Standard Chartered PLC
Post Q3’24 results meeting with analysts

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(Amended in places to improve accuracy and readability)

Manus Costello:
We are recording, and we will be transcribing this as last time. So please state your name and company before you ask a question, if you could, that would be very helpful. Thank you very much. Okay, let us kick off from Asia this time. Let us kick off, please, with Gurpreet. Please, ask away.

Gurpreet Singh Sahi – Goldman Sachs:
Thank you Manus. Good morning, everyone. Two questions, if I am allowed.

Gurpreet Singh Sahi – Goldman Sachs:
The first one on loan growth. Obviously, we are having a very good time in the Markets and Banking, Wealth Management etc., but on loan growth we are not too keen on mortgages, which is 30% of the loan book. We are selling some product-focused pieces. So when can we return to some decent level of loan growth? Because central banks could be cutting rates and NII outlook is not challenging. And then second one you want it now or I pause?

The second one is with respect to the cost. How committed are we to this positive jaws for 2025 under a scenario, not base case, of course, where we have, let us say, markets outcome not that great. And some of the non-interest income does not come through in terms of growth. And then we are also wanting to spend in the Wealth Management area for the medium to long term. So, what are the cost flexes and how can we deploy those under a worse-than-expected outcome? Yes, that will be it.

Diego De Giorgi:
I will take the cost one. And then maybe, Pete, you can comment on loan growth and paint a little bit of a broad picture, including mortgages.

How committed are we to positive jaws? Very, extremely. Now one can never know what the world is going to throw at us, but there is no doubt that the commitment is big. We have said it before, I am sure we will find more ways of saying it today. Do not read into the additional investments in Wealth Management and need to figure out where we are going to find the money, and therefore, adding to the pile of costs. That is the whole point of shifting the mass retail part in the actions that we are going to be taking on the mass retail part.

Also, do not forget that we are talking about $1.5 billion, of which $750 million were already in our plans. It is over five years, so do not think that in and by itself has an impact. Other than that, positive jaws and the $12 billion cost cap at constant currency. Yes, it is worth reminding that, we live in a world of complex forex flows, so we will keep an eye on what the FX impact is on it, but we are absolutely committed.

Peter Burrill:

I will pick up your question on loan growth. Breaking it down a little bit. If you look at WRB, you hit on the mortgages point. We have been, intentionally focused more on returns rather than growing the mortgage book, given the market dynamics in both Hong Kong and Korea, which are two of our bigger mortgage books.

We are starting to pick up the origination from a Hong Kong standpoint, but it is still something that we want to do more from a relationship and overall client return, rather than grow for the sake of growth. So, we should start to see some growth in the Hong Kong portfolio. But it is a focus on returns, not overall growth.

In the unsecured space, we just announced the India action. And as we look at single client relationships, it is, again, a focus on returns there. We pointed to a 1% NII likely hit from some of those market actions. There is a volume component to that as well. So, I would not look at the overall loan growth number as a sign of our ability to grow. It is more our intent and where our focus is.

On the CIB side as well, a couple factors. One, and Diego mentioned this on the call the other day. We have had an increase in origination activity this year. It is just that a lot of it we have done and sold off rather than done and kept it on our balance sheet. And that is a trade-off and a decision that we are likely to continue to make as far as what do we hold on the balance sheet versus what do we grow.

The big unknown in your question is the rate cycle. And at what point in the rate cycle does credit demand really start to come through. I do not think we have a defined point next year, but we do think that if rates do come down – and there is a lot of uncertainty around the rate environment, especially with the upcoming election in the US – we do expect that with a down or more stable rate environment, we should see credit demand growth, and that should allow us to grow the overall loan book.

So those are the factors as far as mortgages and unsecured on the WRB side, and on the CIB side, it is really just to focus on generating the returns rather than holding a particular amount on our balance sheet.

Manus Costello:

Thanks, Pete. And I apologise. I should have said this before. Most of you know Pete and Dan who have joined us today. Pete is the Head of Central Finance and the Deputy CFO of the bank; and Dan Hodge is the Group Treasurer. So please feel free to think of specific questions to grill them on if you like. Kunpeng, over to you, please.

Kunpeng Ma – China Securities:

Thank you, Manus. Morning guys in London. I got one question on revenue growth next year. I remember, Diego, you explained that you lowered the revenue growth target a little bit. Diego explained quite a lot of reasons during the conference call. I still got a hypothetical question to follow up. Is there any chance that we can see the revenue growth next year return to the 5% to 7% range? Or under what circumstances can we see that kind of a return, maybe driven by non-NII or some other factors?

Diego De Giorgi:

One hopes for fair sailing, strong winds and a lot of things. What we are trying to tell you is what our central case scenario is. If a beat comes, it is as likely to come from any of the various possible angles. There is one graph I look at every morning, the implied one year forward rates. You would think we are in a different environment right now, but we know it is not going to last, and at some point, it will start descending. Our Wealth Management business continues to do super well; our flow business in Markets grows at 9% year-on-year for years on end, and episodic can come to our help in any quarter, but we will never know which one and to what extent. So, I think we are being realistic. I do not think it is a matter of prudence when we know that we are going to be delivering towards 10%

growth this year, i.e., we are going to be in the trajectory. When you think of this as a CAGR over three years, I think it is prudent to continue to think about that kind of range.

David Lock:
Let us go to Nick online now, and then we will go to the room.

Nick Lord – Morgan Stanley:
Yes. Thanks very much for doing the call. Just a quick question actually on tax. I heard the guidance this year of 31% underlying and 34% statutory. Can you just help us think about how that progresses over the next two or three years? Because your guidance before has been around about 28%, but that is quite a big drop going forward. So maybe just give us some detail on the moving parts of that charge?

Peter Burrill:
I will take this one. So you are right on our current guidance. The way to think about it is we do expect it to drift down to the high 20s over the next few years, as profitability increases, that helps both our non-deductible, which is a static amount. And also we expect an increase in UK profitability because some of the structural hedge drag has sat in the UK, and that has artificially inflated our losses in the UK and been a drag on our tax rate. So, those are the contributing factors; but we do expect it to drift down to the high 20s.

Nick Lord – Morgan Stanley:
And what time frame? how quickly does that move down?

Peter Burrill:
I would say over the next two to three years.

Nick Lord – Morgan Stanley:
Two to three years. Okay.

David Lock:
So we will go to the room now. But actually just as a jumping off point from next question, because I have had a few questions from a number of you on AT1s as well. So reminder, our AT1s at the moment actually do not get a tax shield, because of the tax situation, and the taxes in the UK that Pete just alluded to. The AT1 stack as it is at the moment, just to give you the numbers on the coupons [which includes preference share dividends], you should expect $235 million for both Q1 and Q3 and $15 million for both Q2 and Q4. So it is about $500 million in total for the whole year.

And then the other question that I had in the last couple of days was on restructuring costs. There is no change here from what we said at the last post results meeting. So, around $100 million still to go for Q4 this year. Who in the room would like to go first?

Andrew Coombs – Citigroup:
Just a couple of questions on this slight pivot from mass retail to wealth. Firstly, just conceptually, I think you were asked about on the call and you said there might be some smaller countries, but you also might do some work in the bigger countries as well. So anything more you can elaborate on, exactly which regions come under the scope of the mass retail changes and where the investment in wealth is going?

And then onto the numbers of that change, you basically said today's cost target is unchanged, so is it that the mass retail exits fund the wealth investment of $1.5 billion. Your revenues for 2026 are unchanged, you have just moved to a CAGR target. So essentially is the only moving part here that the capital requirement, the RWAs, come down as a function of this shift. Is that the financial implication?

Diego De Giorgi:
I will take a little bit of a broad stab, and then, Pete, you can add to this. I am not trying to be obfuscating. We really do not think about it in terms of which regions or which geographies. It is a matter of which businesses contribute in terms of returns and contribute in terms of being strategically additive to the objective of growing this Wealth Management for affluent. That is where we derive such attractive returns.

As a consequence, and I appreciate that it is less easy than just saying we are exiting three countries and here and there. The actions that we are going to take are going to be very different in very different places. We mentioned the exit of portfolios. We used, as an example, a portfolio in a country that is very important to us, like India, a country in which we are deeply committed, and which is an important part of our business; and yet a portfolio of single client relationship personal loans does not really fit within the strategy that we are increasingly moving towards.

In some cases, we might stop doing a product. There might be places around our footprint where we offer, for example, mortgages where it does not make sense to offer mortgages because in that particular country there isn't a natural pipeline towards affluent; and in others mortgages, like a term deposit, is very often an entry product to attract a Wealth Management client. And in some cases, we might exit the retail business of a country or the country overall, if that does not make sense. What this tells you is that some of these measures might apply to the large countries, we might decide not to do a product in one of the larger countries, we would not exit one of the larger countries. So, that is the way to think of it.

When you think about it that way, then it becomes all the more apparent why the overall effect in terms of economics is not so important, because you do a bit less of something in order to do a bit more of something else. And it is also at the heart of, together with the increase in size of distributions, the guidance toward a higher return on tangible equity. We try to continue to position ourselves consciously towards products, towards areas, towards client types where the return on tangible equity is higher.

The only other impact that we have flagged, and it is a financial impact, is because we are going to do a little bit less of those credit card, personal loans, single product lending relationships, and we are therefore flagging this 1% attrition to NII in 2025. And if you want to focus on a financial impact of it, it is mainly that.

Pete, do you want to spend a couple of minutes on the investment, in particular the investment on Wealth Management that Andy asked?

Peter Burrill:
Just to follow up on what Diego mentioned. From a financial impact, you have got the NII piece; there is going to be some impairments with that, so that should also play through. It is a high NII business typically, but it would also come with higher impairments. And yes, there is RWA, it is not so material that is changing, but it is helpful as far as our ability to do the distributions that we have talked about.

On the pivot, you have rightly pointed out that none of our income or cost targets changed as a result of this. The way to think about it, Diego already mentioned, is that shift in WRB where some of the cost offsets will come. But let us also not forget that Fit for Growth will start to really deliver real cost savings in 2025 and 2026. So that was always part of our plans.

We always said that 'G' in Fit for Growth was Growth. The idea was cut expenses in certain areas and drive productivity in certain areas in order to drive and be able to invest in that growth. So within that 3% CAGR cost target that was embedded with our $12 billion cost cap was always an intent to invest. And I would look at this affluent investment as one of those investments that Fit for Growth allows us to do without changing the overall cost shape of the bank.

Manus Costello:
And it is part of the reason that we communicated these together. We did not want you to think if you see some announcements that we are getting out of stuff, that means that they have got to cut to the cost base, they have got to cut to the RWA target. And equally, we did not want you to see that we are investing more in wealth, thinking that they are going to overshoot on those. The two come together as a package.

Andrew Coombs – Citigroup:
Essentially, so it is two things; one it is a mix shift within the revenues and secondly, you get a little bit of RWA release, which helps drive up your 2026 RoTE.

Manus Costello:
Correct.

Kian Abouhossein – J.P. Morgan:
Can I go to NII? I am just trying to understand NII sensitivities. You mentioned the unpacking in the results yesterday. So if I start with $10 billion, you give the curve movements, which is around 110-120 basis points, something like that by 2026 if I am correct, that you give in the presentation. And then your interest rate sensitivity I take from the second half, which is roughly $650 million, I do not know how much that is short-term, but I assume it is around $450-$500 million, is that fair comment?

So I am trying to understand the dynamics, and then I also want to understand the hedge. Because clearly you give the average yield, and we have the equity, we have the bond portfolio component. But clearly, there has to be very lucrative yields in order to get that uptick, because I think you are giving 3% average yield, something like that 3% plus. So just trying to understand the numbers, if you can put that in context a bit more in detail, that would be very helpful.

Diego De Giorgi:
I think it is a perfect time to bring in Dan into the conversation.

Dan Hodge:
It is very difficult to try and back solve what the NII is going to be next year based on those disclosures. That risk disclosure, the $650 million, it is based upon a 1% drop across all currencies and on a parallel basis.

Diego De Giorgi:
And on a constant balance sheet.

Dan Hodge:
So there is no change in mix or volume in that number. Also, that is not a drop from the spot rates today 1% lower. It is actually firstly you have to look through the forward rates to get a new curve and then drop 1% from there. So it is not a great predictive tool, it is there as a risk disclosure more than anything. Now that risk disclosure already includes a smoothing effect of the structural hedging that we have in place, so that number would have been larger had it not been for the structural hedging.

And what I can share, which maybe is helpful is a sense of how much smoothing a structural hedge will give. So to your point around what is going on with yields and weighted average maturity (WAM), it is really the weighted average maturity of the notional that is the key in terms of the smoothing. So on a WAM of three years, that means about a sixth of these hedges reprice every year, which means it reduces the sensitivity by about 83% of the notional of the hedge you put on per annum.

So if you put another $10 billion of structural hedge, then that means that your downside risk from a 1% parallel rate shift downwards is reduced by about $83 million. So that gives a sense as to how much smoothing you get from that. The reason I mentioned that is because we are going to continue to build the hedge, and Diego said on the call earlier in the week that we want to get to at least $60 billion at the end of the year. I want to put an equivalent amount next year to the ones we have put in the last couple of years, so we are pitching for hopefully $75 billion, that sort of number by the end of next year. So, material extra downside protection.

Peter Burrill:
There are three other factors that play in which are not quite as easy to model. One is passthrough rates and where we end up going. Our intent, as Diego mentioned on the call, is to be aggressive on passthrough rates and do that; but it is an unknown, as far as the ability to model.

Second is the mix shift. What you have seen this year is quite a bit. We have been able to reduce Treasury assets and deploy that into commercial assets at a much better rate. Sometimes that is the loan book, sometimes that is the securities and the trading book. And we are going to continue to try to optimise on there.

And the big one is volumes, which is not something that IRRBB picks up. And as we already discussed, it is a matter of when do we start to see that credit demand?

Edward Firth – Keefe, Bruyette & Woods:
So can I just ask a supplementary to that? If you look in Hong Kong, it looks like your passthrough for the first 25 basis points has been pretty much 100%. But it does mean your savings rate is only 62 basis points, something like that, or the prime savings rate, which if we see rates go down by more than 60 basis points, unless you are going to go to negative rates, which I assume you are not, you are then going to start hitting floors.

Firstly, is that broadly correct? And secondly, how does your sensitivity start to accelerate once those floors start to hit? So how should we start to think about that in terms of when does the interest rate sensitivity start to accelerate or at what rate?

Dan Hodge:
Firstly, if you look at the first series of drops, if you look at it from the mortgage products perspective, it is actually a positive margin on that because it is repricing on prime, and that is less rate sensitive than the reduction you are getting on the funding of that, even though we have got a lower rate, there is still a certain amount of HIBOR based deposits as well. So there is a positive dynamic there on the mortgage side. However, there is also a certain amount of high-volume rate sensitive deposits where you are not getting a 100% passthrough. So all in all, you will see from our risk disclosures, there is a residual element of positive correlation between rate moves and NII in Hong Kong. So net, it is not entirely neutral; there will be a slight reduction in NII as that falls from current levels.

You have to actually dip down quite a lot in terms of HIBOR before you get an acceleration of that effect, and for there to be a meaningful drop in Hong Kong NII from HIBOR. So actually you have to go below 2% and close to 1.5% before you really start to get a kink in the curve. And that is really at that point because that is where you start to get a large part of the mortgage portfolio start to price off the HIBOR plus rather than the prime minus mechanics. We are quite some way from that coming into play.

Peter Burrill:
It is important to think that in such a lower rate environment, there are a couple of other factors which will start to kick in. The shift from TD to either CASA or Wealth Management products, where people will get more active on investing, and you will see much more of the inflows that we have seen that are sitting in time deposits get active. And so the CASA mix and/or more growth in CASA rather than in time deposits, which is beneficial as well. So it is not low rates are bad for the bank overall. Mechanically, Dan walked you through the Hong Kong specifically, but we have to broaden out and think about what other activities would that drive.

Dan Hodge:
Also deliberately going out and originating more HIBOR based loans will help mitigate some of that effect. And that is a strategy that we have.

Diego De Giorgi:
And we do have a few products that we are trying to push. It is a very consolidated market, a market where habits are strong.

Dan Hodge:
The latest product is not being taken up in size yet given where we are in the rate cycle, but actually fixed rate mortgages is a fairly idiosyncratic pricing mechanic in Hong Kong at the moment versus other markets and is crying out in a way for fixed rate mortgages. And we have started to market those. So the competitors there will help smooth some of the NII profile through the cycle too in Hong Kong.

Edward Firth – Keefe, Bruyette & Woods:
Can I ask another couple of questions while I have got you here. One was about episodic income. Could you tell us roughly, you might have put this in disclosure, so I apologise, but roughly what proportion of your revenue this year is episodic and how that compares with, say, like a five-year average? So are we running above or below normal level for episodic income? That is one question.

And then my other question. Yesterday, three luxury good companies issued profit warnings. All three highlighting Asia and China in particular and saying that the stimulus was not enough. And that is quite different. But that is in contrast to perhaps what you and HSBC are saying about the stimulus, but actually it is very positive, very good. So I just wondered where that is coming from, the different thinking? What is it that you are seeing perhaps that they are not seeing, or where are they being overly bearish?

Diego De Giorgi:
I will take the second. And then Pete, you can take the first. You have even more of a historical memory than me in terms of that. But we do give you, of course, all of the episodic numbers. It is on page 11 of the disclosure quarter by quarter. So you can relatively easily see it and you will see it in the data pack. But either Manus and co, or Pete will give you something on that.

The big difference in terms of the impact that we see on our business versus the impact that a luxury good company will see, is that a luxury good company depends on fundamentally one thing, consumer confidence. Consumer confidence is of importance to us, undoubtedly, mostly in the Wealth Management side and has a mediated effect in terms of what happens to manufacturing and exports.

But never forget that for every dollar that we make on the Mainland and that we make in the onshore business, which by the way, in a pretty difficult year like this year, still happens to be up 16% as a Mainland business for us, – we make more than $2 intermediating the flows of trade, commerce, capital into China and outside of China.

So what matters to us is a lot more what the manufacturing index does and what the export index does. And to a smaller extent, to what the SMI indexes do. So we watch with a lot of care the PMI indices and how they develop and evolve between September and October. They are all swinging back into the green, which is what we are seeing in terms of the activity. And that is the reason why we can be very positive on it. Because when you think about what will impact consumer confidence more, will be the part of the stimulus that is still undefined.

Next week at the Standing Committee of the NPC, they are going to be discussing what to do from the point of view of fiscal stimulus. We have all seen the kind of rumours that are out there in terms of the size of that stimulus over time. Because we are talking about fiscal stimulus that always takes time in terms of transmission, and we are talking about a very big economy that will take place in.

That is why you are seeing this dichotomy. We do not depend on immediate levels of consumer confidence that lead to the instantaneous purchase or to the episodic purchase of something. We thrive on a different aspect of the Chinese economy. That is the dichotomy that you are really seeing.

Peter Burrill:
And on the flow and episodic, as Diego mentioned, we show this on a quarterly basis, and you can go back and track that. But what I would say is I do not think there is anything this year which is abnormal; I think it is in line. It tends to jump around a bit quarter to quarter, but on a cycle basis, it is reasonably consistent as far as percentage of the total.

Manus Costello:
Yes, it tends to be around 75% (flow) / 25% (episodic). The last couple of quarters are very slightly below that in the low 20s. So Q2 and Q3 are average. Q1 was a bit higher, as you would have seen, both as an absolute number and as a proportion of the overall. It was a good period. Last year we had a good Q2 and a bad Q4. But we would call it out as a good year, not a bumper year.

Robin Down – HSBC:
Can I ask you a couple of questions? On Wealth Management side, the investment products. Could you give us the mix in the revenues between transaction-based revenues and how much is annuity like based on the AUM? I am just trying to predict, where that might go next year.

And the second question, and I appreciate you may not want to answer this. But I think it is quite important. We had the stimulus or first round of rumours of stimulus running through September. What have you seen in October? Because I would picture that the new-to-bank account openings, I do not know how quickly you can get those open, but you would probably see a very strong October there. And in terms of activity, I asked you about the seasonality on the call, but I would imagine October has been a very good month for you in terms of Wealth Management. So is there is any kind of colour you can give.

Also, coming back to what Pete was saying earlier about deposit dynamics. I think the HKMA data out around yesterday was suggesting that September had seen a shift out of time deposits back into demand. I know that is not appearing yet in your numbers, but whether you are seeing that in October, in conjunction with the market activities that we are seeing? And any colour you can give us at all.

Diego De Giorgi:
Manus, given the work that you are doing in preparation for the 3rd of December Wealth Management investor seminar do you want to comment on the transaction-based versus annuity?

Manus Costello:
So we will talk more about this in December. I would caution you that while we are going to give as much information as possible in December, we want to give you a good understanding of how the business works. Do not expect a huge ton of new disclosure. There is quite a lot that is commercially sensitive, which would not come out, so we want you to be appropriately excited, but do not expect massive new data pack.

Anyway, let us say on the transaction side of things, there are two things to think of. One is we do not have that big equity trading business as a portion of the total. The pure stock trading side of things, yes, we do have it. And yes, it has definitely helped. But it is smaller in our mix than it would be in some other mixes. But what we do have are some entry fees when products are invested in. So when people buy a product, that does lead to upfront fees and that is a portion of it, and that is a feature of both net new money coming in and to the extent that people are buying more risk on products, that helps. So there is definitely a kicker from that.

But do not imagine that a large portion of our wealth revenues by any means is correlated to Hong Kong Stock Exchange turnover, for example, because that is not a huge part of our business.

Robin Down – HSBC:
It was really more a case of, that we can obviously see seasonality in Q4, you normally see this drop off, which I assume is linked to the transaction-based element disappearing. So I am just trying to gauge, with the AUM going up quite strongly, in terms of revenues for 2025, how much can you effectively turn around and say, yes, we have already got this almost booked in, and it is the transaction numbers over the top of that, that is the icing on the cake.

Manus Costello:
You are right, there is always seasonality. And on the seasonality now you will be able to split separately between bancassurance and investment products. because that bancassurance piece has now been stripped out. Given where we will be in December when we come to the investor event, I am sure we will be giving a current update on how things are going then, I think that is probably a better question to defer to then for us to give you a fuller answer on.

Peter Burrill:
Maybe just a bit on the October colour that you mentioned. We did see a strong start to October, as Diego mentioned. And then more normalisation towards the back end of the month. Manus addressed all the seasonality points that bancassurance typically drops in the fourth quarter, and then you got the normal tail of activity from investors as you get towards the year end.

Diego De Giorgi:
And on your point, Robin, on CASA versus TD. We grew CASA even during last quarter. It is just that TD was growing a lot faster because TD is the entry product for Wealth Management. So I also look at the same statistics. Let us see how the quarter unfolds there..

Jason Napier – UBS:
Couple of things. So just on the Prudential kicker that used to fall into Q3 as part of the annual review, that is gone now? That is smoothed out?

Peter Burrill:
It is not a kicker when you hit it. It is accrued over the period that we earn it and if we hit our target, and we typically hit our target by Q3, which is why you see a drop off. So it is a full year on a three-quarter basis. I would not expect a dissimilar pattern this year.

Jason Napier – UBS:
So you did hit it in Q3?

Peter Burrill:
I am not going to talk about specific contracts, but I would not expect a different pattern this year than what you have seen in the past.

Jason Napier – UBS:
And then on the net new money side, Diego, I think you just alluded to this. Half of it is in the deposit block. How do you actually figure out what is a wealth deposit versus what is not, and what actually comes in AUM? How does it work in real life?

Manus Costello:
It depends on the size of the deposit and on the customer that it comes from, whether a customer has been classified as being an affluent customer with us, given that the amount of assets that they have got invested with us. So that is how.

Diego De Giorgi:
So we tiered them in priority, priority plus, priority private, private, etc.. It depends on the classification of the customer.

Jason Napier – UBS:
So a wealthy customer that perhaps does not buy wealth products gets a TD. It is in that number?

Peter Burrill:
So it is in the deposit number. It is in the AUM number. But it is not in wealth products revenue. So it is in deposit revenue. When you look at our product split, just to make it clear because I know different people do it differently.. On a product basis, deposits sit in deposits regardless of whether they are from affluent customers, private banking customers, etc., deposit revenue is deposit revenue. The wealth products is the product set – investment products, bancassurance etc. So we classify that [deposits] as net new money, it is an AUM from our affluent AUM, but it does not show up in wealth products income from a product standpoint. I hope that helps clarify. Because I know different people do it different ways. So I just wanted to get it out there.

Jason Napier – UBS:
Because the numbers are big. But they are at least partially because you include the deposit fees. Can you generalise about how that migrates into AUM over time? Is there a way to think about whether we should just ignore that piece or not?

Diego De Giorgi:
So it is a bit difficult at this stage of the cycle, because of the big build-up of the deposits during the period when deposits at 5% plus, time deposits were all that you wanted to do as a retail customer. In the past, we have indicated a cycle of 12 months, but the reality is that I really struggle to generalise this, the way that we tend to think about it in order to judge whether we are doing a good job or a bad job at the front office is what percentage comes in directly as wealth solutions. And that percentage has grown very substantially in the last five quarters really. It used to be that we would attract net new money fundamentally as deposits. And now we attract more wealth solutions than term deposits

And that gives you a sense of the speed at which we are converting. But I look at it as a positive in the sense that we have a very large amount of money that over time gets converted as rates decline eventually, and we go into a world where the wealth solutions product, which is more profitable for us, is more attractive for our customers.

James Invine – Redburn:
Turning to the balance sheet, let's hope credit demand picks up and you start to show a little bit of loan growth over the next few years. You are also looking to assertively manage the passthrough rates. So what are your red lines on that? Are you quite happy, with the AD ratio very low, for the LCR to come down and see the loan growth while keeping the deposit base pretty flat if you are assertively managing it.

Dan Hodge:
The AD ratio is not something we are really targeting. It is not a great proxy for how to optimise a balance sheet, really. It is more of an output. Clearly, we just try and aim for the right mix of the volume of assets and liabilities that give us the highest RoTE, whilst also meeting all of our prudential requirements. So that is not really so a determinant in itself.

In terms of the LCR, it is a healthy surplus, it is strong. We are very strong from liquidity perspective. It does not cost us that much to be running at the current level versus, say, 10% lower. So if we were to run a bit lower through-the-cycle, it is reasonably helpful from a ROTE perspective. But it is not especially material.

The way that we think about the balance sheet is it is run on a returns basis. As Diego was saying earlier, so it is all about getting the right mix of products. We do have optionality about where from a legal entity perspective to book things. And we try and match the assets to where the cheapest marginal cost of funding is. We also try and improve our funding mix over time. And you have seen quite a bit of that actually.

So CTDs have come off quite a lot. And we have deliberately grown retail CASA and TDs. And they are stable source of funding. You need to hold lower levels of liquidity for a given amount of liabilities if it is stickier in a stress. And that is quite helpful because that in turn means that the Treasury balance sheet ends up being a lower portion of the Group's balance sheet. So you get an asset mix improvement as well as a liability mix improvement.

Peter Burrill:
But clearly when we talk about the passthrough rates and aggressively managing those, the flip side of that is what is the customer reaction to that and how does that work. And so far we have been successful. But that is something that we will keep an eye on. Because if they are high quality deposits, to Dan's point, there is going to be a trade-off there. And that is something we will actively manage.

James Invine – Redburn:
We will still be happy and be aggressive on them, as you say, even if the loan growth is up to 4% or so.

Manus Costello:
Can we move back to Teams, please? If anyone has got questions on teams, can you raise your hands please. We will see if we can bring you guys in. Al, please go ahead.

Alastair Warr – Autonomous:
Morning, guys. Morning, Diego. Thanks for your time today. Just wanted to go back to the retail refocusing and the India sale. From Kotak's point of view, I can see it might be worth more to them, they have got reasons to be buying growth now. But they did also say that in an India context they see these as quite affluent customers. I was just wondering, extrapolating a bit from that, we should be thinking about this as less appetite on your part for balance sheet retail and particularly on the asset side? And so if you take that out a few years, should we be rethinking the mix between CIB and retail RWAs over time?

Diego De Giorgi:
So I will take the first part. You take the second with the assets. I know I have said it already, but forgive me, I will say it again. The way to think about that particular portfolio sale is the concept of single product relationship. What we are less interested in today than we maybe were in the past is the single product relationship. Even when it is financially interesting, we believe we have so many financially interesting opportunities to deploy our capital, to deploy our resources, think about the time of our relationship managers, etc., in places where we can make more than just a single product relationship. That is the direction.

Peter Burrill:
But it is not an aversion to balance sheet in WRB. And actually, our CCPL increased quarter-on-quarter in some of our larger portfolios especially. So it is exactly what Diego said. It is more about focus and single product relationships where we do not have a relationship beyond. It is focus rather than aversion to balance sheet.. If the economics work or if it is part of a broader relationship with our affluent client base, absolutely, we are happy to do that business.

Diego De Giorgi:
And within that, Alastair, to add, there is no particular target and certainly no particular objective to shift the size of the balance sheet between our two divisions. You would expect that a business that becomes more Wealth Management has a bit less need for RWAs. Yes, but it is not something that we manage actively thinking we need to shift the weight.

And as you can see from our constant returning of capital to shareholders while we are still investing in the business, and we are targeting a higher return on tangible equity, we do not feel constrained by capital.

Perlie Mong – Bank of America:
Can I just go back to NII and digging a little bit deeper in that? Noting that you have said that it is harder to grow NII this year and we have discussed a lot about sensitivities, etc. But if we are assuming a $500-$600 million type area of rate cut impact based on your disclosures, simply taking that, and there is some structural hedge roll-off, but equally you are increasing your notional by $15 billion. As it stands, with short rates higher than long rates, that should still have a negative impact on that; and with the attrition of NII from the retail restructuring as well, it feels like there is quite a lot of headwinds. So do you think it is possible that NII might actually go backwards next year? Loan growth is the big unknown. Is there a level of loan growth that you feel has to happen for that to stay flat? Or is there more treasury optimisation that you could do, etc.. So that is the first question.

And the second one is on ROTE. So you have increased target to approaching 13%. Some of that would be doing more buybacks, etc. and looks like it could be more because of the Basel impact. But given that cost guidance and impairment is pretty unchanged, a lot of it is going to come from revenue; so it is very clear that wealth is a big driver of that. But is there any other product lines that you feel where we are now versus maybe six months ago or nine months ago, that the trajectory is materially different, that contributes to that RoTE upgrade?

And then very quickly on Hong Kong CRE. Am I reading it correctly that you pretty much do not have any Stage 3 exposure, because the CG12 to 14 is about 0%? And if that is correct, is there any risk of migration in there?

Diego De Giorgi:
Well, let us start from the last one because it is easy. You are correct. And as for the risk of migration, we are 86% secured. We skew very heavily toward lending to the largest developers. They have parents, their real estate sits on their balance sheet and their balance sheet sits on the parent's balance sheet. It is really a matter of size, $2.3 billion, less than 0.5% of our loan book and very much of client selection. We are not active in the mid-cap developers or small cap developers, and that leads to a very positive dynamic for us.

On the ROTE and on the NII, is it possible that it will grow? you are right, the headwinds have increased, and they have become more complicated. But we live in a world where our fast-growing regions are 5% plus growth of credit demand regions when they are active; they seem to be quite subdued right now. But our guidance as a package says that if we grow in the guidance range of underlying customer loans and advances and the RWA range, we will be able to grow NII. It is a moving target because rates intensity continues to move. So it is possible. It is just less likely than it was 12 months ago when we were looking at a different shape of rate cuts in a different speed and a different level of certainty if you wish.

Peter Burrill:
On the ROTE dynamics. You mentioned there is the income component where the wealth growth is clearly one thing, and there are the other engines of non-NII growth as well. Markets has continued to grow, within which flow income has been growing nicely, we think that is a trend that can continue and potentially accelerate depending on market conditions. Also with the lower rate environment and credit demand coming back, we do think that Banking should be able to drive growth on the top line, and that is why we are still comfortable with our three-year CAGR on the income side.

But you are right, impairments are another component of that. We have not seen anything that concerns us on the impairment side, and we have had a low level this year. So net-net, that is probably okay.

Cost, no change to the guidance. The two things that you did not mention. One, clearly that the increased distribution target has an impact on ROTE. And the second we talked about the tax rate earlier. Tax gives us a bit of a tailwind on ROTE terms as well over the few years as that rate starts to come down.

On NII, Diego covered most of the moving pieces, but I am not sure, Dan, if you have anything to add?

Dan Hodge:
I would not think of the Treasury hedge programme as creating some headwind. That is definitely more of a tailwind. I'll talk about four components of that. Firstly, this year we had some of the short-term hedge impact. So it is about $80 million year-on-year improvement from that not repeating itself next year. The kind of yields that we quoted around 3.5%, we will expect that to stay broadly the same for next year if the rates behave as predicted by the forwards. So would not expect a lot of variation there.

The bit about building the hedge and is there some net negative carry. You are right. In some currencies that is the case. But we are minimising that. Remember, we are building hedges outside dollar as well. So there are certain markets where it is already upward sloping. So on a weighted average basis, there is very little negative carry actually from building those. We are quite deliberate with the timing of when we go in. So where we see a bit of a tick up in yields and then we try and enter at those points.

Lastly, outside of the hedge programme, we have some fair value securities which are fair value through capital rather than through P&L, which are rolling off during the course of this year and next year, and they will basically reinvest into higher rates because some of those are quite legacy from a low-rate environment.

So actually if you add all those together, it is really more of a net tailwind than a headwind to the NII numbers for next year, which does help offset some of the headline numbers you started with there.

Kian Abouhossein – J.P. Morgan:
Can you actually say what the yield is of the books that is maturing next year and the year after? Because clearly you give us an average, so we cannot calculate anything. So can you give us a number i.e., it will be $300-$400 million.

Dan Hodge:
I think it is best to talk in terms of the weighted average yield.

Kian Abouhossein – J.P. Morgan:
That is meaningless, because it is roughly where it is today.

Diego De Giorgi:
I appreciate that would give you a mathematical way of looking at it, but isn't that more useful when a hedge is really a caterpillar type hedge, than when it is like ours, where at these levels wherever the portion of one year ago, two years ago it is, etc., our hedge is fundamentally truly a hedge, i.e., if the realised differs materially from the forwards as they stand out today, it comes to our help, but we are not really locking in much of our NII. I appreciate that is how the math works. We are not locking in 30% of our NII one year in advance. So how much does it really help you?

Dan Hodge:
Underlying that, the reason why we do not expect it to change very much on weighted average basis is because there is a mixture of positions which we have put on at the top of the rate cycle, which will be rolling at a slightly lower rate. And those that were put on, say, two or three years ago, which are much, much lower and are rolling into a higher rate environment. So underneath the surface, there is clearly a blend. But that is the nature of structural hedging.

If you look it on a portfolio basis, you should get some smoothing over time. And so the fact that we would not expect it to change materially, it is doing what it says on the tin, it is smoothing. The situation where that 3.5% gives you a lot of value if rates drop by much more than the forwards expect, and then clearly you will get a very large pickup, because at that point you are yielding 3.5% rather than 2% or 2.5%. So it is there to try and smooth over time, and you are seeing that illustrated in our forecasts.

Manus Costello:
We have got time for one quick question with Diego in the room if anyone wants to ask one more. Jason had his hand up first.

Jason Napier – UBS:
So the cost guide is very clear and the $12 billion is a super transparent, even I know what you are aiming for. But the restructuring charges, it is 12% of the cost base, it is huge. And you have spoken in the past about a grassroot

series of many things that you are doing better. Probably dreadfully vague question, but can you talk a little bit about what you are actually doing with all this money and whether there are bits of it that you would like to call out? And what we get for it?

Peter Burrill:
So we laid out in previous quarters, the themes that we are going after; and a big component of it is technology simplification. And that is where a good chunk of the cost-to-achieve is going to come. It is in really trying to simplify and standardise our technology estate and drive better long-term outcomes and a lower run rate on an ongoing basis on the technology side.

There is also quite a bit of process simplification going on there as far as redesigning, re-platforming and simplifying and standardising processes. And then, of course, severance is another component of that. As we do those various things, we do not need as many people as we did before, and so severance will play a part. But technology simplification and process simplification are really where a lot of those initiatives are going.

Diego De Giorgi:
And where the Venn diagram of the two overlap is where the particularly juicy stuff sits. We operate a certain number of payment systems throughout the company. Some of these are legacy systems that are used only by one silo. Why do not we move everything to our SC Pay platform and reduce that type of thing that simplifies the estate, simplifies the connection with the client, lowers the cost overall of serving. Those are the kind of things.

Peter Burrill:
It allows you to standardise the process off the back of that. When you have got a single platform, you can centralise and standardise the processes that you need to serve the customers around that platform.

Diego De Giorgi:
The good news here is that as the year progresses next year and as we have initiatives that we have put into execution that come to fruition, we plan to have a steady stream of explanation of what we are doing. Unfortunately, these programmes take a long time to mobilise, be put into action, and then they start producing their results. At that time you can talk about, we have cut down from X payment system to Y payment systems. The number of apps that we use to deliver our digital banking services used to be 7 across the piece, and it is going to be a number less than that etc., and you get a better sense of how we are spending the money.

Manus Costello:
Does anyone have any other burning questions they would like to pose to Pete or to Dan or to David?

Guy Stebbings – Exane BNP Paribas:
Maybe I'll just squeeze one in on risk weighted assets. Broadly speaking, RWAs efficiency has been very high up in the focus point for investors; I think we are very excited about it frankly. In Q3, there was an uptick, it was principally FX and market risk. So these volatile items are not indicative of trend. I just wonder if there is anything in there which would temper people's expectations in terms of getting excited about RWA efficiency? I know there is the full year guidance, but in terms of for RWA, we need to account for volumes rebounding in time, there are the business exits into wealth, so how we should think about RWA, maybe relative to lending growth over the next two to three years?

Dan Hodge:
Do not look at Q3 and think that we have stopped optimising because an awful lot goes on under the hood, and we do not necessarily always call it out. I know in the past we talked about CIB and the optimisation, the $22 billion. Under our corporate plan, there is still a lot of optimisation there. And the idea is that effectively gets recycled into higher-returning assets. And so what Diego was saying about going after those clients, which are multi-product and tend to be larger customers, you get higher return on risk weighted assets. But we need to basically make sure we are creating enough net capital to be able to invest in those. And so we will go after the tail of assets which are generating lower return on risk weighted assets. So yes, we will continue to do that, not just inside CIB, but also WRB and Treasury as well. We brought the Treasury RWAs down materially, we buy credit protection against higher risk-weighted sovereigns, and we had not done that in the past.

I would think about RWA growth as broadly mirroring asset growth in the future. And the reason for that is now, by design, we bought the average risk weight of the balance sheet down quite close to the floor now, because if you bring it down too much, the leverage ratio starts to become a constraint. Therefore our plan is to try and grow RWAs broadly commensurate with overall growth in balance sheet, but that will be over time. Quarter by quarter you will see a certain amount of volatility from things like market risk. In some quarters, we have increased market risk this year in others, we have reduced it. So we vary that with client behaviour and risk appetite.

Peter Burrill:
A couple of comments that I would make. One, do not read too much into the FX impact, it is largely hedged at a CET1 overall ratio. So if you are just looking at RWA, yes, but the capital gets retranslated in and has similar effects. So I would not overplay that.

One of the other things as far as further optimisation, and this is flagging a bit of a change in what we are going to do next year not on RWA specifically, but as you know we have a big drag in the centre, in 'Central & other items' that includes a big component of our RWA, which is the Treasury. Starting next year, we are going to allocate much more of the 'Central & other items' out to the segments to give a better view, both on costs as well as on RWA, so we can get the segmental ROTEs closer to the overall Group ROTE. That is something that will change next year, moving much more of the central Treasury activities to get the businesses much closer. So, it is trying to align those incentive mechanisms to help us take that optimisation to the next level as well.

Manus Costello:
That does mean there will be a restatement next year for you to look forward to, it will be after full year results before the first quarter results. So you can carry on the same basis for now.

Okay. We are on time. It is Friday. Thank you very much again for coming in. Thank you for all your questions. Thank you for dialling in from Asia. And good weekend to everybody. Thank you.