

Standard Chartered PLC
Post Q2'25 results meeting with sellside analysts

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(Amended in places to improve accuracy and readability)

David Lock:

Thank you very much for taking the time to join this. I know it's been incredibly busy the last two or three days, so, we really appreciate your time. The way we're going to run it is like we normally have these virtual meetings, which is if you've got a question, just use the raise hand function on Teams and then we can just order the queue that way. The only other housekeeping point is Diego has to draw out at 10:15, but we will keep running the meeting until 10:30 or until your questions run out. And so, with that I think, we will turn to questions.

Diego De Giorgi:

Just one. I can see you all have all hands raised already. So, it's a good trick to get in with the hand already raised. But first one quick thing about the team in front of you. You obviously know them all. You know David, Peter, my deputy CFO, Dan, our Treasurer. The other gentleman is not someone who's sneaked in, but is Thomas Schindler, our new head of FP&A that you will be seeing a lot more of in future meetings of this type. And with that, absolutely, let's go to questions.

David Lock:

Great. So, first question comes from Chris. Chris, do you want to go ahead?

Chris Hallam – Goldman Sachs

Yes. Hi, morning, everybody. So, two, both on the trading business, so macro trading was clearly super strong in the quarter. Just how should we think about the sustainability of that performance, both in terms of a sequential comp into Q3, but also for next year when we look back on the Q2 comp? Any one-offs in there? And then second on market risk RWAs, how did you get those down in the quarter when trading was running so hot? So, should we think that there might be a bit of a reversal in Q3 just on the market risk RWAs? Thank you.

David Lock:

Thanks, Chris. So why don't I take the second and then Peter can comment on the first. On the second on RWAs, it's really important to remember that the RWA walk that we gave was a QoQ RWA walk. So, market RWAs are down QoQ and Markets revenues were down QoQ. But obviously, the year-on-year comparison for revenues was up very strongly. And actually, if you look at that, revenues were up more than market RWAs were. So, it's just important to remember the year-on-year and the QoQ effect when you're looking at market RWAs. They're not immediately correlated.

Peter Burrill:

Yes, on the revenues side; first, I'd point out the underlying flow dynamics. Obviously, episodic jumps around a bit and it's hard to give a precise point in time estimate on that. And the flow held up quite well and actually grew 22% year-on-year. So, underlying momentum is good, maintains to be good. There is a seasonality to that business,

though. Typically, first quarter is highest; second quarter; it comes down quarter-on-quarter. So, I wouldn't read any unusual one-offs into any of the trends more than normal seasonality. And we'll have to see where markets go, where volatility goes before getting any more precise on Q3 or Q4. But happy with how it started.

David Lock:

Okay. Kian, you're next.

Kian Abouhossein – J.P. Morgan:

Thanks for taking my question. On page 20 of the report, you outlined the geographical mix of profits. And I was just wondering if you could talk a little bit about the other regions (not Singapore and Hong Kong, which are clearly very important) in terms of profit generators, Korea in particular I'm interested, but also the U.S. were on a year-on-year basis as a big pickup. So just trying to understand your mix on a geographical basis, if you can talk about the other regions and their contribution and what the drivers are. And frankly, on Korea, I would have expected stronger numbers just knowing what's happening in Korea. So just trying to put that in context as well.

And then the second question is back to tariff risk. You've given some indications of revenue impact to U.S. etc., different regions. Just trying to see how you're thinking about these numbers that you gave and your concern around tariff risk as such.

Peter Burrill:

Yes. On the on the geographic lens first, if I take a step back and talk about some of the macro themes and how those are playing out in the particular country results. So, U.S. and UK particularly are benefiting from some of the structural hedge and short-term hedge changes. So, when we talk about the short-term hedges that rolled off last year, those were all booked in the U.S. So, there's some effect of that in the longer-term structural hedges. The first tranche that we did, which was somewhat lower priced, were booked in the UK. So, there's some hedge related which affect those regional results.

The second theme, I would say, is interest rates impacted different countries differently. So, if you're looking at China, actually, one of the reasons China was down year on year has all to do with the China rate environment. And it's one of the reasons we don't highlight in the first instance, the regional dynamics, because ultimately, it's part of these macro themes largely rather than something individual. And then where we make money in Markets tends to move around in different countries, depending on what's there. It's larger in Hong Kong and China this time. Sometimes that shows up in the U.S. or the UK. So, I wouldn't read too much. The Markets business can show up in a variety of different places rather than being consistent in one particular thing.

So, those are the way I would think about the regional dynamics. I touched on the U.S. bit, in that rates are one part of it, but then you see the positives in Banking and Markets in places like the U.S. On Korea specifically, I'm just trying to look at the trends on Korea. So, for the quarter, it's actually up year-on-year. It's about a half year that's down a bit. But nothing I would call out of note or of concern on Korea specifically. Lots of little moving pieces, but nothing which jumps out and it should be concerning from a top of the house view.

Diego De Giorgi:

On Korea, the one thing that I would tell you Kian is that Korea is in the middle of an important transition from a broad WRB type of business to a more and more focused on wealth management type of business. We've opened our first wealth centre dedicated in Korea in Gangnam recently, or it's about to open. But that is one of the things that you will see percolating through the effects over the course of the next few quarters. And it's one of the reasons why, for example, we also sold off some NPLs in Korea this quarter that we called out the impact of. So, it's part of

a strategic move towards more wealth management in Korea in common with what we do very much around the globe. But it was less so in Korea.

Peter Burrill:

One other thing which affects half-on-half at a geographic standpoint for Korea is the deposit insurance reclass that we made in the fourth quarter last year. We haven't restated the quarterly phasing of that; so, it's in the costs this year in the first half, it was not in the cost last year in the first half. So, there's some noise in there as well from that deposit insurance reclass that we did in the fourth quarter, which is affecting Korea specifically. I should have called that out as part of the original answer.

On the other question on tariffs and how we're thinking about that and impact in the second half. Maybe I'll start with ECL and IFRS 9. As you would have seen, we've upped the downside scenario to the point where the downside scenarios are almost as big as the base scenario. So obviously, there's a limit to how much you can do on downside scenarios before it becomes the base scenario. But even that didn't have a material impact on ECL. And, while we've gone through the credit books quite a bit over the last six months on various tariff scenarios, I don't see that playing through in ECL terms beyond what we've done with regards to uncertainty and non-linearity and the scenarios themselves. So, I don't think it's a major focus for the second half of the year.

When it comes to revenue, as Bill and Diego mentioned yesterday, it hasn't had a big dampening impact on our revenue so far. Some timing of deals in Banking has held up and actually been quite good. And the volatility in the Markets has been quite supportive. So hard to know exactly how that's going to play out, but we're not giving an alternative downside scenario of any views on tariffs. We think that we tend to be more optimistic on the global economy and how things are playing out rather than pessimistic. So, nothing specific, I would call it on the revenue side for H2 in tariffs.

David Lock:

Okay, the next question comes from James. James, do you want to unmute your line?

James Invine – Redburn:

Thanks, David. Good morning, everyone. Diego, just wondering if you could tell us how far you are through your plan, please, to increase the RMs in the affluent business by 50%. And I'm just thinking about your net new money target of \$200 billion over five years; it seems that you're ahead of the run rate already for that, but you've still probably got RMs to come in the business. Those that have come in, some are still quite recent, and you've got wealth centres opening. So, it feels like your \$200 billion target looks well within reach. Is that a fair comment? And is there upside to it?

Diego De Giorgi:

So, I love that that three-year target is well within reach in the first six months. I wish it was always that easy. But on a serious note, the hiring of the RMs is quite linear in the sense that you have to remember it's not necessarily front loaded because the hiring of the RM is both hiring of additional RM, partially part of the hiring of the RM is the refilling for some of the RMs that you end up losing along the way. Now, it is less of a concern for us because we have long pointed out and you're very well familiar with the fact that our RMs are not the owners of our clients; they are stewards of the franchise for our clients. Slightly different in the private bank, but a lot of the RMs that we hire obviously are for the affluent business.

It's also a matter of for as much as we would like to be able to front load the hiring. We have an inherent limit, which is the size of the talent pool first. And the second limit is the fact that, as you mentioned, the J curve that you have to go through in the taking root of the RM in our system is an 18-month J curve easily. So, you don't want to

front fill too much. So, you should really think about the hiring of the RMs as pretty much spread out through the programme. Now, the fact that we are doing particularly well in the past two quarters in terms of net new money obviously gives us confidence in terms of achieving that result. But before we signal any particular further optimism, we will let a few more quarters maybe go by.

James Invine – Redburn:

Perfect, thank you. Can I just ask, is there anything in the opposite direction? Like you just had a lot of easy wins because there are low hanging fruit from your existing customer base. And so, you've hit those first. And so there might be a negative effect on the net new money going forwards?

Diego De Giorgi:

No, I don't think so. And frankly, this quarter with its slightly peculiar dynamic, which was because of the volatility in the market, particularly at the beginning of the quarter, shows you that we continue to refill with deposits that then get converted into wealth solution results. I know that some people have commented, oh, but there's more deposits, that's less good than a lot of wealth solutions. Yes, maybe. But if we attract more net new money and some of it is deposits, all we're doing is we're preparing wealth solution sales for the future quarters. So, we actually like it.

James Invine – Redburn:

Okay, perfect. Thanks, Diego.

David Lock:

Thanks, James. Jason, you're next.

Jason Napier – UBS:

Good morning. Thanks for taking the questions. The first one just on ventures, a couple of things there. The Solv India disposal gain, did that do anything to costs in the quarter? And does it mean anything for the \$200 million max loss over the two-year outlook? And then secondly, I know FX was a bit of a driver of volumes, both in loans and deposits. I'm just thinking average interest earning asset view for this year; is there likely to be much growth? It feels like the Treasury is playing a very important role in NII, so anything you could talk about on the volume side of things that is not captured within loans and deposits would be helpful.

Peter Burrill:

I'll take the ventures one. Important to note that we put some details on slide 26 on the ventures, specifically on Solv. So, a couple of things, one, that both the expense aspect as well as the gain were built within our \$200 million all in targets on ventures. Also to your specific question on does it impact costs? It will impact cost going forward. It did not impact costs in the quarter because it closed almost the exact last day of the quarter. So, as all comes off our books, we've indicated that it'll reduce reported income [by] \$8 million in the first half, and expenses was roughly \$20million in the half. So that comes out of our run rate and obviously we just pick up our share of the Jumbotail through associates as one lump revenue or loss number going forward. So that's how to think about those ventures.

Jason Napier – UBS:

Yes, that's fine. I guess if there isn't an expense component to it, then the underlying digital bank business lost more money in the second quarter than in the first?

Peter Burrill:

I don't think that's right. The digital banks have been -- I'll have to look at the numbers, but the digital banks have been on an upward trajectory when it comes to profitability, both in terms of their cost base has been reasonably flat and the revenue bases have been growing. But it might be something else in there rather than the digital banks that are driving.

Diego De Giorgi:

Let us look and we come back to you, Jason.

Jason Napier – UBS:

Perfect. That's great. Thank you.

Dan Hodge:

On the volume side, if I look at the funded asset balance sheet and split it into three parts:

There's the banking book, and obviously, we didn't see a huge increase there in Q2. But we are expecting to grow the businesses and hopefully in Banking and continue to convert the pipeline, maybe a bit of trade in H2 as well. And so, our general projection there of low single-digit increases in customer loans and advances over time, hope to see that continue to come through, and for that to be real. Obviously, a lot of the growth in the balance sheet was FX driven in the last quarter and made no comments on where we think FX is going to go in the future. But if you look on a constant currency basis, we have to continue to grow the banking book funded largely through continued growth in customer deposits.

On the trading book side, there's been quite a lot of growth in the trading book in the last two years or so. And you're seeing that continue to come through in the first half of this year and the second quarter. Not necessarily relying on another material increase in the overall size of the trading book, it's really just responding to the opportunities if and when they arise. So, we can be flexible enough in terms of how we're funding the Group to be able to deploy some more balance sheet in the trading book if we see the opportunities there.

On the way to think about the Treasury balance sheet is we're not taking a lot of risk to drive lots of returns, purely in terms of how we invest in Treasury by in large. We try and minimise the overall size of Treasury as a percentage of the overall funded balance sheet because we're not going to invest in riskier assets and go up the credit curve. So, we're fairly conservative and liquid in Treasury. So, what we try and do there is we try and deploy our surplus funding into the business, and we try and minimise any drag we would have from having too large a Treasury balance sheet.

Jason Napier – UBS:

Thank you. So, the reason I asked the question was the funding cost of the trading assets was actually up in the second quarter, despite rates being down and Market revenues being down. And so, it caught my attention. Is that a bit of a red herring for a way to think about how active you're being? Is it not the way to try and figure that sort of thing out?

Dan Hodge:

Yes, it's a bit of a red herring, actually, because all of these things depend upon internal FTP rates when you're looking at segmental results. So, it's really hard to look at the scale of optimisation we do. We are very active in balance sheet optimisation. The way to do that on the liability side, just have a look at the overall mix of our funding. And generally, if we can increase the portion of our funding that's coming from more stable sources and cheaper sources, then that's obviously going to be good over time.

Now, it doesn't mean to say we can get rid of stable term funding, which gives you more certainty of credit spread over the long term. But we have done a lot over the last few years in terms of reducing reliance on things like CTDs and actually growing the portion of our total funding coming from WRB. So, I really -- wouldn't really look at it through a segmental perspective. I just look at the whole balance sheet and just see how we're improving our liability mix.

Jason Napier – UBS:

Thank you.

David Lock:

Jason, just coming back on digital banks. So, if you look at the half, so first half '25 versus first half '24, we pulled out on the slide that the SCB platform cost was about \$21 million in the half. The rest of the cost base is broadly split between digital banks and SCV. And actually, digital banks has been stable cost wise year-on-year for the half of the year, and income has been growing. I don't have the quarterly number to hand, but if you look at the half year, we've had stable costs and we've had rising income for the digital banks. And by the way, just so everyone's aware, you can see the Mox and Trust results; they publish their own results, and you can see their annual or interim reports as well, if you want to go into more detail.

Okay, Aman, you're next.

Aman Rakkar – Barclays:

Thanks very much for this. Yes, I had a follow-on question then. So interested [on] how would you encourage us to model average interest earning assets from here? I know we're moving away from modelling net interest income and fees, but that's still how I like to think about things. And it's really difficult because I would have thought deposits are a bigger driver of your net interest income from here, so, I'd love you to guide on that. But even putting that to one side, how should we think about it? Because even if I use deposits, you're telling us that these deposits are going to get converted into AUM. So how would you encourage us to think about modelling average interest earning assets for what it means for net interest income?

Peter Burrill:

I don't want to be flippant, but I would encourage you not to try to model average interest earning assets because of what Dan mentioned on treasury mix versus trading book, it's hard to go [from there], which is why we try to give you an NII guidance rather than AIEA and NIM and things like that, because there's a lot of different moving pieces in that. And obviously, if we bring in the deposits, some of those will go into wealth; some of those will go into lending; some of those may go into treasury; some of those also may go into funding the trading book, and the trading book will then feed through into the trading book funding costs rather than average interest earning assets. But they're driving revenue growth for the bank overall. So, we don't provide guidance on AIEA because it's not how we think about managing our balance sheet. It's why we've reverted to NII guidance more specifically rather than giving you the individual components of how that's made up.

Dan Hodge:

That's exactly why I split my answer into think about what we're doing on the banking book side, think about what we're doing on the trading book side and think about treasury. Because if you just look at AIEA, you're not really going to be able to get to NII because it's so dependent upon the mix.

On the deposits, I would just say it is obviously an important component of our of our growth strategy. So, whilst of course net new money, we want to devote a fair, decent part of that into assets under management to help drive

non-NII; let's not forget that deposits are absolutely the lifeblood of funding the asset side of the balance sheet and does help with NII. And we are looking to continue to grow deposits in WRB and CIB across entities and currencies. They're helpful for NII because they're actually our cheapest form of funding. And we're generally paying below the rate at which we deploy them, both in the banking book, but also in the trading book.

And it's a bit of extra colour when we were planning to actually grow WRB CASA a bit faster than CIB CASA because it tends to be a bit cheaper and more stable. And we have some big deposit engines, particularly where we have a larger market share in wealth and retail in Hong Kong and Singapore. So that will enable probably more of our WRB funding to be deployed in CIB and even in the trading book that has been the case in the past. Q2 was obviously a very unusually high increase in the rate of our deposit growth. The reason that Diego set out on the call yesterday, we would see a lot of that converting over time into AUM. But I would say that deposit growth that I'm talking about, it's absolutely embedded in our NII down low-single digit for this year already. What it means for if you're trying to model NII in 2026 again, there's too many moving parts certainly for us to give guidance on that at this stage. But hopefully that gives a bit of a sense as to how we view deposits. They are still important to us.

Aman Rakkar – Barclays:

Of course, I mean, we're all trying to basically work out your revenue run rate into next year and the drivers and what have you. And it's just not easy because net interest income is tough to grow this year. Absent the tailwind and the balance sheet momentum, net interest income feels like it's going to be tougher to grow meaningfully next year. And you're lapping very, very difficult comps in your two major fee engines, be it wealth and financial markets. So, I have to admit I am completely struggling with any idea. I know that you've given us a revenue guide next year, but obviously I want to try and get there myself. I've got absolutely no idea what your revenue is going to be next year, to be honest with you. That's, I guess, my problem rather than yours.

But I did have a second question I wanted to ask you just at the risk of cannibalising my time. Just a quick one on TNAV actually, the tangible net asset value move in the quarter was epic. I know that FX would have been a part there, but how do you think about TNAV accretion from here? And is it right to think about that as a headwind to RoTE in any way? Because you can get to that conclusion. Is that how you're thinking about it?

Peter Burrill:

So, it's an interesting one. And we've often thought, should we have a target for TNAV because obviously growing the book value is. And Diego's nodding his head, because it was one of the early conversations we had when he joined. We think it is a key metric. There's a reason we don't guide to it though, which is there's some noise and FX can have an impact one way or the other, which is outside of our control, which this time was a tailwind. At other times, it's been a headwind. Likewise, things like FVOCI, that moves around depending on interest rates and is not something in our control. But we're absolutely focused on the things that are controllable, right, driving up the profitability, the earnings. And the other thing, which is a big tailwind, let's not forget, is the way buybacks show up in our TNAV. When we announce a buyback, we take it all out of equity, so, it's actually hurtful. But as we buy back the shares, as we reduce the share count so that you get that lag effect. You take all the pain on day one and you don't get the full benefit of the share count coming down until you've progressed through the buyback.

We don't really think of it structurally as a challenge to ROTE. It's on a per share basis. So, growing it is not saying necessarily your equity base is becoming a problem. And obviously, if it's profitable growth and earnings which are driving that, they're moving in the same direction rather than being contrary. But maybe hopefully that helps in the way we think about TNAV. And it is definitely an important metric, which is why you'll see we put it on the slides. We're very happy with the growth in TNAV. But there are some things in there which are somewhat, if you will, outside of our control, which is why we don't guide to it specifically.

Aman Rakkar – Barclays:

Thank you very much.

David Lock:

Thanks, Aman. Okay, Kendra, you're next.

Kendra Yan – CICC:

Thanks. I have two questions. The first is about the credit cost. Actually, investors remain focusing on HK CRE risk today, while this was addressed during yesterday's earning call. Could you please provide an update on the impaired ratio and provision coverage ratio of this area? Additionally, we noted that your three-stage loan coverage ratio is actually at relatively low level compared to historical ones, and actually lower than US banks and Chinese banks. While it may be adequate currently, but investors are still concerned about whether it's sufficient to address potential future stress in Hong Kong CRE or other areas you're monitoring. And also, this is tied to your guidance that the credit cost will rise over the medium term. So, could you please elaborate about it?

And the second question is about the potential Bohai Bank impairment, because HSBC, they just do the \$1 billion impairment on its BOCOM stake. So, Chinese investors are questioning whether similar impairment might occur with our Bohai investment. So that's my two questions.

Diego De Giorgi:

Both for Peter, and then I will add a comment at the end.

Peter Burrill:

On Hong Kong CRE, Diego mentioned the key points yesterday. We've got a slide on page 30, and if you looked quarter-on-quarter, you wouldn't see a big movement in credit quality on our Hong Kong CRE. And this also talks about somewhat your question on coverage ratios and things like that. So let me take a step back on ECL more broadly. In WRB, what you're seeing is as we shift away from CCPL, you're seeing a normalisation. And that's coming down a little bit quarter-on-quarter. And that's a bit more predictable run rate type of thing.

In CIB, we've actually had net recoveries. And I point that out for a reason, which is when you talk about stage 3 and stage 3 coverage on CIB, that is individual asset by asset analysis on how we're going to recover that asset. And those ratios don't necessarily take into account collateral and things like that. So, if you've got non-performing commercial real estate where you've got a high degree of collateral and security, the coverage ratio in ECL terms from the gross exposure to the coverage is not going to look great because you're not taking into account the fact that we have collateral. And I would say the fact that we have net recoveries tells you that our provisioning for stage 3 loans over the past has been on the prudent side, which means that when we do ultimately work these out, we tend to have net recoveries rather than huge top-ups.

The numbers move around a little bit as far as stage 3 charges as we reassess. But when it comes to both our China CRE experience and our Hong Kong experience, we try to be early and prudent such that I wouldn't read too much into the ratios themselves on coverage of stage 2 or stage 3 because stage 2 has got some noise, Diego mentioned some of that yesterday. Stage 3, it's an asset-by-asset deep dive that we go into on that. I would point to the net recoveries as an indicator that we've been prudent historically when we do that.

On Bohai, it's clear that in a similar vein, we took impairments on our Bohai stake a number of times over the last few years. It's something we look at all the time. Performance of Bohai has been solid and improving. So, it's not something that I would flag. We've been, I would say, potentially more front-footed on that in taking those, and I can't speak to the HSBC one specifically. It's something we look at every quarter, obviously. It's a significant

investment for us and something that we spend a lot of time focused on. But I would say we've done a lot in that space previously, so I wouldn't flag anything at this point to be concerned about.

Diego De Giorgi:

Unsurprisingly, Peter has hit all of the points that I wanted to make. But I'll just add one small thing, which is when you look at where we are currently carrying Bohai compared to the market value, you see that we are really close. So, we've taken our medicine and Bohai is doing better.

Kendra Yan – CICC:

Okay, thank you very much.

David Lock:

Thank you, Kendra. And just a reminder, everyone, if you want to ask a question, just raise your hand virtually using the Teams function. So, the next question is from Gurpreet. Gurpreet, do you want to go ahead?

Gurpreet Singh – Goldman Sachs:

Yes, thank you from my side also for doing this meeting. A couple of questions, please. First is HIBOR. So \$130 million, and that assumes a forward rate curve, right? So, HIBOR assuming going up towards 2.5% to 3%. But then the question is, if HIBOR stays at 1%, one-month HIBOR, then how much extra are we looking at? Because mortgages get reset to a lower number. So, I'm thinking 3Q and 4Q for modelling purposes, it should be more than this \$130 million. So, that's the first question.

And the second one is broad on learning more on the strategy. So, not paying too much attention on the geography, India and UAE deposit growth did not happen on a YoY basis. So, as we move towards more payments and wealth management kind of a bank, so how important are these geographies from maintaining the relationships and credit? Broadly the question is, what strategy are we following for pursuing growth in these so-called satellite offices? So, the main offices can be, let's say, in UK and then Hong Kong, Singapore, and then for Taiwan, Korea, India, UAE, etc.

Dan Hodge:

Yes, on the first one, let's look at the \$130 million number. And you're absolutely right. So, that would be the modelled NII reduction as they fall or 1% from the forward. And it could be a little bit higher if you're modelling from the spot. But I have to say, it's not really that much of a delta on our own models. And the reason for that is that you're already, even if you're at the forward point and you're dropping by 1%, you're already flicking most of the mortgages onto a HIBOR based from the prime. So, that inversion point is already effectively captured in the \$130 million. So, you're not getting a lot of additional inversion if you're then dropping from the spot.

And similarly, quite a lot of the deposits have already hit the floor level of 0% because we have a lot of fairly low-rate deposits we're paying for in Hong Kong dollars. So, you're also not getting what we like to term convexity on the liability side of the balance sheet. So, I actually think that that \$130 million is not a bad place to start. I know we say don't take it as gospel in terms of trying to forecast what your actual NII vulnerability would be. But actually, I have to say, in the case of HKD, it's not a million miles away, although it doesn't take into account changes in the composition of our deposits. And that's quite important actually, because the big driver of the increase which is about \$80 million you'd have seen in the first six months of the year, and that sensitivity was actually an increase in CASA. And so, it was actually more volume and CASA-driven than it was actual changes in the net margin over that time.

David Lock:

And just also to add, Gurpreet, a reminder to what Diego responded yesterday, which is that our low single-digit [percentage reduction] NII guidance for 2025, we're still comfortable with that if HIBOR remains at these levels.

Peter Burrill:

So, on the regional dynamics or country dynamics on some of the other locations that you mentioned, India, Taiwan, UAE; we need to think about the balance sheet dynamics in the strategy dynamics of these markets. So, UAE for us is, in addition to the CIB businesses, a wealth hub for us. And as a result, you'll see an increase in wealth management activity as the key focus there. But in a lot of these markets as well, when you think about our WRB strategy of increasing affluent and de-emphasising CCPL unsecured lending, it's a lot of these types of markets, the India's of the world, that we're de-emphasising those. So, the deposits is as much a reflection on the assets strategy as it is something to read into specifically on deposits.

Taiwan is primarily a wealth market for us. Wealth management is the biggest part of the WRB business there, and there's mostly mortgages on the asset side. So, again, India has been primarily CCPL trying to bring that down. And obviously, when we do look at, to Dan's point, bringing down some of the asset side, we look at the more expensive funding. So, within that deposit base, you'll be trying to steer more towards CASA and take out some of your more expensive funding. That's how I would think through these other markets if you will, strategically. Unsecured [lending] will be focused on the big markets like Hong Kong and Singapore, where we've got a full suite of offerings to our clients; where those other markets like UAE, Taiwan, India, will focus more on wealth on the WRB side. So, hopefully, that's helpful in having to think through those types of things.

Gurpreet Singh – Goldman Sachs:

Yes, it does. Thank you so much.

David Lock:

Thank you, Gurpreet. Okay. Alistair, you're next.

Alastair Warr – Autonomous:

Thanks for taking the questions. You touched on convexity in another context yesterday. Sorry, two questions on NIM this is. Just the aggregate balance and as it comes down, you'd expect more of an impact on HIBOR and hasn't been a huge amount so far in Q2 on the one month. And then just on NIM, you also touched on, it wasn't just a HIBOR thing, but there was the goings on in India and in Singapore, if you could give a little more colour on the moving parts there and how that looks for the second half. Thank you.

Dan Hodge:

Let me talk a bit about the aggregate balance. So, we're getting to a point where it's just come down from about HKD 86 billion to HKD 82 billion the last day or so, they've intervened for a sixth time. And given where they are in terms of the dollar to HKD peg, you'd expect those interventions to continue.

There will be, and this isn't just our view, it's a general perception of the market, there will be a point where the aggregate balance is getting so low that HKD feels like a slightly more precious commodity. And there'll be a restriction there in supply, and therefore, demand's chasing a lower amount of liquidity in the market. And then you should see the interbank market start to pay up a bit more for it, and that's really then what will be driving that convexity. It's very hard to say it's a trigger point -- the aggregate balance goes down to HKD 55 billion, so, we're suddenly going to see an acceleration of 1% to 1.8% -- it's very, very hard to predict. But generally, there will come a point where it is viewed as a more price resource and it is more scarce. And then you'll have the bank start to chase that funding, that liquidity some more. Yes, the forwards, absolutely. You can see it pricing about a 1%

increase or so by the end of the year. They're expecting to see that. But it's very, very hard to call precisely when we will see that convex effect. And as we said earlier, it's not something that's going to throw us off guidance. Even if it doesn't happen and we stay at the 1% level.

Peter Burrill:

On India and Singapore, it's more of a rate story rather than what you were talking about in HIBOR where there's a bit more complexity to that rate environment that Dan just walked through. But the other piece in India ties back to what I was talking about, which is in NIM terms and in NII terms, let's not forget we flagged that there is a headwind from pure NII and NIM from the reduction of CCPL activities and unsecured lending. And India is one of the countries that we are going to be doing less in terms of unsecured, which always has a high NII, but also comes with impairment from a ROTE standpoint and RWA is not as attractive. So that's another dynamic, just because you mentioned India. If you're trying to look at NII at a country level, in addition to the rate, you have to think about the reduction in the unsecured lending.

Dan Hodge:

And the other final point I would say is we're still building on our structural hedge position and certainly India and Singapore are countries where we have further to go and we've made really good progress in the first half of the year, but we're going to keep going. Can't necessarily promise the same pace in H2 as H1, but we're definitely having success in terms of expanding our capability in some of those local currencies. And that's going to help us too in a situation if the rates were to drop faster than the market expects and faster that's priced into the forwards.

Alastair Warr – Autonomous:

Thank you.

Diego De Giorgi:

Before we go to the next one, I will make my disappearance. So, I wish you all a very good break. I hope some of you will take a break. I certainly plan to take two very good weeks of break. Enjoy yourselves and can't wait to see you for the next quarterly results. Bye, guys. Thank you.

David Lock:

Thanks, Diego. Okay, so we have two more questions in the queue, unless anyone else wants to raise their hand. Gary, you're next.

Gary Greenwood – Shore Capital:

Thanks for taking my question. I just had one regarding the Group tax rate, which was 24% in the first half of the year, and it was similar in Q2 to Q1, which is quite low. I note it's also well below what consensus has been for the full year, which is around about 30% and also historically what you've guided to. So maybe if you could just talk a little bit about why the tax rate was so low in the first two quarters and then just some thoughts on where you expect it to normalize to going forwards. Thank you.

Peter Burrill:

Yes, I'll be happy to take that one. As you mentioned, I wouldn't read too much into quarterly tax rates. One, profitability is higher in the first half than the second half, which dampens the impact of things like non-deductible expenses which tend to be more straight line throughout the year, so that has a catch-up effect. Second half of the year also has bank levy, which is non-tax deductible. We always end up with, if you look at it on a quarterly basis, a really high tax rate in the fourth quarter. There are some smaller, what I would say, one-offs and recoveries that are benefiting the tax rate in the first couple of quarters. Again, those aren't a run rate, so they're disproportionately in the first half of the year rather than the second half of the year.

So, I point back to our longer-term guidance, which is to say we do expect that to veer towards the high 20s over time. So, I would use that as a better guide historically and where we think it's going to be over time rather than reading too much into quarter to quarter because there's a lot of things that can impact that. So, nothing from a concerning standpoint, nothing to caution other than don't annualise first half. Look at the phasing more on a full-year basis when you think about the tax rate. So, I hope that helps pull out some of the underlying dynamics over time. It has to do with seasonality and profitability, non-tax-deductible stuff, including bank levy, which is fourth quarter.

Gary Greenwood – Shore Capital:

That's great. Thank you.

David Lock:

Thanks, Gary. And our [final] question comes from Kunpeng.

Kunpeng Ma – China Securities:

Hi, thank you. I've got a quick question on the wealth business, especially for the future flows of the net new money to the bank, because I know some of the net new money, especially from Mainland China, are mainly chasing the differentials between the China and the U.S. interest rates. So, the US is going to cut interest rates again in the future, so the differential will decrease going forward. So, can you please give us some colour of the future flows of the net new money, especially those from Mainland China? Will the reduced interest rate differential affect the net new money inflows in the future? Thank you.

Peter Burrill:

Thanks, Kunpeng. I'll take this one. So, while interest rates are a dynamic, I wouldn't overplay the differential in interest rates. What we've seen is a bit more consistent look for diversification across markets. And if it's not U.S., it may be other markets outside. So, in Mainland Chinese or Global Chinese, there's only one portion of the inflows that we're seeing. Obviously, we've got a lot of other international people that are looking to invest outside of their home markets. And we see that as a continuing trend rather than driven by a point in time in the interest rate cycle or the better yields that you can get on U.S. So, we expect that to be an ongoing trend of net new money, which is why we've got the multi-year target. It's not going to be linear and clearly external dynamics such as the U.S. rate that you pointed out will impact the timing and the magnitude. But I don't see those, if you will, reversing if the interest rate environment changes, and we're still confident in our ability to drive those inflows through a variety of market environments. Hope that's helpful.

Kunpeng Ma – China Securities:

Thank you, that's very helpful.

David Lock:

Thanks, Kunpeng. Amit.

Amit Goel – Mediobanca:

Yes, just one more. It's actually more of a follow-up to my question yesterday on the Fit for Growth programme, I just wanted to check if the revenue outturn does seem to be a little bit weaker, I'm just curious whether you could re-accelerate that programme or if there is a bit more you could then do on the cost side as an offset to continue to get positive jaws.

Peter Burrill:

So, to answer the question, and we touched a bit on this yesterday, we're trying to do the strategic things to transform the bank in Fit for Growth. And we're constantly looking for ways to accelerate that. But transformation is not something that you can just dial up and accelerate too easily. That said, to your second point or question, we absolutely are always looking at costs holistically and what are things, call them tactical, call them whatever, to make sure that our cost growth is in line with our expectations and is in line with our positive jaws guidance to make sure that we can deliver positive jaws. So, we have those, if you will, I hate to use the word tactical, but we have those levers to pull if we need to pull them, whether that's on hiring and headcount, whether that's on the pace and spend in our investment portfolio where there's a lot of contractors and consultants that get involved in those, or whether it's through the bonus line. Obviously, if there's revenue outperformance or underperformance, you reflect that in what you do in performance-related pay across the bank. So, we have those levers. We're confident in our ability to continue to deliver positive jaws, we do believe that there's growth opportunities still. Our revenue guidance is to grow, and we have quite a bit of confidence in that. So, I hope that addresses how we think about it and how Fit for Growth goes. We're always looking to accelerate if we can, but it's not going to be done to manage jaws in a particular quarter or particular year, we've got other ways to do that.

Amit Goel – Mediobanca:

Okay, thank you. It's just to be honest, it's like the first time I've seen a cost or a type of, I don't know if we'd describe it as cost program then, but a program where the phasing has been slowed as opposed to accelerated. So that's why I was a bit curious for me. Thank you.

David Lock:

Thanks, Amit. And we have a final question now from Ed. Maybe there'll be another one after this, but we've still got time. So, if people want to ask more questions, by all means, please keep raising hands. We're happy to go to them. But Ed, do you want to go next?

Edward Firth – Keefe, Bruyette & Woods:

Yes, I had two related questions, which have come out of this meeting to some extent. One of the things I struggle with Standard Chartered is the unpredictability of certain aspects of your P&L. And the two big ones are macro trading, and the other one is HIBOR. And I just wondered in relation to that, two things.

Number one, in terms of HIBOR, if we go back to what happened in May, was that something that you guys predicted internally? Were you expecting that? Because in a week, we saw overnight HIBOR fall 400 basis points. It's just like, if that happened in any other market in the world, that would just be unimaginable. And so, I just wondered, firstly, was that something you were expecting? And secondly, how did you expect that? And how does that give us any idea of how we might predict when it may go back up 400 basis points, I guess? So, there's lots of research around about what caused it, but it would be interesting getting your thoughts on that and how that might roll forward. So, that's the first aspect.

And then in terms of macro trading, I've always just looked at volatility as a key indicator of macro trading. But volatility has come off a cliff into the third quarter and was off the top of the charts at the beginning of the second quarter. And yet, all your signs are is that your macro trading is still continuing to be very strong. So, is there something else we can look at? How is somebody sitting outside your business looking in? Do we just have to guess the number, or can we get some sense from you as to how what external indicators we can look at that might give us some indication of where that's going? Do those make sense?

Dan Hodge:

Well, should I start with HIBOR? I don't think anyone predicted that level of fall. It would be churlish to suggest that we were expecting that. That said, that's why we do structural hedging to try and minimise the impact of that. And actually you'll see that we've taken our exposure to lower rates down by a material amount over the last two or three years. Hong Kong was only \$50 million reduction from 1% fall at the start of the year; now that's gone up, but that wasn't so much convexity on PTRs. As I said earlier, that's more because of a CASA deposit growth. So, I would say that whilst we didn't expect that level of fall, we do obviously contemplate that that's possible. And that's why we put in place a hedging program to try and protect ourselves.

In terms of what happened, I think that it was really the actions that the HKMA took. They wanted to avoid material strengthening of the currency threatening the peg, particularly in lieu of what happened with Taiwanese dollar versus USD. And so, they were prompted to do that. And then they took actions with the aggregate balance, which obviously went up a lot because they were then trying to control the currency and remain within the peg. And now obviously, it's gone to the other end of the peg. And the supply/demand dynamics of the currency have been relatively extreme. So, it's felt like it's very, very flush. That aggregate balance is a good indicator, barometer of the amount of liquidity that there is in the Hong Kong market. And it's been very, very high. As a consequence, banks haven't really felt the need to pay up much for it because it's been so plentiful. And it's really that relative scarcity of the currency that's in large part in turn drives into that market and the pricing of that market, and then HIBOR itself.

So, in terms of where it's expected to go from here, probably the first few weeks after it happened, people thought this is a very temporary thing, because surely there's now a big arbitrage between HIBOR and U.S. dollar LIBOR. If you assume that there isn't going to be a lot of volatility in dollar versus HKD, then surely everyone is going to start to arbitrage that out and start doing a huge, short HKD, long dollar play. But actually, banks haven't really been doing that. Yes, hedge funds have been active in that arbitrage space, but there's just not enough predictability and assurance in terms of what will really happen. Because it is quite volatile, and therefore banks haven't wandered again in the arbitrage space, even that the hedge funds haven't arbitrated this difference.

And there have been other supply and demand dynamics too, in terms of the South-South connect amount of money flying into the bonds and the stock market through things like HKD connected currency. So, it hasn't reversed as quickly as people thought it might initially. So, the thinking now is it's possible as the aggregate balance comes down, that we will see it tick up and the market's expecting to go up to 2% or so at the end of the year.

That would be our view as well, is that there'll be a trigger mechanic when aggregate balance goes down below a certain level, and we should see a jump. And so, I can easily see it jumping up to 2%. But I don't think any of us expect it to go back to the 3% or 4% level that it was at before. So, I get that it's quite hard to predict exactly what's going to happen to our NII through movements in rates, but you've got some indication through the annual earnings at risk metrics we put out there. Now, I know that we do heavily caveat that, and we're right to caveat it, because it shows what the delta is from the forwards rather than the delta from the spots. It also doesn't take into account changes in our volumes and our mix of assets and liabilities. But we'll continue to try and keep that short-dated sensitivity over 12 months under wraps through our hedging program. And the hedging program is going to have a bigger impact on the longer-term volatility of our NII over, say, two-to-five-year cycle.

Edward Firth – Keefe, Bruyette & Woods:

Just related to that. To what extent, though, do you think the HIBOR rate is a free market rate? And how much is it? It seems to me that it's a market that's quite heavily controlled and that actually the rate may have more to do with what central bankers want the rate to be for Hong Kong domestic economy rather than what the free market might determine relative to arbitrage opportunities.

Dan Hodge:

Yes it is controlled to an extent. I think if they really wanted to move it substantially, they would take more actions. I certainly think we'd see the balance drain substantially more quickly. But actually, to be honest with you, as long as they're staying within the peg range, that's what they're more focused on, I think, than the absolute HIBOR rate. If they were worried about GDP and general flow of credit through the Hong Kong economy and having knock-on effects, then they might want to try and move it higher again. But you can read into it, they're not that dissatisfied with it staying where it is, because they've got low HIBOR. It's not necessarily a bad thing to have a fairly low rate. So, there's a position now where they don't feel the need to intervene. I think if there is a risk of going outside of the peg, then yes, sure, we would see some intervention. But as long as they're inside the peg, I don't think they see a huge need. And it's not that the current HIBOR position is really damaging the economy particularly either. So, I'd say it's free market, provided that they're staying broadly within that range. But they can influence it if they wanted to, but they just don't seem minded to at the moment.

Peter Burrill:

To come back to your Markets or Macro question, they're one and the same. When you look back at what we presented in our CIB Investor Day, the business overall and flow particularly has grown at 9%-10% CAGR over the last five years or so. So, you have to take a bit of a longer-term view.

Volatility will cause some activity spikes within that or may impact episodic particularly in a particular time. But what we're seeing in the first half of the year, which you mentioned even in the second quarter, is while the volatility may not be huge, the activity levels are still in the clients trying to make sure that they're appropriately hedged for a variety of different surface and not assuming that those activity levels have been supportive, even if volatility is not spiking. So, you have to take a bit of a longer-term view.

It's very difficult, I can imagine, to predict quarter to quarter and trying to use any forward macros. But that's why I point to the longer-term growth rates really in both the flow business, which is the vast majority of the revenue that we get there, and living with a bit of uncertainty and volatility on where that number is going to come out from quarter to quarter.

Edward Firth – Keefe, Bruyette & Woods:

Okay. Thanks so much.

David Lock:

Thank you. And right on schedule, 10:30, and no more questions. So, thank you very much. And to echo what Diego said, if you do, if you're going away, I hope you manage to have a good break this summer. And obviously the IR team is here to take any further questions you have, or we will catch up with you in September. Thank you very much, everyone.