

UBS European Conference 2024**In-depth conversation with:****Diego De Giorgi, Group Chief Financial Officer, Standard Chartered PLC**

12 November 2024

*(Amended in places to improve accuracy and readability)***Jason Napier – UBS:**

Good afternoon everybody, and thank you for joining us. My name is Jason Napier, I run Financials Research for UBS in London. It gives me great pleasure today to be joined by Diego De Giorgi, who is CFO of Standard Chartered, a role that you have performed all year following a distinguished career in banking at BAML and Goldman. Also, including a stint on the board at UniCredit. So Diego, thank you so much for joining us.

Diego De Giorgi:

Thank you for having me. Great pleasure.

Jason Napier – UBS:

So the new news at Q3 was the reformulation of the wealth plan, a bolstered investment in RMs there as well as perhaps the exit of some products and so on. Could you talk a little bit about what's changed since February and what capabilities we're going to be acquiring as a consequence of all that?

Diego De Giorgi:

Sure. So nothing particular has changed since February in the sense that it's long been our great strategic drive to increase the importance of our wealth management business. And also, the reshaping of some of our mass retail activities, which we will intensify a little bit following this announcement is really again a continuation of things that we have been doing. And to the question of why one doesn't talk about them before, and then talks about it in Q3 is mostly because if you don't talk about them sometimes we don't get the benefits for doing what you are doing.

The investment, as you mentioned, is going to be fundamentally in three areas. We are going to be doubling what we had previously planned to invest. We had planned to invest \$700 million, we'll double it to one and a half billion [dollars] in over five years. And it'll be one and a half billion [dollars] cumulative. And we will invest in three things. We will invest in relationship managers and coverage people. We will invest in technology, both in terms of new ways of serving our customers, but also a little bit of scaling up of some of the technological infrastructure in order to accommodate the substantial increase in relationship managers. And we will invest in new product capabilities and new ways of serving our customers. The idea with all of that is to ensure that we continue to push towards our 5% to 7% CAGR of top line revenues ex-notable items that we have flagged for the next three years.

Jason Napier – UBS:

The investment in RMs and wealth is not a new thing for Standard Chartered and so the embedded J curves in what you've already done should give you some insights into how this plays out. So perhaps you could talk a little bit about what you've done, how that's performing and how that matures over the rest of your financial plan.

Diego De Giorgi:

Spot on. Indeed, it's like a little set of J curves that happen every year. Our relationship managers achieve their maximum productivity depending on whether they are higher up or a little bit more in the middle of distribution of affluent anywhere between 12 and 24 months. And we have been adding at a constant clip over the course of the years. That's what led to over 60,000 new to bank customers for the past six or seven quarters. It's led to over \$10 billion of net new money over, again, the same period. We know that it's an area of interest to our investors and hopefully also to our prospective investors, so we are going to have a wealth seminar on the 3rd of December in which we are going to delve a little bit more into all of the dynamics, but it's really a continuation and intensification of what we've been doing now for quite a while.

Jason Napier – UBS:

And when we think about what the Hang Seng is doing in any given day and how that may or may not feed through to the wealth business. How volatile do you see the overall business being? How much of it is stock versus how much is month to month volatility and flow?

Diego De Giorgi:

So volatility helps. There is no doubt. And to give you a sense, if we think about how, for example, Q4 has been unfolding, it's clear that after some of the first signs of intensified and well coordinated stimulus that was coming from China in the time immediately after golden week when people came back to work, we saw some extraordinarily good activity that has then tapered off towards more normal activity. And I would be remiss if I didn't always point out that in any case, let's always remember Q4 is a relatively seasonal quarter for wealth management. So, that is how we see it.

At the margin, does it help to have what the heads of our divisions would call it tradable volatility as opposed to junk volatility that is just scary, it helps. If you broaden it out to the entirety of the business, it's pretty similar trends that we are seeing in markets where obviously we've had some volatility events that have helped us build both on our flow and on our episodic market business. And the banking business, that during the first part of this year had maybe lagged a little bit, not in absolute terms, but in relative terms compared to competitors that are more exposed to markets in the west, it's clearly now picking up because with everything that has happened, we are seeing a pretty strong capital markets renaissance, particularly in the G3 business. And we've long been a leader across our footprint in that business.

Jason Napier – UBS:

Finishing off on this area of inquiry, the things that you're exiting, selling, restructuring and so on, do we need to care particularly about how large they are or what exit costs that might involve?

Diego De Giorgi:

Not particularly, in the sense that the simple way to think about it is what are you giving up? You are giving 1% of NII in 2025 as we exit some of those businesses. And everything else is included in our guidance. What are you getting for it? You are getting a continuous shift toward steadily higher

return businesses, which is at the heart, together with the increase in our distribution objectives, of the increase in return on tangible equity that we announced a couple of weeks ago from 12% to towards 13%.

Jason Napier – UBS:

So, before we got up here, we were talking about the groups of people at work that you spend a lot of time with. Treasury being one of them, interest rates have now started to decline. Market rates are all over the place. If you could talk just a little bit about the guidance that perhaps NII next year might be flat returns to growth the next year. First of all, how have you changed the risk of the balance sheet since you've arrived to protect it against lower rates?

Diego De Giorgi:

I inserted myself into what was already a very well trodden path of activity. Since 2021, we have reduced by something like 60% our exposure to rates. Now how do you measure it? You measure it with a combination of using the currency weighted forward rates that we are providing with our IRRBB disclosure. Now, IRRBB, we all know it has its strong limitations, parallel shift 1% all at the same time, static balance sheet, balance sheet by the way, incorporates already a forward rate. So if those forward rates are not realised one year out, you are starting from the wrong point of view. But directionally it's very clear that we have reduced our exposure to rates.

How have we done that? A combination of shifts of business mix, asset and liability mix, and clearly with the building of our structural hedge, which has continued to grow, we have indicated we will finish this year around \$60 billion. We think we can grow it next year towards \$70 to \$75 billion, and at this level of rates, that's a true hedge. If realised rates next year for whatever reason end up being lower than we expect, that will be a fillip to our results.

Jason Napier – UBS:

We've all read the disclosures around IRRBB and some of the banks. It's a work of art of how unseriously they want us to take the assumptions made. Is the real-life exposure higher or lower than IRRBB says it is?

Diego De Giorgi:

I think it's neither one or the other. It's very dynamically managed. The big difference between IRRBB and how we look at it is that for us it's a daily battle. It's a daily battle of shifting assets from treasury assets into customer assets. Particularly when we are helped by credit growth, which has been relatively scarce and I'm sure we will find a way of discussing it. We fight the battle of the PTRs, passthrough rates, early days from that point of view. So far so relatively good, but we will see how it will happen in the next few months. It will depend a lot on the pace and on the level of the cuts that we are going to see where I don't think that it's over until the fat lady sings because we've had a few changes in the composition of the decision-makers, let's put it this way. And so, we'll see where that ends up.

Jason Napier – UBS:

Really interesting answer. If you were talking to a generalist longer-term investor, and we were to look back and see that NII hasn't grown by the end of 2026, what would be the force rank of potential drivers of that? If that doesn't happen, what do you think will have been missing?

Diego De Giorgi:

Credit growth is the main ingredient in the sense you have four things that interplay. You have the level and pace of the cuts. You have our ability to continue to pass through the rates. You have the 1% NII headwind that I mentioned before that comes from the reshaping of our wealth and retail bank portfolio. You have to a certain extent a hedge, but that I don't consider as a factor because as I say, it's a true hedge. It comes out only in scenarios where the forward rates are different from what we think they're going to be. And these three factors interplay with credit demand.

Credit demand since the beginning of this year, is about 2% growth for us, but it has stuttered in the third quarter. The little green shoots we have seen over the course of the year have been in different asset classes, which is good. Latest quarter, a little bit in trade, the quarters before more corporate banking. So, the evidence is there that demand that historically by the way is in the region of 5%, the growth of demand in our footprint. Our footprint is truly in the most dynamic economies in the world, but right now they're not as dynamic as sometimes they are. So, we'll have to see a little bit how that plays out.

Jason Napier – UBS:

Sticking with that for a second. One of the things that Stan Chart's been incredibly strong in since Bill took over in 2015 is balance sheet efficiency and a pivot towards higher RoRWA activities. Is the sale of loans and the originate to distribute activity significant enough that when I look at loan growth versus the footprint, that I'm getting the wrong impression as to how much of the business you're actually doing?

Diego De Giorgi:

It is very well said. The answer is yes. Let's take a step back. For a one country bank, growth of balance sheet is very easy to equate to growth of credit and the two things go very much hand in hand. For us, that was always a little bit mediated, but now it's changed very substantially because when we originate credit, we have a plethora of opportunities to handle it. We can decide to keep it, we can decide to sell it, and when we decide to sell it, we can decide to sell it in very many different ways, to local players, to large global players that are coming more and more into our footprint. There is pent-up demand for long-dated well-yielding paper from insurers all over the world.

So all of those things are such that in the future, while I think you will continue to see our balance sheet to grow because it's not that we are trying actively not to grow it, we indicate that we would like to grow it smartly so that we can continue to return capital to our shareholders for as long as we trade below book, but you do have to look at the combination of NII from holding and non-NII from banking in originate to distribute.

Jason Napier – UBS:

I think one of your larger competitors in the region talks about mid-single-digit growth being the natural footprint and I think they would also be doing originate to distribute. I think that's really important for PE multiples. Do you think that the delta between Credit Risk RWA and loan originations will continue to be a material thing? Are we at stability in terms of how those relationships work?

Diego De Giorgi:

I think it will depend on how quickly we achieve a different type of stability, which is stability of interest rates. We need volatility of interest rates to abate. Once volatility of interest rate abates, we will be in a position where that relationship will be a little bit more stable. What in the meantime we do have

to face is that the ability to continue to shrink RWA density is just not there. So RWA density is where it is.

The house is extraordinary at optimising RWA. Leave aside all the work that was done in the past, the \$22 billion that were done in the past couple of years when that optimisation was taking out assets that were truly low return on risk weighted assets. We look at the relationship between return on risk weighted assets, return on leverage, our overall objectives, and we are constantly on the treadmill of making sure that we optimise that. Not with the objective of purely shrinking the balance sheet, but the objective of obtaining sustainably higher returns.

Jason Napier – UBS:

Speaking of treadmills, the restructuring budget of one and a half billion [dollars], that's a big number and cost management is a treadmill that no one ever gets to get off. If you could talk a little bit about, to the extent that you can, bringing it to life, what shareholders get in exchange for that and the arc of expenses into 2026. Because giving a dollar number that far forward is a real undertaking that I think is worthy of respect, but it's not easy to land. So, a lot of money spent. What do we get from it and when do we get it?

Diego De Giorgi:

So first of all, you get \$12 billion or less of costs in 2026, which as you say is no mean feat. In order to get there, I've long said, and you and I have had this conversation aplenty in the past, the bank has done a good job of managing costs in a dynamic way in what I call the flow of costs. What we are now doing is we are addressing the stock of costs and we are doing it not with a cost program, but with a transformation program. We are asking ourselves in order not to have to do these kind of programs multiple times, which I appreciate is not, ought never to be the objective, although some restructuring costs will always be present in the balance sheet of a bank that is as complicated as we are, but not obviously at this absolute level. We had to transform the way that we do business.

Although I really want to emphasise and stress how a lot of what we do are stones and pebbles as opposed to big rocks, and I love it because the fact that 80% of our programs are \$10 million or less in terms of the transformation program, in terms of the efficiencies we're going to take out them de-risks the delivery of that program very substantially. The big underlying themes are the streamlining and standardisation of our technology estate and things like process simplification. Process simplification is obviously a very long endeavour. You don't simplify a process end to end in a year or two probably, but you need to continue pushing in that direction. And think of an example, think of how many AML KYC systems do we have in the bank because of legacy reasons.

The more you go toward one, the more you use big data, the more you de-risk that process and you simplify it, you make it better for our people, better for our customers and less expensive. Think of things like payment systems. How many payment rails do we really need across wealth and retail banking and the corporate and investment bank? Today we have quite a few. We want to go to very low single digits. That's the kind of thinking.

Jason Napier – UBS:

Including in the transaction you announced with Wise a week ago.

Diego De Giorgi:

Which is a good example of us always finding ways of lowering costs, serving our clients better, being more efficient. A few of our most important markets, good partnership, consolidated vendors, you achieve multiple ticks, multiple results in one transaction with a very respected partner.

Jason Napier – UBS:

Can we turn to credit risk for a second. The first thing most of us do every morning now is look at what China has or hasn't announced the previous day from a stimulus standpoint and what the autos and luxury producers of the world are saying about their business in mainland China. None of it particularly reads bullish at the moment. How much does that matter for your firm?

Diego De Giorgi:

So, the answer is it matters, but not a lot because certainly what happens with the auto manufacturers, the luxury manufacturers, consumer goods, et cetera, always remember that matters if you are exposed to domestic Chinese GDP. Our mainland onshore business in China is less than one third of our overall China activities. And by the way, it's been doing extremely well this year because as of Q3 it's up 16% for this year. So even in that kind of a difficult environment we've done well. The reality is that what matters to us is the opening of China to the rest of the world. And opening of China means both the world coming to China and China going out towards the world.

In that sense, the discussions that in the room nearby we were watching together as we were preparing about globalisation is dead, et cetera, globalisation is far from dead. It just moves along very different corridors. Those corridors for simplicity are the south south corridors, a term that I don't particularly like, but it gives the idea. Those countries, ASEAN, Singapore, India, Middle East, Africa, whether with China, with Europe or with the United States, that's our heartlands. That's where we are present. Fragmentation in the flows of trade and capital ultimately leads to selling more products to our clients, to our clients needing us more, it's not bad for us.

I always use the example, if a ship goes from Shanghai to Zanzibar with one stop, we make one transaction. With three stops, we make three and then some.

Jason Napier – UBS:

I can't have one of Europe's best known FIG bankers on the stage and not ask you about M&A and sector dynamics there. The market seems to be applauding transactions now in a way that it wasn't 12 months ago. Do you think deal making is back? Do you think there's a room for purchased value add rather than buyback driven value add?

Diego De Giorgi:

I think that as the sector continues and knock on wood, long may it continue, especially for Standard Chartered to increase in valuation, the ability to do inorganic transaction grows. But I think you need to draw a very big distinction between banks that operate in jurisdictions where growth is scarce or non-existent, and banks that operate in growth markets. From our point of view, we are in the second category. For us just simply tapping into those fast-growing economies of our footprint is what drives us. When you don't have that, I can see why consolidation can be helpful. I think that the market is applauding it because within consolidation, anything that simplifies financial institutions tends to be well applauded. It's not something we need ourselves, but I can see why that is happening at this turning point, hopefully also on the valuation on the sector.

Jason Napier – UBS:

But it doesn't feel like Stan Chart is a buyer of businesses. If anything, it's about deploying the capital you're generating already.

Diego De Giorgi:

I think Standard Chartered is about doing two things with our capital, first and foremost, investing in our business, making sure that they have all that they need in order to achieve 13% return on tangible equity in 2026 and use that as a staging post for the future. And second, when we have excess capital returning it to our shareholders in the most effective way, a combination of dividends and buybacks, achieving good increase in earnings per share and further helping ourselves.

Jason Napier – UBS:

I still think your implied cost of equity is way too high and that the stock is cheap. I don't say that as a point of flattery, but it matters now potentially because of buybacks and so on. But running a bank where you're distributing a lot of capital and holding RWAs flat is difficult. There's less opportunity for operating leverage to give you growth. Is that price dependent? When you think about how much capital you give back, if the share price was 50% higher, do you think that would allow you to grow RWAs faster or is it about the opportunity you see in the market for your shares?

Diego De Giorgi:

It's very much the second part, Jason, because I don't feel today... This morning we had a big management team meeting and we were talking budget and 2025 and everything. We have no constraints. If people want to deploy more RWAs, we have the ability to deploy more RWAs. There's nothing there that is not working. But on the other hand, if the horse doesn't want to drink, you can't force the horse to drink. So that is very much the environment in which we are. And that's why, by the way, I said very clearly, first we give our business the capital that it needs to achieve those sustainably higher returns. Because to your point on the cost of equity, I'm a big believer that the cost of equity goes down first and foremost because you deliver constant, good returns that are sustainably increasing over time. If you do that, as your return on tangible equity goes up, your cost of equity goes down and they meet somewhere in the middle.

Jason Napier – UBS:

It absolutely will fix itself, for sure. Diego, that brings us to time. I thank you very much for joining us today.

Diego De Giorgi:

Thank you very much. Thank you, Jason, for having me.

Jason Napier – UBS

Thank you.