two days after the inauguration of the new Modi government, and the activity was simply feverish. The level of confidence is sky high. It's an economy that they say 'Oh, they've downgraded a little bit the rate of growth to 6.5-7%.'. The fastest growing economy in the world, the third largest generator of operating income for us in terms of absolute size. Some of the places are working quite fine, ASEAN, India. In the Middle East, you look at your colleagues covering them, they talk about loan growth, and you go 'Oh, yeah, 40% loan growth.' It's that kind of thing. Our footprint is broad enough that even within an environment in which some parts might not be doing particularly well, provided that we have hedged our exposure to rates, we can pick the spots where we can, and we need.

<<Edward Firth – Keefe, Bruyette & Woods Limited>>
Just coming back on that then, so if you can make your 12% really as long as rates stay less arbitrary 2-3%. I'm not going to hold you to that, but let's just say 3%, surely it's better rates fall then? Because if we get rates falling, you might get some volume pick-up. If you can still hit your 12%.

<<Diego De Giorgi – Standard Chartered>>
Totally. But I think that's because you've chosen 3% so I'll now take 2% as the place to go if they don't go to 3%. If rates go to 2%, does that mean such an immense, larger amount of volumes? Not in the short term, particularly if they go down there in a quite volatile way and in a difficult way to predict. Because what happens then if you are the CFO, not of a bank, although a lot of banks are our clients and so we do a lot of business with CFOs of banks, and I spend a lot of time with them. But if you are the CFO of a multinational corporation, you're thinking 'Hold on a second. Before I refinance this, before I touch this, let me wait, because I might be able to do it at 2% rather than at 3%.' So, stability or clarity of direction is the thing that we crave the most.

<<Guy Stebbings – Exane BNP Paribas>>
A couple of questions. The first one's maybe a slightly unfair question but Slide 27 in the currency weighted outlook that you give is really useful, especially with a bank like Standard Chartered which obviously has

exposure to so many different currencies, so I think from the outside it's a very hard job if we didn't have that disclosure to try and work out exactly what it would look like. I think that disclosure's based of mid-July time, and I say it's not regression, but if you were to do that today, do you have a sense as to how much that might have moved, very, very vaguely?

<<Dan Hodge – Standard Chartered>>
We didn't have time to run it after just from yesterday, unfortunately.

<<Diego De Giorgi – Standard Chartered>>
We didn't think of doing it. Probably in retrospect, we should have done it. It's not a F9 question. It takes a little bit longer. The answer is I don't know, off the top of my head. It's complicated enough as a picture, so it's difficult to know. It's not unfair. It's just difficult, I'm sorry.

<< Guy Stebbings – Exane BNP Paribas>>
No, no, I thought that would be the answer, but I thought I would just ask the question anyway. And then completely unrelated, just building on I think Aman's question on Basel 4 rules, if we do get that in September, how quickly a process is that for you to turn that around and disclose to the market what that means? You know, 5% or whatever the number is.

<<Dan Hodge – Standard Chartered>>
Well, certainly if it does come in early September, they should give us ample time to digest the final rules. And then provided they're not dramatically different from those in the consultation paper, then we'll have enough time to absorb it and then factor that into any kind of guidance and updates we give at the end of October in the Q3 results.

<<Diego De Giorgi – Standard Chartered>>
I don't think we would put out guidance before that, particularly if it's apparent that it's very well within what we thought. And frankly, if it is vastly better than what we thought, we will keep the good news for October.

<<Manus Costello – Standard Chartered>>
I'm just going to go back to Teams for a couple of questions.

<<David Lock – Standard Chartered>>
Yes. So, we've got Amit. Do you want to go next?

<<Amit Goel – Mediobanca>>
Sure, thank you. So, just two questions, but one just actually coming back on the commentary on the hedge. As you extend the duration, and I appreciate you're increasing the size of the hedges as much as possible, how do you weigh it up? How much are you're prepared to give away on a net basis versus hitting the income security. And then secondly, just coming back to one of the questions asked on the call, it sounds like in the Ventures book you're looking to start harvesting more gains over the next few years. In particularly into 2026 and beyond from the SC Ventures portfolio in order to get that business to break even. So, I'm just curious what the magnitude you think you can achieve is within that piece of the portfolio. Thank you.

<<Manus Costello – Standard Chartered>>
Thanks, Amit. Why don't we hand to Dan for the duration and then Pete can pick up the Ventures one.

<<Dan Hodge – Standard Chartered>>
Yes, very good point in terms of the fact that we've got an inverted curve across a lot of the currencies and therefore when you put more hedges on in that environment, there's a shorter-term opportunity cost. And we do absolutely factor that in. So, the amount that we've built in the year to date and what we're going to build for the rest of the year, if that comes to $16bn or so, there is a small opportunity cost to that. We've been very deliberate in the currencies that we've been putting on. We've not loaded on in those currencies that have a particularly large inversion between, short term, overnights and three, four, five years. So, we've actually managed to minimise that opportunity cost. So, we absolutely do take that into account, and it's absolutely factored into the nature of the execution, both the timing and the currencies, and also to a lesser extent the instruments we use to build the hedge. So, it really hasn't cost us a lot in terms of NII this year, and we think it's basically well worth the longer-term protection that those positions have given us.

<<Peter Burrill – Standard Chartered>>
But we have accepted some drag in the current year. We're not going to quantify that, but to be clear, we have accepted some drag in the current year to provide us protection in future years.

<<Dan Hodge – Standard Chartered>>
Yes, it's just not very material.

<<Peter Burrill – Standard Chartered>>
Maybe if I take the Ventures question. And I think, as Bill mentioned on the call earlier this week, Mox and Trust, we expect to be through to ongoing profitability. Once you strip those out, the drag from the ongoing cost of Ventures is not that material, and we do expect to be able to monetise a variety of different ventures. We've done some last year, we've done some this year, and we expect that to be a continued trend. What we want to do is not allow the ventures to get big enough to have a material Impact on the Group and to really look at getting external funding to prove the business case, as well as to generate capital gains from either partial sales or full sales of ventures, depending on the type of venture. But we have to recognise that some of these are early stage at this point, some of these may not even be launched yet. We've got a consistent stream of new ventures coming online, coming to maturity, being shut down and being monetised, but I can't give you a precise amount.

Enough to make the total RoTE accretive, would be the answer. Not terribly helpful, I understand.

<<Manus Costello – Standard Chartered>>
One more online?

<<Gurpreet Singh Sahi – Goldman Sachs >>
Yeah, thank you for taking my question. So, it's around credit risk. First of all, Hong Kong CRE, good to note that our LTVs are low here, it's a lower exposure, and then office is also quite low. But then on the ground, what are we seeing in terms of how desperate the situation is for some of the other banks as it relates to some of the smaller players with the one or two office buildings operating somewhere in Kowloon area. So, if you can comment on that. And then the second one is by extension a more top-down view on credit risk. If I can request Diego or Pete to please comment on what are the top credit risks that you would see in terms of the portfolio? So, from highest to the lowest one, please. Thank you.

<<Diego De Giorgi – Standard Chartered>>
So, I'll let Pete paint a broad canvas of credit risk, which, as you know, as we have been saying, our biggest concern is that we don't particularly see them, and when you don't see them, you're always concerned. Pete will go a little bit more into asset classes, geographies, etc in a broad way. On Hong Kong, it's clear that the measures taken by the Hong Kong Executive and by the HKMA, which I would say are substantially ahead of the curve compared to their equivalents on the mainland, in terms of desire and proactiveness in trying to help the real economy and the real estate sector, while they're working well on the residential side. Where the bid-ask spread is starting to narrow due to the change in the stamp duty, the change in the LTVs, but also a number of proactive measures that the Executive has taken on other things that affect the consumer sentiment and consumer demand. Think about all of the things that they have done on tourism, for example, in order to ensure that the flows of tourism restart, as opposed to Hong Kong going to Shenzhen, which was quite uncharacteristic for a period of time.

In commercial real estate, it is different, our exposure is quite limited in commercial real estate in Hong Kong, $2.6bn from memory, 37% loan to value, a lot of it investment grade, a lot of secured and income-producing properties. But what I would say, Gurpreet, to the broader question of what's happening in Hong Kong is that while undoubtedly the situation is a bit fraught, and I'm sure that people that had larger exposures are watching the situation as carefully as we do or more, but it is less concerning a set-up than the set-up at the beginning of the China Mainland commercial real estate crisis, because of at least three reasons.

One, it is the case that while you rightly mention the family that owns a couple of buildings in Kowloon could be under pressure, that is a small part of the real estate market in Hong Kong. The real estate market in Hong Kong is big developers that are part of very big conglomerates that have been operating in that market for 150 years and are not in the business of giving back the keys to the banks, because they play a repeated game. It's game theory of repeated games, not game theory of a one-off game. So, that's the first.

The second thing is Hong Kong still operates a fundamentally English law system, so the rules of the game around property, repossession, escrow accounts etc, are very solid and very tested. And last, it's the case that these developments fundamentally sit on the balance sheet of companies, so it's very transparent what kind of support they are getting. They don't sit in offshore special purpose vehicles, non-recourse etc. It's a pretty transparent market. Is the market clearly suffering on commercial real estate in particular? Yes. But there are very good reasons to believe that it's going to be a less intense crisis than the crisis that we have seen in the China commercial real estate. And I will finish once again, that in our particular case it's not a particular concern because of the exposure and the coverage that we have.

<<Peter Burrill – Standard Chartered>>
Well, Diego's more than covered the question on Hong Kong CRE. I think with regards to the broader portfolio, and if I allude to the conversation earlier this week, I'll start with the WRB side, we don't have a large consumer unsecured portfolio. Yes, we're seeing some elevated signs of delinquencies, which is why our run-rate losses in WRB are a tick higher than they have been, but I think they're a reasonable run rate. We don't see any huge additional portfolios under stress. We try to take a forward view in both WRB and CIB through overlays and things where we see risk. We put on a $10m overlay on WRB for potential risks, but it's not going to move the needle. These are small numbers. Our largest exposures there in WRB tend to be mortgages, which are very low risk and don't have a lot of ECL. So, I'd put that aside and say run rate's a good proxy. On the CIB side, as Diego mentioned, one of the challenges is there aren't big pockets of risk that we see. I think the business

model has fundamentally changed over the last number of years to be originating to distribute rather than being to be originating large, concentrated positions that subject you to large incumbent risks.

Now clearly, China CRE was one where we had a concentration. We worked through it. We've put overlays and that hasn't been hitting us. We are consistently looking to say, 'Are there other areas of stress in the portfolio?' Be it Hong Kong CRE, be it other areas of CRE, be it any other industries. And we have flagged sovereign risks for a while, but I think sovereign risks are moving in the right direction, rather than the wrong direction. So, there's not a particular industry or portfolio on the corporate side that I can point to as a particular area of concern, which as Diego said is the concerning part. 'Do we expect continued recoveries and negative provisions, or releases on a net basis?' I wouldn't bake that in ongoing. It's not that there aren't more recoveries there, but you will have some losses in the portfolio and there have been some gross losses, they just haven't been big, and they haven't been concentrated in any particular geography or in any particular industry. So, I guess that's the best I can give on that one.

<<Robin Down – HSBC>>
Rob Down from HSBC. I've got one main block of questions, but can I just come back to the answer you gave earlier about lower interest rates? One of the things you didn't mention was the potential switch out of time deposits back into current and demand deposits, and demand deposits in Hong Kong pay 87.5 basis points. So, is that something you're anticipating? I assume it's not taken into account in the $650m sensitivity number, but any thoughts on that?

And a second question really around Wealth Solutions. I wonder if you could give us a sense for how geographically diversified that is. How much of that growth in assets you're seeing at the moment is coming from Mainland China, people looking for alternatives to real estate investment and saying, 'We've got to move the money offshore'?

And then seasonality. We've got used to seeing quite a big dip in Wealth Management in the second half, but I think that's in part been because of the performance-related bonus element that's been paid. And I think you're now amortising that through the year rather than taking it in lump blocks. So, what sort of seasonality might you expect in the second half?

<<Diego De Giorgi – Standard Chartered>>
I'll take for a second the last one and then I'll pass to Pete for the rest. Let's stay in the past, not necessarily just for that, but also because nothing that we see in the flows seem to have a particular seasonal connotation in terms of new to bank and net new money. I mean, it's six quarters in a row of 60,000-plus new to bank and net new money that is at least $10bn. If anything, net new money seems to accelerate partially. And the mainland component is there, but it's not a particularly important one. Hong Kong is more important than the mainland component, for sure, and there are many others. There's non-resident Indians, there's expatriates, there's the local components, etc. So, while the Hong Kong-China nexus is important, it's not far from overwhelmingly so. So no, I wouldn't expect it. Wealth Solutions in July, as we mentioned, has proven very much the point. July is not supposed to be a particularly strong month and instead it continues exactly along the pace of the previous two quarters.

<<Peter Burrill – Standard Chartered>>
On the deposit migration, you're right. I think that the sensitivities that we disclosed don't assume reverse migration or things from time deposits into CASA. And it goes a little bit back to Diego's question on levels and pace of change. The bigger the change, the more you'd expect to see that migration, but I don't think

looking back to the shift that we had pre-rate increases as far as mix, I don't think we have a fundamentally different expectation. We do expect to see some of those TDs migrate into CASA. So probably also some of them will migrate into investment products, on the Wealth Solutions side. As we've said, time deposits for us are a large entry point that we see into our Wealth Solutions. And obviously, with rates high as they are, there are people that park those in time deposits rather than putting them into the market. So, that's what I would say on the deposit migration.

On wealth diversification, Diego mentioned it, it goes beyond China-Hong. Obviously, Taiwan is a big wealth market for us as well, Singapore another one. Some of those are China-dependent, some of those very much are not China-dependent. And we're seeing consistent growth across pretty much all of our wealth markets. It's not one country or one market. Obviously, Hong Kong is the dominant by size, but and as Diego mentioned, that's holding up.

On the phasing bit, for the first time we've provided a split between Bancassurance and Investment Products. And I think what Diego mentioned on net new money very much carries for Investment Products. Typically, first-quarter, people make a lot of investment decisions, fourth quarter not so much, so there may be a bit of seasonality even with that new money on that piece. The Bancassurance piece though is dependent on the pace of sales. So, that's the one where typically you will see a drop-off in the fourth quarter, because a large amount of our Bancassurance sales are on contracts that have a certain target, and you accrue it as you meet targets. It is not a straight line through the year. It's based on percentage of targets being hit, so if we hit those targets earlier, there will be a drop-off in the fourth quarter, but only on the Bancassurance rather than more fundamentally.

<<Manus Costello – Standard Chartered>>
Which is one of the reasons we wanted to split that out for you, so you could see that more clearly.

<<Dan Hodge – Standard Chartered>>
I agree with Pete, just to add one thing in terms of the TDs and CASA. I wouldn't say what we've experienced was so much a migration, because unlike some other institutions, including some of the US institutions, we've actually held on to our retail current account, savings account balances very well. In fact, they increased. So, what we've really seen, the mix has changed, because we've just managed to grow our TDs at a higher rate than we've been growing retail CASA. And that's been very beneficial for us. There's other advantages of TDs in terms of an anchor product to help bring in more wealth business. So, I think in terms of what happens in the future, we're pretty confident, whatever the rates environment is, we can continue to grow our retail current accounts and savings accounts. But less likely to be growing TDs, managed rate deposit at the same rate. So, I think I'd view it more as a growth story than we'd expect a migration per se or reverse migration. But Pete's right in terms of you probably would expect to get the mix to go back closer to where it was because of the respective growth.

<<Alastair Warr – Autonomous>>
Thanks for giving us time to ask the questions, guys. One topic missing so far is costs. Just on the Fit for Growth programme, that particularly this time around you've presented it very much as granular, a lot of small projects on process, IT, and productivity. Noticeable to me that people are a little bit missing from that. You did announce the programme in the first place shortly after there was a couple of senior executive departures. So, if we could put personnel back into three years with the Fit for Growth, how material might that be? Is that

a way of thinking about it as a programme? I think particularly about geographical versus divisional reporting complexity.

<<Diego De Giorgi – Standard Chartered>>
Just one thing on those top executives, etc, I wouldn't associate that to a Fit for Growth thing. The thing in Fit for Growth, that was adjacent really to Fit for Growth, was the fact that we took out the regional overlay. Because the regional overlay was not particular additive to the way we were managing the bank. We were managing the bank on the ground in the countries with the customers and we were managing the bank along global lines with the divisions. But while it's very obvious to everyone and to all of you for sure that CIB is run across global lines, WRB is run a lot more globally than you can see from the outside. There is a lot of product development, of deployment, of technology, of standardisation, and increasingly so, that goes on in Wealth and Retail, particularly because of our focus on Wealth Management to Affluent that lends itself well to this kind of standardisation as opposed to ultra-high net worth individuals that require very much of a high-touch type of approach. I'll park that for another moment if of interest.

<<Peter Burrill – Standard Chartered>>
I think on that side, if you look at our disclosures on Fit for Growth, clearly what that enables with regards to streamlining decision-making, streamlining management teams, etc, is part of Fit for Growth. And we're looking at is to say 'Okay, well, it's not just we don't have regions. What does that mean? How do we realign ourselves? What does that mean for organisational design across the organisation?' So, it is clearly one of the things that we're looking at. And even when you look at process simplification, technology simplification, all those types of things, the large majority of our cost base is people-related costs. And so clearly, when you implement those things, there will be people-related outcomes, it's just not how we're going to solve it. So, we'll never talk about headcount first or people first because that's not the goal. This is not we're taking out X amount of costs and X amounts of heads. This is we are fundamentally transforming the bank to make it easier for our clients to do business and for our employees to work here. But with that, those efficiencies, that technology implementation, that process simplification, clearly, we won't get costs out unless there are people ramifications and cost of people ramifications coming from that.

<<Alastair Warr – Autonomous>>
Sorry if I could just bounce back to Hong Kong property. You've covered it quite well so far, but just we had a little bit of guidance from another large bank this week that rates turning should help past cycles in Hong Kong, when it's deflated for a long time, there has been quite a lag from things troughing from when HIBOR first drops a lot. Is rates all the answer to getting volumes going? I'm thinking about the amount of supply out there, and especially residential, but office too.

<<Peter Burrill – Standard Chartered>>
On the mortgage portfolio, we're looking at it from a margin and a profitability standpoint. If we wanted to grow our mortgage portfolio, we could grow our mortgage portfolio, but we've got more productive ways of using those deposits than growing the mortgage portfolio. So, I think we have to look at our Hong Kong mortgage as more of a conscious decision on our point rather than a market dynamic of there's no demand for mortgages in Hong Kong. So, I think the question is if the rate environment becomes more conducive, that margin pressure comes down and we'll be more inclined to write more mortgages beyond those that that are our core customers that have other broader relationships with us, which is really what we've been focusing there.

On the broader property market and commercial real estate, as we mentioned it's not impacting us so much, so therefore the reversal of it will I'm sure provide some benefits but it's not critical to the outcomes for us I think.

<<Manus Costello – Standard Chartered>>
Just back on costs as well, just one thing to help you on modelling, just to clarify. We'd said in the presentation that we would spend $200m on CTA on Fit for Growth this year. We've spent about $100m of that so far, so there's about $100m of that to come in the second half. There's also some incremental stuff from previous programmes. So, for the second half in total, you should think about $150-200m of incremental restructuring cost for the second half of the year. Hopefully, that helps.

<<Raul Sinha – J.P. Morgan>>
Maybe just to follow up on that Manus. Is the $1.5bn entirely cash or are there going to be some write downs?

<<Peter Burrill – Standard Chartered>>
It's cash.

<< Raul Sinha – J.P. Morgan>>
And the phasing of that into next year, is that going to be even, or could there be quarterly lumpiness?

<<Diego De Giorgi – Standard Chartered>>
It's an interesting question we got yesterday at the J.P. Morgan hosted lunch with investors, about the fact that as we have indicated, our investment spend often times is weighed toward the end of the year, which is an unfortunate time from certain points of view, because it's also when some of the seasonality hits us. And the question is, with Fit for Growth, given that you have a little bit more control of how you implement, can you really phase it? And I've been racking my brain and I wish we could say that, and we've also got to do it pretty quickly.

<<Peter Burrill – Standard Chartered>>
I think two things I would say on that, to add. One, we want to do it at pace. We want to get going on these things as quickly as we can, and therefore we want to implement them as quickly as we can so that we can harvest the savings as quickly as we can. So, I think the phasing is more dependent on the initiatives themselves. The other is there's over 200 initiatives. So, there isn't one big thing that is going to hit in a particular quarter. It's 200. So, the ability to manage the phasing of 200 initiatives to get some smoothed outcome is not something that we're going to spend a lot of time doing to get it smoothly phased. And of course, I don't think it will terribly lumpy though.

<<Diego De Giorgi – Standard Chartered >>
Exactly. Although exactly because of that 200, you can see that also the chances of extreme lumpiness is probably lowered.

<<Raul Sinha – J.P. Morgan>>
One more question. The AD ratio has been taken down quite a lot. And as we think about structurally the deposit margin coming down with rate cuts, should we start to expect this to inflect back higher? And Standard Chartered is a very unique bank, so where do you think the right AD ratio for a bank like you is in the near to long term?

<<Peter Burrill – Standard Chartered>>
It's an interesting one. Actually, Dan and I have had a number of conversations of whether that's an important metric It's not something that we are actively managing. It's not something that we think is critical to understanding us or how we think about managing the bank. So, I wouldn't point you to 'This is the AD ratio that we should operate at.' Because it depends where the opportunities are. If you take a look at this year and the fact that we've said it's more productive to put more of the cash at work in a trading book than it is in a Hong Kong mortgage because the margins on mortgages aren't great, if that flips, we're happy to flip the other way. So, I don't think it's a metric that we want to actively manage to. And therefore, I don't think we're going to give you a target of where we should be. Dan, do you want to add on that.

<<Dan Hodge – Standard Chartered>>
I completely agree. It's an output rather than input through the decision-making. Because what we're trying to do is we're trying to meet all of our various prudential metrics whilst maximising the return on equity. And so, the ideal asset to deposit ratio is whatever it happens to be that supported those objectives.

<<Diego De Giorgi – Standard Chartered>>
Now, within all of that, if I add just one little overlay, of course, with all of that in continuing to improve the quality of our liabilities remains an important part, and it's one of the things that gives us confidence in our look forward NII numbers. So, in that sense there is a little bit of an element there, but I completely concur with the rest.

Especially that we demonstrated it this quarter, because last quarter we got the question, 'Oh, but you had to grow market risk weighted assets in order to produce the good results that you had with Markets.' This time Markets was an excellent result, leave aside for a second the 7% down from last year, which was a phenomenal quarter last year, but it's almost $800m of Global Markets revenue, and I like it, as the CFO, right. So, we did it with less market risk weighted assets, and we did all of the revenues with substantially less risk weighted assets. It tells you that while it's absolutely great that we are Standard Chartered, and we are active in areas where there is natural credit demand to the tune of 5% across the cycle and where there are ample opportunities to deploy the balance sheet if we so decide.. When we don't want to deploy the balance sheet or the opportunities are not there, we can hit our revenue targets very efficiently.

And I would stress that the discussion that we have, again, I'm a poacher turned game keeper, I was a banker before a CFO for most of my life, so I have these discussions all of the time with the Chief Risk Officer and the heads of our divisions. The discussion is very often by all means to own the client relationship, but we just don't want to own the asset. There are some assets that we want to own, there are some assets that we want to own for a long time, there are some assets we want to own for a little bit of time, and there are some assets that we just originate to distribute. That is really part of the story, increasingly so, I would say.

<<Manus Costello – Standard Chartered>>
Thanks, Diego. We've got one more question from Asia and then we'll take at least one last question in the room and then we will let you go.

<<David Lock – Standard Chartered>>
So, Kunpeng, can you go unmute and ask your question?

<<Kunpeng Ma – China Securities>>
Thank you for taking my second round of questions. I've got an additional question on cost. I visited one of your Wealth Centres in Hong Kong this week, which was pretty impressive, very nice views and a very strong team. And we see money just keeps flowing from China mainland to Hong Kong and then flowing to all over the world. And I'm sure this trend will continue. And as a Chinese resident, I fully understand the reasoning behind this trend. So, my question is, for such business opportunities and the continuous trend of money flowing outside China to the world, maybe you need to recruit more managers to manage this money and to service your clients and maybe you need to build more such Wealth Centres. And also, Transaction Banking is also an expensive business. Everybody just keeps investing on it. So, my question is, sometime in the future, do you need to revise up your cost target, or is the current cost project is sufficient for you to capture the future business opportunities in Wealth and in Transaction Banking, based on reasonable expectations? Yes, thank you.

<<Peter Burrill – Standard Chartered>>
Thanks for the question. I'll take this one. We spent a lot of time on the Fit for Growth discussion focused on the cost piece of it, but the whole reason behind Fit for Growth was that we needed to do this to be able to make those investments that you're mentioning, right? If we want to make those investments into Wealth, into RMs, we needed to create the capacity to our cost base to do that. We think we can do it within the $12bn cost guidance. We were very conscious of that when we made that, and the growth part of Fit for Growth is making sure that we could afford those investments in technology or people to support the business growth that we need to demonstrate and deliver. So yes, we feel confident that we can do both at the same time.

<<Andrew Coombs – Citigroup>>
Sorry, it's Andrew Coombs again. I wasn't going to ask another one, but as you've touched on Fit for Growth, I did want to just say one thing. You're the only UK-listed bank that still has an adjusted cost and an adjusted RoTE target. Everybody else is statutory. Now, what we typically see in Standard Chartered is you reach the end of a three-year cycle and then another restructuring programme happens and there's a bunch of extra CTA charges. So, can you confidently say that the CTA charges come 2026, on top of the $12bn, are going to drop out and fall from 2027 and we're going to go to a $12bn cost run rate?

<<Diego De Giorgi – Standard Chartered>>
From Fit for Growth programme level, for sure. Absolutely. I'll say two things and one will be a tad spiky but in a nice way. I love the fact that banks report statutory numbers, and then they give you 16 caveats to those statutory numbers. There's notable items etc. Let's not make it look like we are the undisciplined one.

In terms of the absolute levels, absolutely, they will fall. This house has had for a long time a constant stream of cost programmes with the objective of reinvesting the money. The difference is that the house had never had double-digit return on tangible equity for a long time and could not take the time to look at what I call the stock of costs as opposed to the flow of costs. This house is managing the flow of costs in order to deliver positive jaws, which we will continue to do, but within that we now attack the stock of costs. Attacking the stock of costs has to come with the effect that costs are more manageable going forward. 'Will restructuring costs go to zero?' Never, I think, because there's always something. But with someone operating in our areas, there's always something that goes below the line for as long as the below the line exists. But absolutely, this kind of levels are now because of what we are doing.

<<Manus Costello – Standard Chartered>>
Super. Well, listen, thank you very much everyone for coming in in person. Really appreciate it. Thank you for dialling in from Asia. Thank you for keeping Diego relatively quiet.

<<Diego De Giorgi – Standard Chartered>>
I did a good job of keeping quiet and I'll tell you why. Because I am immensely lucky to have these people. You have to understand, I arrived in here and I knew nothing about a bank where you know that we have now a tax on the word 'complex'. If anyone uses the word 'complex' in here they get fined, so I'm not going to use the word 'complex'. But it takes a little bit of time to understand this. And without the individuals here and the more recent additions of Manus and David, I wouldn't have survived, so I am incredibly lucky, so thank you.

<<Manus Costello – Standard Chartered>>
Thanks a lot. Thanks everyone.