

## Numis Pan European Investor Conference 2020

### Q&A with Andy Halford, Group Chief Financial Officer, Standard Chartered PLC

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*(Amended in places to improve accuracy and readability)*

<<Tom Rayner, Director of Equity Research, Numis Securities>>

So -- can we start off, Andy, just about with the sort of the return on tangible equity goal of 10%, which is - has been a goal of Standard Chartered for some time. Obviously, events have pushed the timing back, at least. I mean I just wondered, is this still something a goal that you think is possible to achieve in, say, the next 2 to 3 years? Or has it become more of a long-term aspiration that might need a stronger or earlier economic recovery or perhaps a shift in interest rates for you to achieve? I just wondering if you could update us on your thoughts around that sort of 10% or better RoTE target.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Yes. So the 10%, we have clearly had it out there for some time now. And we remain in the view that is the sort of north star that we should be aiming for. And in some respects, it's sort of quite disappointing that, COVID is happening. It's disappointing in many ways, but specifically to the trajectory that we were on. We were actually making pretty good progress when we first sort of talked about getting up to a 10%. If you remember, back in 2015, we were slightly negative on RoTE. So we have actually covered a lot of ground. We came into the very early start of this year, I think, in pretty good shape. And the first quarter numbers sort of really bore that out. And then obviously, COVID has set things back for not just us, but for most of the rest of the world.

So our view remains that 10% still is what we should be going for over a period of time. There clearly are a number of Asian banks operating in not dissimilar markets, the ones we're in, who do achieve that. And therefore, it sort of seems like an ambition that if others can achieve it, why shouldn't we be able to achieve it.

The exact timeline to achieve it is slight tricky. It really is very dependent upon a number of factors. One is interest rates, clearly. Self evidently So the lower they stay, the longer it will take. But conversely, if over a period of time we did see some pickup, that would be helpful.

And then secondly, we have got the big question of just how fast do countries manage to pull through the COVID period, when does a sense of normalcy start to prevail and when do economies start to get back on their feet. So we will provide an update in February when we do the full year results. And by then, hopefully, we'll have a little bit more evidence, another couple of months maybe of vaccines and early days effectiveness of those.

So I do think it is something that we should absolutely try to get to. The exact timeline is a little bit difficult at the moment. We'll do it as fast as we safely can do it. But we're also going to be quite thoughtful about the balancing the longer term against the nearer term. We are investing a fair amount in digital and pushing pretty hard on all things digital. That requires a bit of investment. We can take that investment out and maybe hit the RoTE target earlier, but I'm not sure in the longer term that, that would be the right thing for the business. So we will try to be thoughtful about that balance of repositioning the business for the longer term versus obviously getting the RoTE up to the levels that everybody wants the business to be at.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Okay. If I can maybe just pick up on a couple of things you mentioned there. Firstly, how quickly different countries are going to recover. And then also your comments on interest rates. We hear a lot of reports about China, and how China is already recovering certainly more quickly than we're seeing in the U.S. and Europe. I wonder if you could comment there on -- is this also true for Hong Kong? Obviously, political tensions remain high. And some of the recent news in the last couple of days underlines that a

little bit. And the border with Mainland China remains closed as well for now, which I guess also had an impact. So Asia itself, if you could talk maybe about Hong Kong and some of the other countries a little bit as well would be great.

And then on the interest rates, obviously, interest rates is an important driver of the revenue going forward. Just felt that the falling global rates might have taken you a little bit by surprise, not the only bank, I think. But I just wonder how confident you can be now that margins are going to stabilise, say, in early 2021. And we're not going to see the impact of rates taking longer to be through and, therefore, more downward pressure on revenue in '21 than then perhaps people are currently looking for. So these two issues, if you could maybe add a bit of color to that would be great.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Sure. So let's take the first one first. We are seeing more resilience in volume picking up in China and in Northern Asia more than in other parts of the world, for sure. There's obviously been a lot in the media about U.S. and Hong Kong. Certainly, as we see it in China at the moment, actually, the levels of economic activity are picking up pretty nicely. And certainly, when we talk to our people in China and Hong Kong, they are closer to the life before we had COVID, maybe not quite there. And Hong Kong has had a little bit of a resurgence. A little bit depends upon your definition, in other countries it would be minute, in their sense where 0 has become an acceptable level it has spiked a little bit. But overall, it is just gently coming back. And we're seeing that with corporates, and we've seen that certainly on the Wealth Management side in the consumer space.

I think Southern Asia and particularly Singapore is showing encouraging signs. It is not as advanced in that journey as Hong Kong is. I should say, actually that the experience in South Korea is pretty good as well. So the Northern Asia swathe, which, of course, is a big part of our overall profit is doing pretty nicely. India, even though they have been struggling with COVID and getting on top of it as a country, actually, again, we've seen activity levels pretty strong.

Middle East and Africa, I think, is another step behind. In some senses, I think we people were very worried about Africa 6 months ago, and that with the challenges of putting financial support in place, that some of those countries would really suffer. I think it's been a bit better than people maybe have expected, lower life expectancies sort of issues, which have actually got medical support in place have actually helped there. So Africa is still sort of bumpy.

And then for those who live in Europe, maybe the U.S. clearly, it still feels to be a little bit sort of two steps forward and one step back. Now whether or how quickly that latter point will change with vaccines actually now formally coming into play clearly won't change things overnight. And the audience, I guess, for the vaccines early on will not necessarily be those who are going to change economic behaviours quickly. But I do think when we get through 4, 5, 6 months down the line, and hopefully, there's been no adverse reaction to them, and that sort of sense of belief that actually we are now on the back end of this whole issue, I do think should give us confidence that things will then pick up across more countries.

And just stepping back at a very macro level. At the end of the day, there will be roughly the same number of people on the planet after COVID as before roughly, roughly. The level of consumption, level of ambition people have got is still going to be out there. So I do think we'll look back on this as a timing issue of substance, but a timing issue before the world gets back more to where it was previously. On the interest rate side, look, no bank I guess -- well, particularly those that were operating outside of Europe had the experience of operating at the levels of interest that we're now operating at. And very few people would have predicted a few weeks before March last year that we were going to see such a big correction in interest rates very quickly. And therefore, I think it was quite difficult to accurately forecast just how quickly that, that would ripple through both the asset and the liability side of the book. We do feel that the majority of that repricing has now happened or is within weeks of happening and the faster elements of that happens in the treasury space where we essentially got that correction on pricing pretty quickly.

So as we go into next year, I think two or three things. One, there is much less of the book to reprice. So unless there is another further change in interest rates, it does become more predictable. Secondly, we did end up last year, we ended up in the third quarter with quite a lot of liquidity sitting in the center with the treasury team in the central banks. If volumes do pick up, the ability to deploy that and earn commercial margin on it rather than central bank margin, then that will be helpful to the cause in terms of maybe the margins stabilising to margin picking up. And then a number of initiatives that we've had underway, and I'm sure most banks have to just progressively take out some of the higher cost sources of funding and to replace those with lower costs, but nonetheless, different sources of funding.

So I think going into next year that we should have a more predictable interest and, hence, margin environment than was the situation in this year when it was obviously a bit of a fire drill without any great rehearsal.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Super. Just maybe linked to some of those things. One of the clients is pointing out that looking at your footprint, geographic footprint, Hong Kong and Singaporean banks, you're not too dissimilar. Yet your returns compared to some of those, I think you mentioned yourself, are lagging that peer group. And the question is really, what part of your business do you think is continuing to hold back your returns versus some of those peers, which are making better returns today? I mean you've talked of interest rates. I don't know if that is the answer or there are other drivers there.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

I think there are a number of factors coming into that. And some of them are sort of quite long, quite historic. Some of those banks maybe have a slightly higher proportion of their activity that is retail and off the back of that have a higher proportion of very low-cost sources of funding. That can give a bit of a margin impact or benefit that we would not have.

Secondly, and again, it's the statement to the inevitable in this sector, the benefits of scale. If you have a \$100 billion bank operating in one country, it tends to be more cost-efficient than a \$100 billion bank that's spread across 100 countries. There is just an extra cost of regulation of control, et cetera, across many markets. So I do think that the network side of things for us, and you can see it in our cost-to-income ratio is a bit of a disadvantage compared with some of the regional players.

It's not an easy one to fix. A lot of our business actually equally is dependent upon the referral of activity from different parts of the world. And one can look, for instance, at our African markets, or if you take our smaller markets, I think the smallest 20 markets are probably about breakeven. But on the other hand, they generate about \$0.5 billion of income that is actually booked in the bigger markets. So we're quite intertwined. And the work we've done over the last 3 or 4 years to actually really work on the cost side of it, to focus upon the IT side, digitalisation, et cetera, I think that is just a journey that we have to really, really pursue and a belief which I do strongly have that actually, we can put more income through the machinery that we have got. So when things do start to pick up, I think we should be able to keep a pretty good handle on the cost side of it and be progressively able to handle more income and hence get the financial gearing benefit that comes with that.

<<Unidentified Analyst>>

Can I ask a question about provisions before? So Andy, one of the things that I think we saw in the third quarter is that things are more benign than we thought. It is not just for Standard Chartered, but certainly for your regional peers, certainly for your closest, I guess, competitor, which is HSBC, right? I mean -- and when you think about it and you look at your geographic mix just based upon your loan book exposure versus another European bank or an American bank, you're in geographies that are much more resilient right now on COVID than the west, frankly. I understand you have a mix of exposure and whatnot, it's not perfect, but -- in terms of being exposed to only the most resilient countries.

But isn't the lesson from the third quarter that, if anything, people got a little bit ahead of themselves in the first and second quarter? Or that the provisioning, at least the forward-looking provisioning worked and was conservative and that we should start to see releases, if anything, into 2021? Is that fair?

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Well, I think the genesis of it is fair. And I think there are sort of several moving parts under it. I suppose to some people, they still remember, Standard Chartered back in 2015 when there was a banana skin to slip on, we managed to slip on it. And I do think we have done a huge amount in intervening periods to actually tidy up the balance sheet, reduce the concentrations of risk. And I genuinely think we come into this period with a much, much better balance sheet than we had before.

The second point I'd make is just for banks generally, I think there is a huge correlation with the efficacy of government policy. If governments have basically said, "Sorry, we're not going to put our hands in the pockets. We're not going to try to help businesses, et cetera, just going to see how it goes, I think we would be sitting here seeing much more bad debt exposure across the sector. So the fact that there is, I believe, a very strong alignment of, for slightly different reasons, but a strong alignment of what governments generally are wanting to do, they're seeing that the vaccine now is actually enabling one to think of a time when actually this is behind us, that, therefore, the period that they still need to actually subsidise the economies to keep them going isn't too long into the future. And I think that is a very large part.

I mean you can look at a different element of this and say most of the Bank of England stress tests, say, for the last several years, which have had situations that look pretty bleak. And you can argue, COVID was just as bleak as the rest, but they have had typically 5 percentage points of drawdown on capital. What's actually happened? We haven't even got drawdowns. We probably got draw-ups. And I think the single biggest reason for the delta is the level of government support. So I do think that is quite a big factor.

And thirdly, you are absolutely right that actually when you look back at the credit history we have had in good times, actually, our Northern Asia business behaved remarkably well. And its credit write-off as a proportion of, let's say, income has consistently been really, really quite low, and it is the biggest part of our business. So I do think that, that should be helpful as we go forward.

Fourthly, sorry, these are in no particular order, just a few thoughts. This links a little bit perhaps on the previous question for a different reason. We have got a slightly lower proportion of retail in our books than maybe some banks have got. And actually, we have got, therefore, a lower proportion of unsecured retail. And certainly, if you look at some of the provisioning in the U.S., for instance, that has been taken against unsecured retail books. Actually, that's a much less significant part of our book and where, for instance, there will be moratorium periods. The proportion of those that have subsequently started to repay and even the ones that haven't but are secured lending is really quite a high proportion of our book. So I think going forward, to pull it together, the Stage 3 provisioning, which is the actual bad debt exposure, will be the more significant going forward. I think Stage 1 and 2, which is all the model stuff, I think, largely speaking, banks have had to top those up pretty aggressively in the early part of this year. And generally speaking, as GDP growth rates, et cetera, starts to normalise, one should see those, the Stage 1, Stage 2 charges either reducing, or at some stage, sometimes, it could be actually reversing out.

So I think for us, the real issue is how do these businesses that have got through a pretty rough 6, 7 months actually, with support, particularly from governments, think that with another 4 or 5 months ahead, or something like that, they can just about get across the line. In which case, I think, actually, the sector will come out in better shape. And although maybe be this is cutting ahead to a different point, when we get on to the issue of when will dividends be allowed, as I said, to a lot of investors, clearly, if one as an investor needs the cash from a dividend, this has been a particularly unpleasant period.

But I actually think the more important thing is actually how much leakage of economic value out of the system can we minimise in the next few months. Because at the end of the day, if we could minimise the credit losses, that value will be sitting in the banks. It will come out at some point in time. It's just a question of when. If we have a very bad experience on the credit losses, then obviously, it's just not in the entity and it's not there to come out. I mean it's a slightly different point of your question, I know.

But I'm a little bit more positive looking forward now, particularly sort of seeing the vaccines coming through and seeing the hard evidence that governments really are wanting to tie themselves through this period.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Sorry, to interrupt you. Can I -- because there's so few of us on this call, if, Andy, it's okay with you, I think we'll keep it open format... Andy?

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

I will answer whichever question comes first.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Okay. Okay, guys. I mean I'm happy to step in whenever. But if you have questions, then please go ahead.

<<Unidentified Analyst>>

I didn't mean to step out of line with...

<<Tom Rayner, Director of Equity Research, Numis Securities>>

No, no, no. I just think you missed at the beginning. That's fine. Go ahead. It's your meeting.

<<Investor 1>>

I'll jump in, if you don't mind. We're relatively new shareholders. Stocks are very cheap. But I had asked the question earlier on returns versus the Hong Kong, Singapore peer group. I followed your stock for a long time. And I think of Standard Chartered as a little bit of an orphan stock, right? You're listed in London. But the bulk of the business is far away from London. And just again, take whatever peer group you want to define it as. But just be overly simplistic, Standard Chartered, Bank of China, BOC Hong Kong, Standard Chartered shares in Hong Kong dollars, underperformed year-to-date by about 30%. And as I think about Asia Pacific doing better, Greater China doing better, isn't this the type of environment that Standard Chartered should be outperforming certainly the European peer group by? And yet it gets lumped in with the London and European banks, both in terms of coverage, in terms of discussion point. How can you start to differentiate the performance of your business versus the peer group?

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Yes. I think there are 2 or 3 questions within that. First of all, I think the numbers need to start doing the talking. If we are seeing that having a higher proportion of our business in Northern Asia, and Northern Asia is coming out of this period quicker than other parts of the world, then we should see that starting to come out in our numbers more than businesses that don't have that sense. So I think the next 2 to 3 quarters and just how that plays out is going to be important.

Secondly, and this is a very different point. An orphan is a descriptor. We are definitely difficult to get a good point of comparison with. In some sense, as HSBC's business model is not too different to our own. But of course, they do have a huge U.K. retail entity that we don't have the equivalent of so to that extent, and it's not quite comparable. A Chinese bank typically won't have quite the same presence dot-dot-dot. So actually, the point of comparison is more tricky.

Thirdly, the question about sort of the share price performance and so on. Is an oft asked question on which we go through quite frequently, which sort of says, is the London listing actually a problem here? If we were just out and out listed in Asia would actually, we be seen as being an Asian stock and actually then there would be an uplift in the share price.

If it was that simple, we would not hesitate to go and do it. But I think two reasons why one has to be quite thoughtful about it. One, I think that the bigger correlation of share price is actually the correlation with the return on tangible equity. And whether we take our current return on tangible equity, have it in London or have it in Asia, if it is still low, we are probably going to end up still with a lower multiple as

being our share price, which actually takes you back essentially to Tom's first question, that is the thing that we most need to work on.

The other one, I know this was not quite as explicit in your question but it may be implicit in it, is even if there were clarity on that point, it is quite a difficult question as to know sort of where one would go to. We have got big businesses in Hong Kong and Singapore. So you could sort of say, well, that's obviously the choice you've got to make. But at this point, with political tensions as they are around the world, a decision to go and say, right, actually, let's make Hong Kong more of our base, have pretty big ramifications. 60% of our total business activity is transacted in U.S. dollars courtesy of a U.S. dollar license with a government that isn't wholly infused by what is going on in China and Hong Kong. Do we actually pitch ourselves right into the middle of the vortex of really a quite difficult situation even more than we're in at the moment?

Conversely, if one said, that is all very tricky, maybe Singapore is the best way to look at it. Is that going to be taken by some people as being a tacit decision not to go and support the Chinese-Hong Kong end of it. And they know which mast you've nailed your colours to in the opposite respect. And it is just genuinely quite tricky and that they are big decisions. And there are also sort of multi-generational ones as well because, really, once you make that decision, those businesses don't change domicile at all, let alone often. And you could easily, have looked to the situation 5 years ago and said, "Well, if you're going to make a move, then obviously, Hong Kong will be the place to go to." 5 years on, and you go, "Okay, that's not quite so clear-cut."

So I think you sort of come back to the point. It's something which we need to be very focused upon, which we are. But actually, the sort of neutrality that actually comes from the U.K. has got advantages or, let's put it this way, disadvantages that aren't actually quite as big as they might seem relative to the other points of comparison. And it's my point about actually, it's getting the ROTE that's really going to matter. But actually, it's little bit agnostic of country and nationality. That's more one of actually getting the engines to turn faster and get the business performance a lot quicker.

<<Investor 2>>

Yes. So corporate finance kind of 101 would say that if you're trading at under the cost of equity for a long period of time, shed assets. I mean it's -- you can sell things at book. That should improve kind of the ROE in general or release the book value per share. Is that something that you would consider? I mean are there assets that -- or books of business or portfolios that you'd consider shedding down just that might get a higher valuation that might be a way to improve the -- or even business units that may improve the performance.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

So I think a tricky thing with us is this. If you go back over the last 3 or 4 years, and you look at us in terms of are there particular products that are just loss-making or tying up capital, that is just not making a return? yes, there were some. We were in cash equities. We got out of it. We were in principal finance private equity, and they had some good years, and they had some pretty poor years, and we've got out of it. And actually, if you look at the products we're left with at the moment, there are none of those that are loss-making. They may not be making as higher return as we would like individually, but they're not loss-making.

So you go, okay, so from a product lens, it's not an obvious chop that limb and you'd be in a better position. And then if you go through it with the alternate of a geographic lens, you'd say how many of the businesses or countries we are in are overtly loss-making? And you get very, very few.

And you go, okay, well, if you had some loss-making, and a good example actually of that would have been Korea back in 2015. We were losing a lot of money. And people said, "can you sell it", Well, the problem was at that time there were not very many people interested in buying a loss-making business in Korea. And actually, in Korea, we changed the management, and we have now got that making \$300 million a year of profit. And actually, my view is that if you can, it is far better to try to improve the performance of what you have got. The process of extrication can be quite time-consuming.

And then the other point, which I made a reference to earlier. Again, this sort of sounds like a bodge it but, it's not meant to be. But this network element, the amount of referral activity does go on between businesses. you have to be quite careful about. You could look at it sensibly and say, and I haven't got all the facts here, but you could look and say, "Gosh, in Africa, just lop it as one." And you then look at the two effects of that. One is how much of our business -- well, three effects, maybe. One, how much of our business is in Africa? The second is, how much of our business in the rest of the world do we get courtesy of the African connection? And then thirdly, if we didn't have Africa, does our calling card, when a corporate is thinking about doing something in Asia, start to no longer look particularly differentiated from any number of other Asian banks?

And I mean all of this will sound like I'm saying no to everything, anything, and that's not the case. But my strong view is that actually, if we could, for instance, say, let's take retail. So we have got a lower proportion of retail. We've got 7 or 8 markets where we're reasonably strong. We've got another 12 where we have quite lower market share. One option is to say, okay, just exit the 12. It would free up a big risk-weighted asset. It might free up a little bit of capital.

An alternate is to say, well, before we actually give up on that, why don't we look at it slightly differently? In a world that is becoming much more digital, where people are banking far more on mobile devices, if you can get a technical stack that can actually support a much larger number of customers, that is very digital, doesn't have a high cost of operation. If you associate that with an existing license which we have got and with a brand reputation that's generally reasonably positive and supportive of safe and sound and all things that we want to be, why would we not instead give it a push and see actually whether we could make more off some of the markets that are a little bit more fragile?

The experiment we've got going in Hong Kong with the new virtual bank called Mox is, I think, a really interesting case study for us. (A) it's up and running, so it's not just a theory. Secondly, it is a completely new digital stack that is unconnected with our core bank. Thirdly, it has got volume capability. Now we need to prove that, but we believe that it will happen. Therefore, if you take the last two points, it potentially can be cut and copied into any one of a number of the markets.

And we are also using it in Hong Kong, this could be elsewhere, to actually market it a bit differently. And say, the average existing customer is a 48-year-old plus. Why would we not target the 30-year-old or thereabouts and see whether we can actually make more inroads into a very adjacent revenue pool that we don't maybe tap into as much as we could do? And it is absolutely tangential to what we do. So I don't rule out sort of the things that you're talking about, but I struggle to find a long list of candidates. And hence, why I come back and say, I think the most important thing to do is to really try to drive the business forward, accept that interest rates has sort of given us a bit of headache, but it is what it is, and now trying to actually pull through this period. If there is any uplift in interest rates, it can only be additive.

<<Investor 2>>

So I appreciate that. I think, first of all, let me just say, I think I've told you this for a number of years now, Andy, that the fact that you have presence in gazillion countries is a huge competitive advantage, I think. No really peer is going to have that. So I appreciate we do require to in terms of referencing the business from maybe some of the smaller countries.

I was maybe thinking though, and as painful as this might sound, I wasn't even talking about loss-making business. I was talking about some books of portfolios that are profit-making, but that the market is saying, it's point -- it's worth point forward book because it's in the shell of the entire firm or a listed entity, and you can just say, "Oh, you think it's worth it? But look, we sold it, and it's actually worth a lot more."

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Yes. Yes. No, I understand -- I mean your point is right. We could say, let's have some example, private bank. Lots of people out there would love to go top up on the private bank. And it's probably a good example of what you're saying. We would get a multiple that is quite a lot higher. Yes. We would do that.

If we are trying to push more into the affluent space in Asia where we do believe there's a lot of money still coming into the region, what that leaves us as being a bank that's pushing into that space, but just doesn't have a private bank higher end part to it. Is that something which is so big that you'd go, "Sorry, we're going to do it anyway. It will release a load of capital. We can take the capital base of the business down. And suddenly, we got another 2% on our RoTE." Unfortunately, our private bank isn't of that scale where it makes a huge, huge difference. And I come back to you and I say, "Great. We've done all that. And our RoTE is 0.1% higher than it was before." And you go, "Yes, okay, and you've now lost the optional value, but having that as an integral part of your affluent proposition. Hmm, was that really a good trade to go and do?"

So again, it's not that we're closed to doing things like that, but I would rather try to build a business rather than dismantle it. And this is a very, very compelling, very clear-cut case, but the latter is the right way forward.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Great. Andy, could you comment on -- obviously, digital is one area you think that you can generate additional revenues where you don't have maybe the scale today. I mean are there other areas? I think Bill likes to talk about the opening up of China and the Wealth Management opportunity because it does seem to me fairly crucial - this revenue story because even if impairments normalise back to the 30, 40 basis points, even if you hold your costs flat, with your savings offsetting investment and inflation, you'd still got to get that top line growing if you're going to get the return back to where you want them to be.

So are there any other big drivers out there? Digital, maybe one. What else might we be seeing over the next sort of 3, 4, 5 years that is going to get the revenue back up to that sort of the level it needs to be?

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Yes. So I agree with your summary. I do think that revenue is going to be really key here. If you look at the Global Banking revenue pool, what, about \$5.5 trillion, and you say maybe 60% of that's addressable by us, it's \$3.3 trillion. We are \$15 billion. We are a really, really, really small proportion of the total. And yet, that sort of income is happening around the very fringes of what we do. And therefore, you can either look at it as, "Oh, my God. It was small and will disappear." Or you can say, "Actually, you only need to get a very, very small slither of what is around the edges." And actually, it could make proportionately a big difference to the business.

One of the things that we have not pushed on over the last few years but we'll push harder on now, you can call it the mass market. But I suppose I'd call it more the aspiring to be to affluent market rather than purely those who are already affluent market. We have had a bit of a reputation sort of one day when you're 35 years old, you wake one morning, you realise you're affluent. First thing you did is pick up the phone and go "Standard Chartered I must become a customer of yours". It's just not the way things are going to work. Kids of today are given mobile phones from the age of about 2, and they're going to develop relationships with other parties. So we actually need to have a presence in those markets, I think, with a much younger age group.

To do that, we're going to have to think about how we get that reach. And we're not going to do that by bricks and mortar, especially in the world that has got decreasing bricks and mortar. So this will be, I think, more about partnerships, and it will be more about working with other people. We've got examples of this in China. We'll have an example of this up and running fairly soon in Indonesia, whereby we can say to, for instance, an e-commerce player who has not got any presence in anything to do with banking or financial services, but has nonetheless got a good e-commerce business, that is maybe slightly higher end rather than the opposite and who would like to be able to put payment type capabilities into their shop window.

And to be able to say to them, "Look, we can plug and play into your systems. You can front-end this through your existing channels. But if you got customers who are interested, whether it's buying your product or buy a different product, we can provide the plumbing. We can provide the credit assessment. We can then go and service everything that comes with it."



And so we've got a platform at which we have called nexus, which is in pretty late development now, initially in Indonesia with one partner, and the second one just about to sign up. That again is a platform that is nationality-agnostic. It is quite capable of being applied to a number of markets. So doing that sort of thing, possibly taking the Mox example back to the previous one and putting that into other markets, sometimes with regulatory encouragement, sometimes because that's what we want to do ourselves.

So I think things like that, developing the product, starting with current account and savings account, but there is no reason why they can't extend into the pre-existing Wealth Management space. And our sense is that there is a big revenue opportunity that is out there. It is not far away from what we naturally do. We just need to gear ourselves up slightly better to take our share of it.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Okay. We haven't got a lot of time left. I don't want to use it up with my own questions. If one of you guys has anything you want to -- I mean capital is the only thing we haven't talked about, but please.

<<Investor 3>>

Andy, I just wanted to ask a question on NII and it relates to the last quarter of 2019. I just wanted to understand the reason of seasonality in the fourth quarter, as described in the last earnings calls, I believe. And also, I just wanted to understand the outlook on Transaction Banking.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Yes. So the comment on seasonality was not exclusively an NII comment. It was more about the income trend in the fourth quarter does tend to be a bit lower. You do tend to find that corporates are tending to shut off activity partway through, midway through December, and basically then allowing people to go off on holiday or whatever. And in the Wealth Management side, clearly, you do get the lull in consumer activity also for not dissimilar reasons. So I think the point we're making was that in a business that generally isn't too seasonal, the fourth quarter, because of the December effect, we tend to see a reduction and we'd expect to see something similar to what we saw last year.

On Transaction Banking, so what have we seen there? We are seeing on the cash product side of things in a volume sense perform quite nicely, but in a margin sense be under pressure. So interest rate effects are clearly the ones that weigh down that part of the business. It conversely benefited over the last probably 3 years on the average from the improvement in interest rate outlook. And then obviously, that's re-corrected.

The trade side of Transaction Banking is linked to one of your earlier questions. So seeing the volumes starting to come back more in Northern Asia and being a step behind that in Southern Asia. But our view being, again, if vaccines tend to come through, then we will start to see that normalisation happening across more geographies over the successive months as we look forward.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Super. I think we're now out of time. Just before we go, can I get your thoughts on whether the PRA, you believe, will authorise dividend payments for 2020? And just a bit more broadly, you're clearly on paper sitting on surplus capital as of today. Just wondering what your plans might be for that surplus capital. And then I think we're going to have to wrap it up.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

So I think our recent history would show that we don't have a habit of sitting unnecessarily on surplus capital. We have recommenced dividends. We had done 1.5 share buyback programs. So we are absolutely aware that if we want to get the RoTE up, one of the ways to do that is getting the capital down. And what we do need to do is just to maintain enough in the business to be able to fuel either forward growth or forward bumps in the road.

I think the PRA are well aware that there was a considerable disquiet in the investor community at the actions that were taken. Even if one understands why they were taken nonetheless, for many, I think it

was an intervention that was not appreciated. And I think they understand that. Equally, they, as the regulator, I'm sure, are trying to balance that against not having a free for all. And then if the whole thing becomes more problematic for longer, getting embarrassed because actually it becomes a problem.

So I suspect, like many regulators, they're just trying to work out whether there is a balance between those two and how they articulate it, whether it be a general statement, whether it be a company-specific statement or just how they go about it. They've said that they will say something in the fourth quarter. Obviously, the number of days remaining in the fourth quarter is reducing, so we'll see where we go. But certainly, our minds are on the fact that we are sitting in a pretty good capital position. We don't want to sit on it unnecessarily.

Although perhaps to my previous point, I do think the biggest issue for us actually is going to be stemming the economic leakage that is known as credit impairments. And if we can do that, that value will sit within the business. It will come out at a point in time. And I think actually, in a true value sense, that's probably the bigger issue.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Super. Okay. Well, thank you very much, Andy. Thank you, everyone, for dialing in. First time I've done a virtual fireside chat. I don't know about you guys. Anyway, I hope it was useful for everybody. Yes. And I think that's all.

<<Tom Rayner, Director of Equity Research, Numis Securities>>

Thank you. Great.

<<Andrew Halford, Group CFO & Director, Standard Chartered PLC>>

Thank you.