HSBC

Transcript

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Good morning or afternoon, wherever you are. Ewen is going to take the bulk of the call today and he will do that in future Q1 and Q3 announcements. For today though, let me start by saying that I'm really pleased with our third quarter performance. We've had a strong quarter of profit generation across all regions, supported by another quarter of net ECL releases, but most pleasing is the underlying revenue growth we're now seeing across the business.

We feel that we're turning the corner on revenue after absorbing interest rate impacts over the last few quarters. We've got strong fee growth in all businesses. In Global Banking and Markets, revenue is starting to stabilise and that's against a backdrop of a large managed reduction in risk-weighted assets and lending balances, as we indicated back in February 2020.

In terms of customer behaviour, we're seeing a strong deposit performance without any material drawdown on the liquidity that we built up over the last two years. The lending market was softer than we anticipated in the quarter, particularly in corporate loans, but the pipelines that we built up position us well for when companies start investing in both the recovery and the low-carbon transition.

On capital, as our revenue starts to normalise, we've also looked to normalise our capital position. Capital returns to shareholders will be a big component of this and I'm pleased to announce a share buyback of $2 billion, which we expect to start shortly.

On our strategy, we're executing with exactly the kind of pace I promised in February. We've made some important announcements in the quarter, including the acquisition of AXA Singapore. This complements our existing Singapore business very well and accelerates the build out of our product and distribution capabilities in one of the world's most important wealth markets.

Pre COP26 we've been working incredibly hard with clients, governments and our industry peers on accelerating the low-carbon transition. We're working with a range of partners to finds new ways to open the sustainable finance market for projects and investors. A fortnight ago we announced a pioneering partnership with Temasek to create a debt financing platform for sustainable infrastructure in southeast Asia. This, I believe, provides an important model for others to follow. This is just one of a number of sustainability partnerships that we hope to announce in the coming weeks and I look forward to updating you on those shortly.

In terms of the financial industry's contribution, the taskforce of international banks that I've been privileged to chair over the recent months just released a guide for banks on setting and delivering net zero targets. This is an unprecedented collaboration and makes an important contribution to help all banks operationalise the targets they've set, and, importantly, to bring consistency and coherence for our customers, regulators and investors.

I'm really excited about the months ahead. There's real dynamism and optimism within the business and we're focused on delivering growth in the areas we targeted. With the added benefit of interest rate rises on the horizon, we're in a strong position moving into 2022. With that, I'll hand over to Ewen to take us through the detail.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks Noel and good morning or afternoon all. We had another good quarter. Reported pre-tax profits of $5.4

billion, up 76% on last year's third quarter with an annualised return on tangible equity of 9.1% for the year to date. Adjusted revenues were down 1% on last year's third quarter, but up 1% excluding certain volatile items, with a welcome return to more consistent top-line growth across most of our business lines. Expected credit losses were a $659 million net release – our third quarter in a row of net releases, with net releases for the year to date of some $1.4 billion. We still retained 31% of stage one and two ECL reserve buildout we made in 2020.

Operating expenses were broadly stable. Increases in investment and technology spend were offset by the impact of our cost-saving initiatives, but due to some inflationary pressures, ongoing investment into growth and additional costs due to the impact and timing of recently announced M&A activity, we now expect our adjusted costs for 2021 and 2022 to remain broadly stable at around $32 billion, excluding the UK bank levy.

Lending balances were down by $6 billion or 1%. This was due to the repayment of $14 billion of short-term IPO lending in Hong Kong. Stripping out the impact of the IPO loans, lending grew by $8 billion or 3% annualised during the quarter, with further good growth in mortgage lending and trade finance.

Our common equity tier 1 ratio was up 30 basis points at 15.9%, primarily due to a reduction in risk-weighted assets. We now intend to reach our target for common equity tier 1 of 14% to 14.5% by the end of 2022. This will reflect a combination of some regulatory-driven RWA impacts, balance sheet growth and capital return. Today's $2 billion buyback announcement is part of this commitment to accelerate the normalisation of our common equity tier 1 position. Our tangible net asset value per share of $7.81 was unchanged on the second quarter.

Turning to slide 4, we're seeing good signs of growth returning across our global businesses. In Wealth and Personal Banking, we've continued to grow Asian net new money in private banking and asset management. We've increased the value of new business in insurance by 59% year on year. We've hired 450 new wealth planners in Pinnacle, our new Chinese insurance venture. We've kept our UK flow mortgage share comfortably above our stock share and we've made good progress on new customer acquisition.

In Commercial Banking, we're seeing encouraging trends in global trade, with good market share growth in key markets, such as Hong Kong and Singapore, and we've maintained a strong business pipeline, with $64 billion of new approved limits. In Global Banking and Markets, we saw more stable revenue compared to a strong performance in the third quarter last year, with good revenue growth in both Securities Services and Equities, and GBM's performance was achieved despite a 7% reduction in risk-weighted assets year on year.

Looking geographically, in Asia we're seeing strong underlying revenue trends. Excluding insurance market impacts, revenues were up 7% quarter on quarter and 5% year on year, and in the UK ring-fenced bank revenues were up 2% quarter on quarter and 6% year on year, with fee income up 25% over the third quarter last year.

Finally and importantly, we're delivering on our goal to be a leader in the transition to net-zero. We've helped issue $170 billion of green bonds year to date, including leading on a number of pioneering green bond offerings, such as the first UK green gilt, and we're making good progress against the commitments we made in our AGM special resolution in May.

Turning to slide 5 and looking at third quarter adjusted revenues as a whole, in Wealth and Personal Banking headline revenues were down 3% on a year ago, but, excluding insurance market impacts, Wealth revenues grew by $145 million or 7%. This was mainly due to higher fee income in asset management and private banking, together with insurance sales growth. Personal Banking revenues fell by $31 million due to the continuing impact of low interest rates on deposit margins.

Commercial Banking revenues were 4% higher, driven by higher fee income across all products and growth in trade lending and deposit balances. In Global Banking and Markets, revenues were down 3%. This was due to slower customer activity in fixed income markets versus a strong third quarter last year. However, Equities benefitted from both higher client activity and volatility in Asia and Securities Services grew due to higher fee income and assets under custody.

Slide 6 shows the revenue trend quarter on quarter, with growth in all three global businesses, excluding insurance market impacts. This has been driven by a combination of more stable net interest income, together with good fee income growth across all our businesses, up 10% year on year.

We're increasingly confident that we're turning the corner on revenue growth. Commercial Banking has grown, Wealth and Personal Banking has grown in Wealth and stabilising in Retail Banking, and Global Banking and Markets is close to that inflection point now that the bulk of its planned RWA reductions in the business are now complete. With the expectation of policy rate rises from 2022 onwards, we're now confident in seeing sustained revenue growth for this coming year and beyond, which together with strong cost control will help drive a sustained improvement in core returns and operating jaws.

On slide 7, net interest income was $6.6 billion, up 2% against the third quarter of 2020 on a reported basis and broadly stable compared with the second quarter of 2021. On rates, the net interest margin was 119 basis points, down 1 basis point on the second quarter, primarily reflecting changes in balance sheet mix and continued weakness in HIBOR. Lending volumes were down on the quarter, but, excluding the repayment of IPO loans, lending grew by $8 billion, with continued good loan growth in mortgages in Hong Kong and the UK, together with the ongoing growth in our global trade franchise. For 2022, with our net interest margins stabilising, policy rate rises on the horizon and loan growth building, we're increasingly confident on the outlook for net interest income.

On the next slide we reported a net release of $659 million of ECLs in the quarter, compared with an $823 million charge in the third quarter of 2020. The net release was across all our global businesses, reflecting a more stable economic outlook, together with stage three charges that remain very low. Despite the net releases, we continue to retain a conservative outlook on risk. We still hold $1.2 billion or 31% of our 2020 COVID-19 uplift to stage one and two ECL reserves.

For the full year, we now expect net releases to be broadly in line with the net release in the first nine months, with perhaps a very modest net release in the fourth quarter after stage three charges. For 2022, we continue to expect the ECL charge for the full year to be lower than our medium-term through the cycle planning range of 30 to 40 basis points, with more modest ECL releases expected to continue into the first half of 2022, albeit with an expected net charge after stage three impairments.

Turning to slide 9, third quarter adjusted operating costs were broadly stable on the same period as last year. A $263 million increase in technology spending and a $340 million increase in investment and other costs were offset by a further $600 million of cost programme savings compared with the prior year, with an associated cost to achieve of $400 million. To date our cost programmes have achieved savings of $2.6 billion relative to our end 2022 target of at least $5 billion in cost savings, and cumulative cost-to-achieve spend to date has been $3.1 billion, with an intention to still spend $7 billion through the end of 2022.

In terms of outlook, with some inflationary and performance-related pay pressures, ongoing investment spend and additional cost due to the impact and timing of recently announced acquisitions and disposals, we now expect 2021 and 2022 adjusted costs, excluding the UK bank levy, to be around $32 billion. This is relative to our previous FX adjusted guidance of $31.3 billion for 2022, which included the bank levy.

Turning to capital on slide 10, our common equity tier 1 ratio was 15.9%, up 30 basis points in the quarter. This reflected a decrease in risk-weighted assets from lower short-term lending, favourable asset quality movements and FX, partially offset by a decrease in CET1, including around $1.7 billion for foreseeable dividends. Excluding FX movements, risk-weighted assets fell by $14.4 billion in the third quarter, driven by lower short-term IPO loan exposures in Hong Kong and positive movements in asset quality.

In the third quarter we made a regulatory deduction of 20 basis points for foreseeable dividends in the quarter. This was based on 47.5% of our third quarter EPS of 18 cents, which is the mid-point of our 40% to 55% target pay-out ratio. The dividend accrual for 2021 so far is $3.8 billion after payment of the 7 cent per share interim dividend. Please remember that this is not guidance of our full year 2021 dividend intentions. The dividend accrual is purely a formulaic calculation that we'll true up at the full year based upon the results and outlook at the time. When thinking about the pay-out ratio for 2021 we'll attach a much lower rate to unusually low ECLs as part of our EPS this year, together with a desire to see higher dividends per share in 2022 relative to 2021.

We intend to normalise our common equity tier 1 ratio over the coming quarters to be back within our 14% to 14.5% target range by the end of 2022, driven by a combination of balance sheet growth, capital returns and regulatory impacts. Various things to note for your capital modelling through the end of 2022: we expect today's buyback announcement, the loss and sale of our French retail banking operations, and the reversal of the current software capitalisation benefit to each impact our common equity tier 1 ratio by around 25 basis points and we also expect some $20 billion to $35 billion of regulatory-driven RWA uplifts in 2022.

So, in summary, this was another good quarter. Good earnings diversity across the group, a broad base return to top-line growth in most of our businesses and continued strong control on costs. While the results were flattered by net ECL releases, we're happy to be turning the corner on revenue. With robust lending platforms, growth in trade and mortgage balances, and the likelihood of earlier pipeline rate rises than previously anticipated, we're increasingly confident on the revenue growth outlook for 2022.

We've included a few IFRS 17 slides in the appendix. We intend to go through this in more detail on our follow-up call on Wednesday for sell-side analysts. Overall, we expect an initial downside adjustment to our Insurance profits of around two thirds and a smaller percentage adjustment to insurance's tangible equity. Importantly, there'll be no significant impact on the group's regulatory capital and there'll be no impact on the dividend flows from our insurance businesses to the group.

Despite inflationary cost pressures and the impact of IFRS 17 implementation, we remain confident in achieving returns at or above our cost of capital over the next three years, together with delivering attractive growth and attractive capital returns. Finally, we're looking to normalise our common equity tier 1 ratio over the coming quarters, of which today's buyback announcement is an important first step. With that, Sharon, if we could please open up for questions.

ANDREW COOMBS, CITI: Morning. Thanks for taking my questions. I'll start with one on the buybacks and then one on costs. So when you come out and quantify the $2 billion-plus buyback, can you just give us the metrics that you're using to size that, how you're thinking about this buyback but also buybacks going forward, and basically the KPIs and the decision-making process on the magnitude of those?

The second question is on the cost outlook, where you've slightly changed your guidance and also the definition you're using. I think versus your old guidance it's $31.5 billion and then, adjusting for the levy, it looks like you've taken up the cost guidance by about $800 million. So can you just give a breakdown of what the moving parts are in the increase? How much of it is due to the timing around the M&A and divestments versus how much is inflationary pressures and how much is higher compensation related to performance-related pay? Thank you.

EWEN STEVENSON: Yeah, so on buybacks, Andy, as you would expect, it's part art and part science. Our capital position is obviously in a much better place than we had anticipated at the start of the year when we had said, 'No buybacks for this year'. We've had a combination of much higher profitability than we expected because of much lower ECLs – net releases – and lower cost-to-achieve being expensed through the P&L. And risk-weighted assets have also been lower than we anticipated, partly because of lower growth, but also because of lower credit rating migration.

Wiithin today's announcement is a commitment to get back to 14% to 14.5% by the end of 2022. We are committed to using excess capital if we can't find attractive organic and inorganic growth opportunities. We've previously talked on inorganic about wanting to spend up to $2 billion in M&A. We've announced a deal in Singapore – AXA Singapore – for just over $500 million, so that will give you some colour of the extent of M&A activity that you might see over the next year or so. I do think that we are likely to see, if we achieve what we think we'll achieve next year, some further buyback activity in 2022.

On costs, I think your numbers are broadly right if you add about $300 million for M&A. In terms of the roughly $0.5 billion and upwards pure cost, the bulk of that is compensation related and, you're right, part of it is variable pay, but I would put it all in the bucket of compensation costs being higher. Broadly, our total wage bill is about $19 billion out of the $32 billion of total costs, so 2.5% is about $0.5 billion of extra compensation cost. Whether you put it into fixed pay or variable pay, I think we are seeing sustained wage growth pressure globally at the moment, but in terms of the incremental amount that we've put into the variable pay pool this year, it's significantly more than offset by the increase in profitability that we've seen.

NOEL QUINN: I think if I could just add a comment that, to the extent that we've topped up variable pay, it's partly because we've had a good trading performance this year. And, clearly, we've given some indications on our view of trading performance next year being positive and it would be right to have an appropriate level of variable pay at that point in time. In the event that that trading performance next year does not materialise, then we have some flexibility on the variable pay, but it's right to also signal that there's some fixed pay inflation pressures in the market generally within financial services at this point in time. So the extra top up on cost is a combination of fixed pay and variable pay as a consequence of the external environment and the trading performance of the bank.

EWEN STEVENSON: And the last thing, Noel, that also is important is we've made a very conscious decision not to cut back on investment, despite that inflationary pressure, in order to meet a self-imposed cost target.

ANDREW COOMBS: That's great. Thank you both and also thank you for being the first to put out the slides on IFRS 17 as well. Thank you.

TOM RAYNER, NUMIS: Hi there, Noel. Hi, Ewen. Two please. Just a quick follow-up on costs and then one on revenue. You mentioned, Ewen, about $300 million of the increase guidance is M&A related. Can you give us an estimate of how much that M&A activity might add to the revenue over the next two to three years, just to get a sense? And then, just on revenue, you're clearly more positive on the revenue outlook. You've flagged a number of areas. You didn't really comment, I don't think, on the outlook for the net interest margin. I look at your consensus and it only has an increase from Q3 right out to the end of 2020, so you have about 7 basis points. And if I just take your own rate sensitivity and multiply it by what's being discounted by the market, there'd obviously be a multiple of 7 basis points. I wonder if you could comment on the outlook for NIM specifically, please. Thank you.

EWEN STEVENSON: Thanks. So on costs, look, in the near term I think AXA Singapore will add about $300 million to revenues and $300 million to costs. Obviously, we would expect that picture to move over time, but if you plug in $300 million into 2022 on the revenue side.

On NIM, you know I'm at pains not to provide a NIM forecast, but if you looked at current consensus it does look low, relative to the consensus policy rate rises that we now see in the markets. Just as a reminder, our biggest single sensitivity is the UK, where a 25-basis-point rise would add about $500 million of income in the first year, and secondly, Hong Kong. It does look like, in the UK, we will see two, three rate rises between now and the end of 2022, coming potentially as early as the next month or so. Hong Kong may be a bit slower, but one of the clear offsets to the guidance we're giving on cost today is the fact that we do think we're going to see earlier and stronger rate rises than we've previously anticipated. We lost about $7 billion over the last two years or so, as a result of the shift down in interest rates, so it's had a very, very material impact on us. We do think, with the policy rate outlook at the moment, a consensus that we should start to claw back a meaningful amount of that in the next two to three years.

RAUL SINHA, JP MORGAN: Morning, afternoon, all. Ewen, a couple of questions from my side. Maybe firstly, just staying on the revenue line, I just wanted to understand the pandemic impacts that are still washing through your various businesses in terms of holding back the revenue lines. I was wondering if you could comment on the Wealth business in Hong Kong in light of all the travel restrictions, how you think the performance in this quarter has been held back and how that might shift over the next year or so. Also, in trade, obviously you've flagged a very strong improvement in trade balances, but there's a lot of uncertainty around, clearly, what's happening with trades, so any thoughts on the outlook there would be helpful.

Then just a broader second question on China real estate. Thank you for the disclosure. I think we all get your first-order impacts and exposures are relatively limited, but I was wondering what you think about the second-order impacts on your business in the mainland, given defaults have spread beyond single name into quite a few developers now. How do you see that impacting the rest of your book and the rest of your business?

EWEN STEVENSON: Maybe I'll start off, and then Noel, you can add some comments then on trade and commercial real estate after I've finished. On Hong Kong, with the border being shut, you can see some direct impacts on things like insurance franchise. We're not as exposed to others like Pru and AIA to the mainland Chinese insurance market, but it is a meaningful kicker to the performance of our insurance franchise in Hong Kong. Having said that, I think the value of new business in Q3 was in line with Q3 pre-pandemic. You can see certain sectors in Hong Kong continuing to suffer. The biggest border is the Hong Kong-mainland China border, rather than the international border for Hong Kong, given that pre-pandemic about 50 million mainland Chinese were visiting Hong Kong in any given year. We would expect, as that border progressively reopens – and it's been much slower than we would have anticipated six or nine months ago – that we will just see an incremental benefit coming through to the Hong Kong business.

On trade, despite supply chain disruptions, I think we're pretty pleased with the recovery that we're seeing in that business. People are holding higher working capital balances at the moment, consistent with the uncertainty that exists in supply chains, but we do view that as a temporary feature of the global economy at the moment, and that we will get back to more normality and more sustained growth in 2022.

On the China real estate market, we've just been through, as you would expect, a pretty intensive review of our Chinese real estate exposure, including the provision we've got against it. Just to repeat what we've said today, we've got no direct exposure to red list borrowers. We're pretty comfortable with the exposure overall. In aggregate, our commercial real estate in China is less than $20 billion in the context of a trillion-dollar loan portfolio. I think the other thing you should read in, Raul, is the fact that we're doing the buyback today, and the size that we're doing it, is that we're reasonably confident about where we're sitting in terms of our outlook. Noel, I don't know whether you want to add anything.

NOEL QUINN: Ironically, on trade there is a feature that the more uncertain global economics are is normally the time when trade finance is in demand, because of uncertainty over the supply chain and uncertainty over the credit environment. We've seen strong growth in trade balances. Part of that is a function of economic rebound. Part of that I think is a function of working capital cycles are longer today than they were pre-pandemic because of the tensions in the supply chain and the bottlenecks. Part of that is people tend to use documentary credit more in uncertain times than open account, and therefore they turn more to the financial services sector to finance trade in a structured manner rather than financing trade in an unstructured open account methodology. The fourth ingredient is, frankly, that we are taking market share in trade in Asia in particular, particularly Hong Kong and Singapore.

Those four dynamics, I think, are leading to very strong double-digit growth in trade. I think if you look at our trade balances from the end of last year to the end of September we're up around about 18%, 20%. If you do a year-on-year comparison, September to September, I think we're maybe in mid-20% growth in trade, particularly in Asia. It's those four factors, I think, that are playing into the trade performance.

On China, the only other comment I'd make is there is second-order risk in whenever there's a market adjustment of that size taking place in a particular industry sector, particularly one as important as commercial real estate. I think we're pretty comfortable with our position and we're staying very close to any potential second-order risks, but I'll reinforce what Ewen said: we feel comfortable with our position in our bank in China. It's performing well. It's had a good nine months, and we're well positioned on commercial real estate from a primary risk point of view. We think we're well positioned on any second-order risk, but I'd be foolish if I said there was no second-order risk. It potentially exists for all of us.

RAHUL SINHA: Thank you, Noel. Can I just follow up on the trade margin? I don't know if you've seen a sort of shift in the trade margin within the business and if you expect that to shift going forward, given what we're seeing in terms of the global trade picture.

NOEL QUINN: I'm not aware of any material shift in the margin. It's more of a volume game at the moment. Ewen, is that your understanding?

EWEN STEVENSON: Yeah. Look, if anything, I think it's just ticked up by a few basis points, but nothing material.

MANUS COSTELLO, AUTONOMOUS: Hi. I just wanted to follow up, actually, on those questions about the – hopefully – post-pandemic reopening. You gave us some data in the second quarter about credit card balances growing, but I haven't seen it so far this quarter. I wonder if you could talk to us about what you're seeing in unsecured. You mentioned within the NIM that there was a negative mix shift which hurt the NIM. At what point will that mix shift change? As unsecured consumer starts to grow, presumably you'd start to see a positive benefit. Any colour you could provide around that would be appreciated.

EWEN STEVENSON: Firstly on NIM, two things were going on, I think, to push it down by a basis point in the quarter. Firstly, HIBOR drifted down by a couple of basis points over the quarter. We do hope we're now at the trough of that, but – and there's a mix shift with both a higher propensity of lower spread mortgage lending, and the fact that we're continuing to increase our liquidity of reserves at the moment. The unsecured was probably up about $1 billion underlying in the quarter for both – across Hong Kong and UK, and about half and half across the two markets. What we are seeing is credit card spending come back up closer to pre-pandemic levels, but what we're not seeing yet are the balances go up in line with that. I think that should happen over time, but at the moment, whether it's commercial customers or personal customers – and we're seeing the same thing in UK mortgages, for example – people are paying down debt when they can, and I think that's just a sign of confidence at the moment that we would expect to continue to improve as we continue to move away from the depths of COVID.

YAFEI TIAN, CITIGROUP: I have a question around revenue. You gave a bit of colour that quite a lot of the optimism is coming from the higher expected interest rates in some of your markets. Besides that interest rate shift, are there any organic growth that HSBC is getting market share that you think that sell-side is missing that could drive more consensus revenue upgrades from non-interest income?

EWEN STEVENSON: I mean, to be clear, we're not reliant on interest rate rises to underpin the business plan that we've got. With NIM stabilising we're probably going to see about 3% loan growth this year. We would expect mid-single-digit low growth next year, so you would expect a healthy increase in net interest income next year with or without rate rises. We're seeing very good growth on fee income as we come out of COVID. I think it's up 10% year-on-year. Yeah, the core business at the moment is seeing very good, attractive growth. Interest rate rises will just come on top of that.

In terms of where we're growing, Noel said earlier that we're taking share in trade. We're up a couple of percentage points of share over the last year, both in Hong Kong and Singapore. We're continuing to grow the UK mortgage share above stock share. I think we were about a percent ahead of stock share in the quarter. We're growing the private bank, I think ahead of peers, particularly Credit Suisse in Asia at the moment. Most of our businesses, I think, are flat to gaining share.

GUY STEBBINGS, BNP PARIBAS: Thanks for taking questions. The first one was back on costs, and then one on RWAs. So on cost, Ewen, you briefly alluded to it before the previous question, the link with the interest rate outlook. How much is the new guidance intertwined with market inflation and interest rate expectations? Or, to put it another way, if policy rates don't move higher in line with market expectations should we expect you to come in lower than that guidance?

The second question on RWAs: the consensus is nearly $70 billion higher by the end of next year than where we sit today. I appreciate that there's some regulatory headwinds on the horizon that you've flagged, and you've now delivered the majority of the gross RWA saves that you're guided to by the end of next year. Do the market RWA expectations, I think of $900 billion next year, look a little too conservative, given the starting point and what you're seeing currently in terms of lack of credit migration?

EWEN STEVENSON: On cost, yeah, they are connected, but not a direct line between the inflationary pressure that we're seeing coming through the cost structure and the fact that we expect to see earlier policy rate rises. To give everyone assurance, we are actively managing our cost base in line with what we previously thought. We're still committed to taking out $5 billion of costs over the period to the end of 2022, and we've done just over half of that so far. But, on a $19 billion wage bill, if you see each percentage point is another $190 million of cost. Relative to where we were at the start of the year, we're definitely seeing more inflation. The offset for that should be policy rate rises coming earlier and stronger. If they do, that will comfortably offset the inflationary pressure we're seeing on costs, but we are not going soft on costs just because we think that there is a potential of rate rises. That's not how we're operating the business.

On RWAs, I think we've given you pretty much all of the inputs to model. I guess we're more confident on the RWA growth outlook, lending growth outlook for next year, than I think's currently in consensus. We've got it to mid-single-digit loan growth. We've given you the impacts on regulatory capital. You can plug in your own numbers in terms of – we've given you our distribution policy on dividends, so the only things that you don't have is what the profitability is going to be next year, what buybacks we're going to do, and even on inorganic we've tried to give you a steer as to the total quantum of financial inorganic that we may do as well.

OMAR KEENAN, CREDIT SUISSE: Good morning. Thank you very much for taking the questions. I've got a few questions on rate sensitivity, please. I was hoping you could give some colour around deposit betas in your rate sensitivity disclosure, especially for the UK and Hong Kong, given one of your peers reassessed their UK rate sensitivity based on a more realistic assumption of what deposit betas are likely to be, and any colour that you can give on the proportion of deposits that are contractually linked to market rates in both those markets would be very helpful.

The second part of my question on rate sensitivity is the other currencies figure of $1.5 billion. Could you perhaps just elaborate a little bit more about what the key sensitivities in terms of different currencies are there, because it's about as big as the Hong Kong sensitivity?

EWEN STEVENSON: On rate sensitivity, I think you should assume for the first one or two interest rate rises that we're a relatively low deposit beta on that and that we will try to capture a higher-than-average beta out of those rate rises. I think over the longer term typically we work on the basis of about a 40% to 50% deposit beta, but in the very, very short term with the first rate rise, I think it'll be much lower than that.

In terms of other currencies, Indian rupee, renminbi, various emerging market currencies, of which Mexico is important, I'm sure if you follow up with the IR team they can give you a fuller breakdown of that.

OMAR KEENAN: That's wonderful, thanks. Could I just check the published sensitivity? Is that based on 50%?

EWEN STEVENSON: Yeah. It differs by product, by market, but roughly, yes.

AMAN RAKKAR, BARCLAYS: Good morning. Most of my questions have been asked, actually, but a couple of points of clarification. Thanks very much for the IFRS 17 disclosure on the insurance business. In terms of the two-thirds PBT impact that you expect in 2023, I guess that insurance profit that we would be making that adjustment to, are we talking – is it around a $1.5 billion hit that we should be looking for reported PBT in 2023? Any clarification there would be really helpful.

And then just a second on the cost-to-achieve. I know you're sticking with the guidance for $7 billion, but it does imply that actually you're going to do a lot next year. Could you help us understand exactly why you've not been able to spend it so far, and what you are going to be doing next year with that?

EWEN STEVENSON: On PBT impacts, well, $1.5 billion – it obviously depends what your forecast is, but if that's two-thirds of the insurance profits in that year then yes, it's probably not wildly out of line with what we think. But just again, just to repeat on IFRS 17, there's no impact on dividend flow from the insurance companies to the group. There's no impact on group common equity tier 1. The timing of earnings recognition has changed, so fundamental economics we don't think has changed.

The other thing that – on tangible equity, just because I know a few people have been playing around with numbers today, we think there'll be about a $3 billion plus or minus impact to tangible equity as a shift, and that RoE then will be negative but minimal, and it's still tied in with our commitment to get back to cost of capital returns.

On CTA, I think – we'll think we'll probably spend about another $1 billion or so in Q4, which leaves us about $3 billion or so to spend in 2022. We did have a slower delivery this year. A big part of that was a lot of our change programs are being run in India, and they obviously had a pretty severe impact as a result of the pandemic, which meant that our hiring plans, particularly technology resources that we intended to bring on board, have been slower. There's been about a three-plus month delay to some major programmes of work, and it's one of the reasons why, as a result of that, we expect costs to tick up in Q4, because we've got this ramp-up in investment coming into Q4.

ROB NOBLE, DEUTSCHE BANK: Morning, all. Could you talk us through how interest rates are actually hedged in the various markets, maybe just the UK, Hong Kong and US? And then – so will they actually see what sort of rates – do you actually need the short rates to go up in all of those countries, or will you benefit from higher rates in the market in some and not others?

Secondly, just on the UK, where do you see your front book mortgage margins are at the moment in comparison to where they are on the back book? What do you think recent swaps – the increase in swaps, are they pushing rates up in the market in the UK now?

EWEN STEVENSON: On the hedging program, Hong Kong is very short dated. Everything reprices typically in one to three months. In the UK there is a five-year rolling hedge that we have in place, consistent with most UK peers, I think, with an average duration then of about two and a half years. The US is slightly longer than the five years, albeit I think that will change once we divest ourselves out of the retail banking business. It's not as material, obviously, as Hong Kong and UK. If you look at the structure of our assets and liabilities they do tend to be much more short-dated than the average peer, which is a combination of the impact of the short-dated nature of Hong Kong, but also in the commercial space our trade business is relatively short-dated. The second question was…?

ROB NOBLE: Sorry, it was on front book mortgage margins versus back book, and where do you think swap spreads will cause –

EWEN STEVENSON: Front book margins are probably slightly below back book margins currently, for the first time in quite a while. We have seen some margin pressure coming through the UK mortgage franchise. We do still think at current rates that we're writing business comfortably above the cost of capital, but there has been some margin contraction.

ED FIRTH, KBW: Morning, everybody. I'm sorry to go on about this interest rate sensitivity, but I guess it is quite crucial in terms of the outlook. The bit I don't really understand is when I look at the currencies, if I look at your year one sensitivity, your sterling sensitivity is materially higher than your Hong Kong sensitivity, yet your sterling is the bit that's hedged, the Hong Kong isn't, and yet the total balances in Hong Kong are – well, orders of magnitude similar, but I guess if anything it's slightly higher in Hong Kong than they are in sterling. So I don't – is it possible to help us a little bit on why you have this huge sensitivity in sterling and perhaps not so much in places like Hong Kong, which is short-dated?

EWEN STEVENSON: Firstly in Hong Kong, remember that only around 50% of our deposit balances are Hong Kong dollars, so there is an impact of the – particularly US dollar book in Hong Kong, I think, in that interest rate sensitivity, with US dollars about 80% of the 50% that's not Hong Kong dollars. Look, I'll need to get you a detailed answer out of our IR team, if you give them a call, but I assume our interest rate sensitivity analysis is correct.

ED FIRTH: No, I suspect it's about the assumption. It's just – I suppose the thing we're struggling with in all areas is trying to make sure that – people can put in any assumptions they like, but whether it's actually going to happen, I guess, is the key question.

EWEN STEVENSON: Yeah, that's fair, but, I mean, we do take time to show that interest rate sensitivity. It is supposed to be helpful guidance.

ED FIRTH: No, that's great. Thanks so much. I'll speak to IR.

MARTIN LEITGEB, GOLDMAN SACHS: Good morning. Just a very quick follow-up on structural hedging. One of your peers has announced its intention to deploy structural hedging a little bit more, just changing, I guess, some of the assumption on the stickiness of certain deposits. Is their scope – just based on your comments that Hong Kong is very short-dated, 40% of Hong Kong deposits are in US dollar – would there be scope to reassess some of those deposits and take a view maybe similar to the UK, that deposits have a behavioural majority of five years? With that, could this be a source for additional income going forward?

Secondly, on capital, first of all, thank you for the 14 to 14.5 guidance now for 2022. Just in terms of thinking about the quarter one trajectory and the end of scope for capital return for HSBC going forward in the medium term, should we use this 14 to 14.5 as a range going forward, or is there scope for capital to achieve lower? I'm just trying to get if there's still capital inefficiencies within the group impacting this 14 to 14.5 range.

EWEN STEVENSON: So in terms of Hong Kong and the – yeah, part of the problem, Martin, as you know, is that it's a very short-dated book, both on the asset and liabilities side. The choice that we have always made is not to run currency risk to extend duration. There's probably a low hundreds of millions opportunity in the next few years through improved management of our liquidity book. We've recently hired, a few months ago, the group treasurer out of UBS to come and run our treasury business. I think over the next two to three years we've probably got a few hundred million dollars of upside in terms of how we're managing our global liquidity pool.

On capital, I would use the 14.5 over the next few years. I think our aspiration is to run it towards the lower end of that range, if we can. As you think further out, there's obviously the impact of output floors and what that does, depending on where they're applied and the impact on capital positions of subsidiaries, etc, that we're going to have to pay attention to to get below 14%. We've got a big programme of work to step up our capabilities in stress testing. I think our peak-to-trough fall in stress is still too high, but that will be a multi-year programme of work to improve stress testing and then go after the higher-risk stress areas of the bank where we're not getting remunerated appropriately. But for the purposes of a foreseeable future, assume that 14% to 14.5% is where we're managing to, and, if we can, we'll manage to the low end of that range.

JOSEPH DICKERSON, JEFFERIES: Good morning. Thanks for taking my question. Just on the cost versus benefit from rising rates, I guess you've made the point that you haven't lightened up on investment spend. Should we therefore assume that the 90% or so of the rate sensitivity of whatever we might assume falls through to the bottom line – what sort of quantum should we think about falling through the bottom line?

EWEN STEVENSON: Well, I think the bulk of it, frankly. I mean, it depends what inflationary pressure you put on a $19 billion wage bill and a $32 billion total cost base, but if – relative to the previous guidance of flat costs, if you've got 1% to 2% inflation on that then that's $300 million to $600 million of incremental cost, which I think more than gets offset by the interest rate rises. I mean, what we saw over the last year is the bulk of that we lost we weren't able to offset with incremental cost savings. We will keep cost control tight even if we see the benefit of the rate rises coming through.

NOEL QUINN: Ewen, just for clarity, the amount of revenue that dropped off the P&L last year as a consequence of rate reductions was…?

EWEN STEVENSON: $7 billion.

NOEL QUINN: That gives you a sensitivity of the upside sensitivity of rates for the downside that we experienced, relative to a 1% or 2% movement in cost. It's a highly leveraged ratio on revenue to cost.

Thank you so much for your time today. A couple of closing comments from me. First of all, I'm pleased, as I said at the beginning, with the performance of the business. I'm pleased to see good signs of growth, organic growth in fee income, balance growth, wealth, so that's good. I think there's more to come on that front. We remain absolutely committed to driving out cost efficiencies, as we indicated earlier this year. We acknowledge that there are some inflationary pressures through VP, from good business performance and from underlying inflation, but we believe that there is offset in revenue growth to compensate for that. We remain committed to our return on capital target. So, good progress. More still to do. We will continue to transform the business, and we'll continue to grow the business. Thank you for your time.

EWEN STEVENSON: Thanks, everyone.