Redburn 2021 CEO Conference

Q&A with Bill Winters, Group Chief Executive, Standard Chartered PLC
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Amended in places to improve accuracy and readability

<<Fahed Kunwar, Analyst, Redburn>>

Perfect. And maybe we'll start. So, thank you and hi to everyone. Thank you for joining us today we are very lucky and delighted to have Bill Winters, the CEO of Standard Chartered, joining us today for a fireside chat.

The format of the call, we'll just dive straight into Q&A really. You should see little window, which has a question and answer box underneath your screen. If you would pop your questions into that, then I'll endeavor to ask them. If anything, doesn't get answered, of course, come back to myself or Adnan who is also on the call.

So first thank you again, Bill for joining us. And maybe I'll just kick off with the first question. Probably a decent starting place is COVID Omicron. We saw what happened to the share price last week. How do you kind of think about your footprint will cope with the pandemic and the recovery, the tick up? And are you still hopeful for economic recovery in your markets, even if the Omicron variant can be contained?

<<Bill Winters, Group Chief Executive>>

Thanks for having me. Pleasure to be here. The best guide to how, I think, we cope in a renewed pandemic environment is how we coped last time. Obviously, you have to look what could be different this time around. I think our markets have proved to be quite resilient. Africa has returned to strong growth. China, obviously after a short spike down, recovered quickly. Hong Kong has recovered more slowly, but we also have the buffeting from a variety of factors, starting with the protests and then finishing with the national security law and concerns about how that is being implemented. And all of that has caused Hong Kong to be a bit slower.

But broadly the markets have been resilient and there is no reason to think that this time would be different. In terms of our particular exposure to this variant, of course, we don’t know anything more about it, nor anybody else does. But it doesn't strike me that this is going to be fundamentally different. We do have to reflect on the fact that that the world is becoming pretty fatigued and that could have its own independent challenges. But I don't think more so for us than for anybody else, from what I've seen so far.

Not a welcome set of developments, obviously that the market really didn't like this at all on Friday, but particularly didn't like it as it relates to Standard Chartered. I can't explain that divergence between our share price performance and others. I see we've caught a little bit of it back in terms of the gap. I can't explain that either, because nothing has really changed. But at the end of the day, I think, this is one we can roll through as we did last time. We got a good, high-quality credit portfolio. We're embedded in markets that will continue to grow. I think independent of the pandemic, obviously you would look to see whether something fundamentally changes in China. Is there some reason that the zero COVID policy and strategy is less relevant with this variant than it has been in previous variants? We can all understand why it might be if it's much more contagious. But the Chinese, in particular, obviously Hong Kong by extension, have demonstrated that they are able to control this with relatively small impact on economic activity, certainly at a national level. Certainly, ''d find it hopeful that we can continue to see evidence of that kind of resilience.

<<Fahed Kunwar, Analyst, Redburn>>

Do you have any sense on that zero-COVID policy in China, how much of an impact it's had on your revenue, I guess, when one day hopefully we get away from COVID what kind of kicker that will be to your topline if and when China moves from a zero-COVID policy to more normal related?

<<Bill Winters, Group Chief Executive>>

Well prima facie its had no impact at all. I mean, we've had extremely strong results in China in 2020 and in 2021, up to even including today. So, we could look at that and say in terms of a country that's outperformed for us, zero-COVID seems to have been – a strategy seems to be pretty good. Obviously, the question we will never know the answer is how good would it have been if there hadn't been COVID and if there hadn't been a zero COVID strategy. We won't know that, but certainly, I think, there's a risk of some sort of a disconnect between China and its neighbors or between our colleagues outside of China and inside because there is no cross-border travel, virtually none.

And interestingly, I think, certainly our Chinese clients, not internally, but the Chinese clients have been slower adopters of Zoom than many of our other clients throughout the world. So, while there's endless opportunities to engage in panels, and groups, and fora, and things like that. I think we're already feeling the effect of lack of a bilateral dialogue and that gets worse as time goes by. But like I said, it hasn't held us back so far.

And I don't think the zero COVID policy, which has been quite effective in Hong Kong, has contributed in any material way to a lack of the highest level of growth. Historically, Hong Kong has been one of our fastest growing markets, now it's more middling in terms of growth. That will come back when mobility is increased.

Certainly, the things like the Wealth Management business are impacted by the inability of Mainland citizens to travel to Hong Kong. And we feel that in insurance sales, in wealth sales. Obviously it has not prevented us from growing in Hong Kong, but we're not growing as quickly as we would. So that would be the most direct manifestation of the zero COVID policy, more in Hong Kong than in China.

<<Fahed Kunwar, Analyst, Redburn>>

Okay, that's very helpful. And just picking on your points around Wealth, if you look at the business structurally, in CPBB consumes – it consumes 30% capital and makes much higher amount of profits than CCIB. What is it about the corporates in Asia that is so low return for your business at the moment? And what can you do to drive that higher? Is it about allocating capital away from these corporates towards things like Wealth, or is there something you need to do to drive higher returns from that corporate franchise in Asia?

<<Bill Winters, Group Chief Executive>>

Yes, it's an excellent question, and observation, and one that I would say we're obsessed with. And, we've been obsessed with it for a while, and we've actually made really good progress. We've significantly reduced the proportion of our corporate client base, so the CCIB client base that's generating below cost of capital returns. But it's not at zero. As I indicated, I think, as recently as, the third quarter earnings presentation, that's a key area of focus for us.

Now we've been fighting a bit of a rising tide. During the pandemic we had a pretty significant credit migration down. So, relationships that were marginal to positive in terms of RoTE or EVA, RoTE relative to cost of capital, or EVA went negative, because they were downgraded. Downgraded by us and our own internal scoring mechanisms or downgraded by rating agencies or both given that they are pretty highly correlated.

So, we have been fighting against the migration effect from the pandemic. But it remains a key area of focus for us. As we fine-tuned the network model and by no means I am suggesting that we're into the point where there's diminishing returns. I think there's still a long way for us to go to optimize the value of our cross-border business. But as we become ever more confident that we know how to deliver that package, because we're actually seeing increasing market share in key aspects of our Trade, Cash business, Financial Markets, these things are really moving in the right direction. And in fact, they have largely offset the impact of lower interest rates.

But we can also see what the nature of the drag is that comes from that subset of our overall relationships that are generating negative EVA or below cost of capital returns. and we'll go after those very hard. . And that's one of the things that you can expect to hear a lot more from us about from quarter-to-quarter, starting with our further full year presentation in a couple months' time, is exactly how we intend to tackle that remaining drag.

So, when we look at the returns of the cross-border business, defined as broadly, ordinarily as you want, they are very good. The underlying growth is good, the competitive position is good, we don't have a scale issue in our client segments in Cash, Trade or Financial Markets. Of course, we have scale issues in other parts of our bank, or we could redefine an issue to be a scale issue if we start to look to the global investment banking income pool. But where we compete, we're a top one, two, or three player in most of the areas of our income and virtually all of the areas of our income growth.

So, that we feel very good about. But there's a drag, that drag downs the aggregate returns for the corporate bank, down below cost of capital. And that drag is clearly coming from these low returning client relationships which we are singularly focused on.

The flip side of your question we really started with on the retail side, we're generating cost of capital plus returns, getting good growth, but that business itself is, as we've begun to describe it and report it, it's two different businesses. Two different businesses sharing a common infrastructure and brand. There's the affluent client segment, including our private bank, which is high returning, not capital intensive and generates consistently good growth. Volatile, as market sentiment changes, but any regression line through our quarterly income suggests that's a high-single-digit, low-double-digit growth business and a double digit plus return business.

And then we got the mass, the mass market which has been zero to negative growth for much of my time at Standard Chartered, is very low return and is much more capital-intensive. It's dominated by the credit card and personal loan segment. That one, I think, we're getting right. We've invested a bit in digitization. We've invested quite a bit in data analytics, and we've invested quite a bit in partnerships to originate good credit, smart credit and also smart liabilities. And that's really beginning to kick off.

So, we now have a profitable mass business. We can look forward to growth in that business. It's not yet generating cost of capital plus returns. So, it's a drag on our aggregate CPBB return metrics. But it's not as simple as saying, well, let's just get out of the mass market, because of course, it's also picking up by roughly half of the fixed expense. And unfortunately, that fixed expense doesn't go away if you just decide to get out of it. If it were that easy. Rather we need to grow out of it, we need to grow out of it by having the investments that allow it to grow smartly. That's what we've done. I think we've got a pretty good story to tell. And I think you will see that increasingly on the bottom line in the quarters to come.

<<Fahed Kunwar, Analyst, Redburn>>

That’s very helpful. So, if I take it then the mass and affluent retail and the corporate is kind of where there’s a returns issue. From the mass affluent side, it’s about scale. On the corporate side, why are the returns [so low]? I understand how you’re going to get them further, and we want to get onto digital, why are the returns as low as they are on that bit of the business historically just out of interest?

<<Bill Winters, Group Chief Executive>>

Yeah. Well, I think you hit on one of the areas in your first question, which is I think implicitly in the question was, is it just too competitive in Asia? Are the returns too low?

And I think there's some truth to that. I think the world is over-banked right now, but the Asian markets are particularly over-banked.

The world is over liquified, which has obviously put pressure on NIM, which directly impacts a lending heavy business or a deposit heavy business for that matter. And that corporate segment has been hit as hard as any by the NIM compression. Clearly, we’ve had episodic periods of decreases in trade that I think is coming back strongly. And we saw good evidence of that as we progressed through this year. Trade is coming back and our share of trade is actually improving.

But I think the bottom line is the corporate and I'm going to distinguish between the corporate client segment and the financial institution client segment. So, we're roughly 50/50 in our CCIB business, actually slightly skewed to the financial institution business. That's, if I get the numbers, correct, I think going back four or five years, the financial institution business was about a third of the total. Now it's closer to 60% of our total CCIB income.

It tends to be much less capital intensive. It tends to be higher returning and is growing quite nicely. And that business itself is comprised of correspondent banking, so the business with banks, which has always been a strong business for Standard Chartered. I think it has been particularly strong in the post financial crime awareness environment, because we made the investments early on to have a really good anti-money laundering and sanctions compliance infrastructure, which allows us to safely bank banking customers who other banks have walked away from.

So, I think we're recognized as very good. So that's even though it is a mature client segment, Banks, we're pretty good at it. And it's generating decent returns. Asset managers we were very small historically. We had a small sub-custody business, which was plagued by quality problems. We've invested, in the scheme of Standard Chartered, not a huge amount of money, in the scheme of that business quite a bit. We're now a high-quality provider, we are absolutely a market consolidator. I won't rattle through the names of clients that we've onboarded, but of all the big global custodians I would consider us to be either their top partner or amongst the very top partners dealing with the local markets where we have expertise.

But we also have a built out a very strong Financial Markets business with asset managers, which we didn't have before. We were very much a retail and bank service provider and corporate client service provider in FM. We now broaden that out to asset managers.

And now remember, well, one very, very large asset manager who really likes Standard Chartered, like the people that they dealt with, five years ago said, we'd like you, but you're number 17 out of 17 in operational competence and that's the number one criteria for us, because we figured we can get the best price. We took that that observation to heart. I think I might've mentioned that on a call four or five years ago. We've invested in that relationship. We're now a top three dealer, which is pretty remarkable when you don't have a top three fixed income footprint, but we are a top three provider, because our execution quality is very high. And we've broadened our range of products. So, to make money, you have to both be exposed to the trades and then be able to execute the trade. And thankfully in a full range of Credit products, Rates, FX, FX options, Commodities, we have capabilities now that we just didn't have three or four years ago. So that's probably straying from your core question. So, I'll try to bring back home.

<<Fahed Kunwar, Analyst, Redburn>>

Very helpful. You know what I love is the digital strategy you outlined three or four weeks ago now. Within those bits of the business, the way you segment the business is super helpful. And how do you see the digital strategy kind of overlaying what you talked about like where does it give you the most proof and benefit? Is it really in the stuff where asset management, wealth management, retail, or is there a corporate stuff you can do? I'd love to kind of overlap that digital strategy.

<<Bill Winters, Group Chief Executive>>

Yeah. And the digital stuff that gets the press, headlines is largely focused at the mass market. So, it's – whether it's our digital banks in Hong Kong or Singapore or Africa or our banking as a service model of which we've now rolled out live in Indonesia or other things like that are really targeted at the mass market. And sub-component of that is largely credit cards and personal loans.

The bigger amount of spend actually is in the corporate space and which is exactly to your points, it's electronic or digital connectivity to clients for the movement of their cash, the management of their cash balances, the management of their trade flows, the access to real time information, the management of trade execution in FX and Rates and Credit products. And we've rolled out 350 like fundamental enhancements to, what we call Straight to Bank next gen, which is our branded portal for corporate treasurers, also used by financial institutions.

It was cutting edged nine or 10 years ago. It faded a bit, suffering from relative under investment. We've been investing heavily for the past three years. And then accelerated heavily for the past 18 months. And a number of enhancements that are rolling out are tremendous. It's allowing us to win the sort of major global cash mandates from Fortune 50 companies who didn't bank with us before or from – for example, the tech sector or the Silicon Valley and Shenzhen and Guangzhou companies that didn't have meaningful or no relationship with Standard Chartered.

We're now their primary bank in a number of emerging markets, because of our digital connectivity, because we're leading edge in terms of establishing APIs with sophisticated counterparts. I would say, APIs are the preferred form of digital connectivity. So, we are building a platform. It doesn't get headlines, because each one of these enhancements, it's just – it's a convenience item or an access item for a corporate treasurer or a portfolio manager or an operations clerk at one of our clients.

But cumulatively, it's a game changer. And the question always comes in, maybe anticipated question that might be in your mind or some of the others on the call. How do you compete with JP Morgan, they are spending 10 or 20 times what you are, and they're in the same business? And they are in the same business, but we've done some of the same business. We picked our – we picked the niches where we're really differentiated. So, there's a table stakes or some other derogatory term for the cost of doing business, we have to have a basic level of infrastructure support that is very good. It need not be best-in-class, but it's got to be very good. You need to be able to make a payment very easily with a high confidence that it's going to be delivered and that you can report on the status of a problem. But its where we're making these 350 enhancements that I've talked about this year. And it was another 300 last year, and it'll be another 600 next year. These are areas where we're really differentiated. So, it's access to local market emerging markets for global asset managers. It's digital assets.

I mean bizarrely to me, we're recognized as being thought leaders in the whole space of cryptocurrencies and digital assets. We've got a digital asset custodian, which is making headlines now for mandates that are coming in from quite sophisticated asset managers. And obviously, there's a lot going on that doesn't hit the headlines. This is good stuff, but this is where we decided we're going to be ahead of the game in digital assets and cryptocurrencies. We've decided we're going to be ahead of the game, because we already are in local markets.

We decided that we're going to be the leaders in everything cross-border China, everything ECNY, everything RMB, everything Hong Kong versus China, et cetera. We enjoyed that position for quite some time, but a lot of it is blocking and tackling, it's participating in the payment platforms and being a leader there. Being a leader in Bond Connect, on the retail side in being the first bank that signed up for the North-South Wealth connection et cetera, et cetera.

So, these are niches where we actually have an advantage and we go for it hard. And we don't go into areas where we know we're going to have to displace JP Morgan or HSBC or somebody who's quite a bit bigger than we are, because we don't have an infinite budget, but we do have the ability to deliver in these areas where we have some identified differentiation.

<<Fahed Kunwar, Analyst, Redburn>>

And one of the questions, it kind of links to this, but the point kind of talks about your valuation of 0.4 times tangible book. The question is for the management team, how do you balance off M&A making economic sense on value accretive terms, I guess, versus doing buybacks. And given all the opportunities here in growth, really digital opportunities, how do you think about that trade off? What's your – I guess what's your IRR and what kind of time horizon do you have for that versus doing buybacks?

<<Bill Winters, Group Chief Executive>>

Yeah. I mean, first of all, there's the absolute versus the relative. The absolute is we invest in nothing that we don't think is going to generate well above cost of capital return at risk adjusted. So, and that includes client relationships or investments in technology. Not every investment we make lends itself to an IRR analysis. We are not looking for something that generates an 11% return on the investment of $2 billion that we'll spend on investments or the $1 billion of which is strategic, we're looking for returns well, well in excess of the cost of capital.

So, we are looking at any external investments through the same lens and we'd have to be, because obviously we have less control over that than we would do over a share buyback. We know what the return is, at least from an accounting perspective on a share buyback. To understand the real return, you also have to look at fit. What do you think happens to the price if we execute on the plan that we've got? And yes, if we execute, as we said, our medium-term target is to get to a 10% plus return on tangible equity. I'm pretty sure that unless the world changes fundamentally that we'll be trading above 4 pounds 28 if we generate those returns.

So that obviously is a consideration in the context of share buybacks, but I've been very clear that we will look at external opportunities as we look at internal opportunities or whatever spending $1 billion of your collective money on strategic initiatives, things over which we have a choice, and we could have returned that $1 billion to shareholders. We could still return that $1 billion to shareholders.

We've asked for permission not to, because we think the quality of the investments that we're making is very high. If we had an external acquisition opportunity that was similarly high, we would make that investment, if we didn't, if we can't justify that we won't, and if we don't have better alternatives internally, then we'll return the capital to shareholders, always the case. I'm not sure how you define M&A, but we've made some pretty important investments in the past year in partnerships. We took a stake in Neuron Credit, which is part of the Advance AI Atome, which is a consumer credit specialist, data driven, operating across Asia.

And we are now their partner in 11 markets in Asia. We'll be starting with products that you might euphemistically called Buy Now Pay Later. But I think the nature of the underlying consumer product is much more substantial than that. And as part of that, we made an equity investment in the private company, alongside, Sequoia and GIC and others, into a company we believe in and we believe that we can help increase the valuation of that company a lot. Do we think we're going to receive cost of capital on that investment? Yeah. I think we're going to get a lot more than cost of capital on the investment.

Could we have returned that chunk of money? I don't think we disclosed the precise amount, but it's not overwhelming, but it's noticeable for us. Could we have returned that to shareholders and bought shares back at $0.40 or $0.50 in the dollar, and we could have, but that wasn't the best use of capital. Now, I'm shedding some light on that particular transaction, but I don't think we've done so publicly, although everything is out there, you know about it. But that's our framework. And that's the framework that we would apply to anything else that's in the market right now.

<<Fahed Kunwar, Analyst, Redburn>>

Last question on this, I mean you're right, you've got Mox, Nexus, next is Africa Digital Bank. If the value doesn't become apparent as a group, would you consider kind of spinning them out and separate listing, I mean, to look at 15 times PE sales valuation, for example, is there something you would consider…

<<Bill Winters, Group Chief Executive>>

15 times? I thought it was 50 times trailing income. Look, I can't tell you how many copies I've gotten of the deck, that's called something like the SCB transformation, blah, blah, blah. And I always think, oh, somebody's got an idea for Standard Chartered Bank, of course, they're talking about Siam Commercial Bank. I'm sure you're all familiar with it. Your compatriots in the resource community wrote a report saying, maybe this is something we should be looking at. And if there's value to be had, like real value to be had, and via the financial alchemy of taking something and spinning it out or separating it and where Andy and I have said, clearly, we will start is reporting that stuff separately.

So, you just get a sense of what the dynamics are, in terms of income growth, in terms of cost growth, the amount of our shareholders' money that we're putting into things before they generate a profit. I mean, we decided it's material enough. The shareholders should have that information. It wasn't material enough. In fact, even today, it's probably not material enough, either on the cost or the income side to warrant the level of attention that we will be giving it perspectively, because it's becoming material and we'll become more so as we're successful. If we're not successful, it won't be material, I can tell you. If we're successful, then we're going to want to put a lot more money into it. Does it make sense to either look at external capital sources to help fund that growth at an asset level, a project level?

Absolutely. We already do that. Northern Trust came in as a partner in our digital asset custody venture. We merged our payment platform with CurrencyFair. We're very happy to take capital at a private level, obviously, did in the partnerships we set up with Hong Kong Tel on one hand, NTUC in Singapore and in MOX and in our Singapore bank respectively. These are all taking capital at a project level. Should we take it at a portfolio level? Yeah. If we think that's better value than operating at a project level we could look at that. Do we actually spin it off to shareholders and hold on in part? I'd have to believe that the cost of a relative disconnection from the mothership, which may be a benefit if you believe that just culturally, that liberates them to be super entrepreneurial and maybe operate outside the hyper regulated environment? You look at that versus the benefits that you would get.

And I think if I've noticed correctly, Siam Commercial Bank got quite a stock price uplift around their restructuring and that's an interesting data point. And I think we need to understand at what level of maturity were they executing the separation, et cetera, et cetera. I think, we're open to anything, but it's got to be about value, not a short-term stock price play.

<<Fahed Kunwar, Analyst, Redburn>>

Very interesting. I'm going to rip us back to the short term. Now, if you don't mind on revenues. When I think about Q3, the loan growth is very good. I think 8% year-on-year in the third quarter. Just wanted to get a sense of any color on kind of the loan growth in the fourth quarter, in the next kind of couple of quarters, or even on revenue, how do revenues look in general at the end of this year and kind of looking out next year as well?

<<Bill Winters, Group Chief Executive>>

Yeah. I would say, can't comment on specifics around the quarter. Picking up on some of the themes that dimension in the third quarter, the fourth quarter is typically a weaker quarter seasonally and for all the obvious reasons, nothing to think that this is going to be particularly different. I think it'd be very interesting to see how different people have fared on the back of some of the market volatility that we've have. We're less market sensitive than I think some of the other players in the fixed income market in particular.

But I think clients are pretty fatigued at this point. So, level of activity, despite some of the volatility, is a little bit on the low side, not dramatically, just a little bit. We've had a very good few years really in terms of asset growth and loan growth and it's been good high-quality growth as well.

I'd say that there's still quite a bit that needs to happen this year. We'll see whether it happens this year or into next year. The pipeline is very good. The level of activity that we see and that we have access to is very good. There're the old themes, which is I think a reengagement in terms of Capex and M&A volumes have remained reasonably high across our markets. We've actually generated some nice M&A business on the fee side ourselves. It's not a game changer in terms of our income line, but we're in the game for areas that we have some real relevance. And obviously we frequently get financing opportunities on the back of that.

So, I'd say the pipeline looks pretty good. The Wealth momentum is looking good. We had a reasonable setback in China and Hong Kong earlier in the year at the time of the tech market meltdown, the Chinese equity market contraction in general. That stabilized and is improving. And I think that's bringing sentiment back. So, I feel pretty good about the momentum now.

So, all in all, I think as we look at the state of health of the business, it feels very good to me. And I think we had a decent first nine months, I think we'll have a decent year. I think the momentum going into next year feels pretty good. We have made some material investments that are generating returns already that accelerate as we go through time. So overall I’d say I feel good about things.

<<Fahed Kunwar, Analyst, Redburn>>

Okay. And if I just think about obviously the margins kind of did stabilize if you take out the IFRS adjustments that you had, and you mentioned it earlier, how do you think about the interplay between hopefully rising rates in the U.S. and the kind of abundant liquidity you have? Like, are you worried that a lot of the margin upside from rising rates gets eaten away by competition or how do you think about that interplay between liquidity and rising rates?

<<Bill Winters, Group Chief Executive>>

I think rising rates would unambiguously be a helpful thing for us. We’re not relying on it. Obviously, we’re watching the world the same way you are and the threats to economic growth are there. The existence of inflation is also there. And I’m old school on this. My personal view is it’s going to be very difficult to escape this economic cycle without a bout of above inflation into the discomfort zone. But I can tell you, I’m of that generation, I think it may be simply an age thing, kind of grew up in business in the 80s, when that was very thematic. And I talk to my younger colleagues, who frankly are much more day to day knowledgeable about this stuff than I am. And they say, you’re just wrong, right? Transitory means transitory. And the economic slack is there. Anyway, we’re not trying to call interest rates except to the extent that we put on a nice structural hedge, which does begin to generate returns. I’m glad that we executed that hedge closer to 1.6% than 0.6%. Even though, I think we got a little bit of criticism for not having executed earlier, obviously, we would’ve preferred to have executed at 3.5%, but that’s water under the bridge.

But apart from that, our sensitivity to interest rates is clear. We’ve been clear about that. To the extent that there’s questions and there will always be some questions we’ll be even more clear that we’re not trying to hold anything back at all. But the real issue is, what is the impact of economic activity and the consequent impact on interest rates? What does that do to the rest of our business? And right now it feels like we’re in a little bit of a sweet spot, where I think our underlying business could afford meaningful, but not enormous increase in interest rates without consequence.

I know there’s always a lot of anxiety around with higher interest rates due to an overleveraged consumer economy. We’re not over exposed to the overleveraged consumer economy, where this is an area where we’re very light. Are there concerns about sovereign states that would be unable to cope with even moderately higher short term interest rates? I think we’ve got ourselves very well positioned in terms of our exposure to sovereign level and associated parastatal entities, credit exposures. Not to say there wouldn’t be any stresses or strains or that it wouldn’t be inconvenient or painful for some countries locally, it would be. But I think we’re pretty well positioned to deal with that in terms of our credit portfolio and the way that we've helped some of our clients and others to help clients to mitigate at least for a time and to an extent, the impact of higher rates.

<<Fahed Kunwar, Analyst, Redburn>>

That's very useful. And then just thinking about that structural hedge, it could be very sizable. You probably got over 100 billion of potential hedgeable balances when you look at your excess deposits plus your equity base. And obviously that could benefit revenues quite meaningfully. Over what time horizon should we think about the investment of that hedge and how it does, how much it could benefit revenues?

<<Bill Winters, Group Chief Executive>>

So, the structural hedge relates to revenues, sorry, it relates to equity. So that’s just to be clear on definitions. I actually wasn't too familiar with the term as a term, but that's, it is a term in regulatory and accounting circles. And that relates to the equity. That the second opportunity that you're referring to is, is understanding better the duration of our liabilities and when I arrived at the bank in the early years, the behaviouralisation of our liabilities suggested that much like our assets are very short-term on average, that our liabilities had the behavioral characteristics of short-term, i.e., the money was flighty.

We have invested a lot of time, effort and early on some money to improve the quality of those liabilities. So, a deposit is still a deposit and its impact on LCR or NSFR is the same. But the quality of that liability is very different. And as we reassess – as we now have data, and we can always question how useful the data was around the pandemic time, because there have been such extraordinary liquidity events. But as we now have several years of experience with higher quality liabilities, and we look at the behavior of those liabilities.

We can conclude that they have a longer duration then was the case previously. Not because we redefined how we look at it but because the nature of the liabilities changed themselves. And a heavy focus on generating treasury operating accounts, which are definitionally stickier, that's why the regulators give you more credit for that. So, to the extent that we identified and conclude that the duration of our liabilities is longer than we've been giving ourselves credit for so far, that's an incremental opportunity to extend the duration on the asset side.

That's not a conclusion that we've reached yet. Not because we're averse to making the decision, but because we have to let the data work through and we have to see how in a normalizing liquidity environment, so, with normalizing central bank behaviors, no one thinks is normal right now. How confident are we that we got this right? And it is very impactful not just from an economic perspective, but also from a regulatory perspective. So, getting that right is key.

But I can tell you that as I sit here today, the assigned liability duration is quite a bit shorter than most other banks I think would assume in terms of their liabilities.

<<Fahed Kunwar, Analyst, Redburn>>

Okay. That's very interesting. And so, the structural hedge on the equity up over 40 billionis fully deployed now?

<<Bill Winters, Group Chief Executive>>

Well, it is deployed exactly to the extent that we wanted to deploy to this point. And as we indicated at the half year and Q3, there is an element of timing to this. And we were definitely dragging our feet in terms of execution when 10-year treasury rates got down well below 1% and we got much more comfortable rolling into that position above 150. So that's just to give you a little more on exactly where we are.

<<Fahed Kunwar, Analyst, Redburn>>

That's very, very helpful. And then thinking about kind of just shifting back to costs now, questions come in on operating leverage. There was a little bit, I think confusion on the call around whether you can generate positive operating leverage next year with or without rates. I think consensus has 3%. Is positive operating leverage next year, still the target for yourselves, or do you not look at the business on an operating leverage basis?

<<Bill Winters, Group Chief Executive>>

I guess by operating leverage you mean what some people would call JAWs. I wouldn't say that it's a metric that we're obsessed with quarter-to-quarter, or maybe even year-to-year. It's definitely a measure that we're obsessed with structurally. If for some reason we have a spurt of income growth we are not going to loosen the expense levers, so we will end up with big positive JAWs that weren't in our original plan, if that's the way it works out. The flip side, if for whatever reason are unable to hit our income targets and we've been clear certainly through the cycle, what we think those targets are. If we can’t hit those income targets then there are levers that we can pull on the expense side. And as I indicated in the Q3 call, we will do everything that we can to be positive JAWs next year, that's the intention, that's the expectation.

Nothing in life is guaranteed because we don't know how the income picture will play out. We do have control of the expense side, and we do have levers that we can pull. So, the lever that we've always resisted pulling is cutting back beyond what we do in the ordinary course on the investments program. But if for whatever reason, the decrease in income is appears to be more structural than transitory or one-off, then obviously we reduce our focus on investments in addition to pulling every other lever that we can. Obviously targeted on the areas that we think are for whatever reason that have reduced in terms of their ability to deliver income growth. I'm not trying to be evasive at all

<<Fahed Kunwar, Analyst, Redburn>>

No, that makes sense. So, the expectation is for positive JAWs even without rate rises, but obviously if income, like we had in 2020 just gets smashed out of the blue, then what can we do? But okay that's very – that's very helpful.

And then a couple of questions have come in just around the share price valuation. The share price has been hard to call. The third quarter results you saw a massive decrease for what wasn't actually that spectacular a set of results one way or another. How do you think about that valuation? How does it play into your thoughts about the strategy and structure of the business? When you're sitting at 0.4 times plus tangible book?

<<Bill Winters, Group Chief Executive>>

Yeah. We're constantly taking feedback from you guys and our shareholders and others around what do you see is working or not working. There is a pretty consistent message we got from the people that have made the investment to understand us, and I fully understand that we’re a complex organization. We're not that big, and lots of people just haven't made that investment. So, I'd say, well, thank you and your audience right now for spending an hour and trying to understand what we're doing, but not everybody has done that. And what I hear pretty consistently from the people that own the stock is we like the markets where you operate, some people don't and we’re not going to change their mind if they don’t like China, and they are probably not going to own Standard Chartered.

But we like the markets you operate. We like what you're doing with the business. We want to understand how you can go faster, which is I think a very, very fair observation. We think that your execution is pretty much on track and you've consistently hit the targets that you've set except for those things that that have been out of your control, okay, fine. And your communication around why we should own your stock is very poor. I'm being generous, actually, I've gotten much more direct criticism than your communication is poor. And I take that, I accept that. So, what we're working on right now for our full year results, and I think Andy gave a bit of a preview to this at Q3 was, is we recognized that our complexity and some elements of history, I say history being that the bank was going through a pretty fundamental restructuring up until 2018 or so.

And as we were gaining momentum and steadiness following that restructuring, we got hit by COVID. And you can say we got hit by disruptions in Hong Kong and U.S.-China tensions as well. All of which impacted results to some extent, but actually the results were pretty good consistently through that. At COVID there was a different story with large impairments and the very, very negative impact of the rate decrease. So, the story's complicated and we got to find a way to simplify the story. And perhaps simplifying the story means simplifying the business itself and narrowing our focus to some degree into the things that that we really all want to own and want to drive for growth, so that's what we're working on.

That's the feedback we've gotten. There may be another school of thought that says the markets are terrible, the strategy sucks, and you’re lousy executors. If that's your view, obviously you don't own the stock; I would suggest you probably haven't looked too hard at the company or the markets either, if that's your conclusion. But of course, I'm not the one that makes that call. It's the people that make that judgment about us. So, the focus from here is zero in to the greatest extent possible on those things that are going to drive the ROTE improvement over the next one, two, three years. Be very, very clear about what those are, be very clear about what you're not going to do to the extent that that's part of the complication and then deliver those results.

<<Fahed Kunwar, Analyst, Redburn>>

Okay. And I'm going to sneak in one last question. When you think about that medium-term journey to 10% ROTE, of all the things we've talked about, what are the kind of the two most important building blocks outside of interest rates of course. When you think about either digitalization or the towards wealth management, what do you think?

<<Bill Winters, Group Chief Executive>>

It's managing the EVA drags, number one. And we talked in your first question about what those are, and it's supporting the underlying segments of growth. The most substantial of which is the affluent client population in the retail business. But there are extremely important segments within Cash, Trade and Financial Markets, i.e., the network business.

<<Fahed Kunwar, Analyst, Redburn>>

Got it. Perfect. We have run out of time, and that was fantastic. Thank you very much for your time, Bill. And thank you to everyone who's joined us as well. If there were a question that we didn't answer, you want some more detail, please come back to myself or Adnan as well, who's on the call.

So, thank you again, Bill, and thanks again everyone.

<<Bill Winters, Group Chief Executive>>

Thank you. Bye.