HSBC

Transcript

# Q3 Results
# Analyst and Investor Call

**30 October 2023, 7.45am GMT**

GEORGES ELHEDERY, GROUP CHIEF FINANCIAL OFFICER: Hello, everyone. Thank you for joining us on our third quarter results call today. I will lead today's presentation and Noel will join me for the Q&A session.

Allow me to begin by saying a few words on recent events in the Middle East. We have all been shocked by the devastating terrorist attack on Israel on 7 October and saddened by the growing humanitarian crisis in Gaza. The loss of innocent life and suffering is heart-breaking. We continue to offer assistance to our impacted colleagues and clients. Just to be clear, we are not changing our strategy in Israel or the Middle East.

Turning to our results now, as always, our purpose, ambition, values and strategy have been helping us drive the results that I am going to talk about today. Some highlights to begin with – first of all, the year-to-date performance clearly demonstrates that we have had three consecutive strong quarters reflecting the successful execution of our strategy. Year-to-date reported profit before tax was $29.4 billion, which is an increase of $17.4 billion on the same period last year, supported by higher interest rates and enabled by our strong balance sheet and the non-recurrence of notable items. We have delivered an annualised return on tangible equity of 17.1%, excluding strategic transactions. For the avoidance of doubt, these transactions are the reversal earlier this year of the impairment relating to the planned sale of our retail banking operations in France and a gain on acquisition from SVB UK. We've announced another share buyback of up to $3 billion, bringing total buybacks announced this year up to $7 billion, and we've announced three quarterly dividends, which total 30 cents per share.

We have also exhibited good growth across our businesses. Wholesale transaction banking revenue was up 50% year to date primarily due to higher rates and reflecting the strength of our deposit franchise. Wealth had another good quarter. Wealth balances were up by 12% compared to the same quarter of last year, and we're also very pleased that we attracted $34 billion of net new invested assets in the quarter, bringing the rolling 12-month total to $77 billion, which is a strong performance and testament to our strategy. The planned acquisition of Citi's wealth business in mainland China will also help accelerate our growth plans for this business.

In our two home markets of Hong Kong and the UK, we are also seeing good growth areas. In Hong Kong, insurance new business CSM was up 40% year on year, and our mortgage books in Asia and the UK grew by a total of $11 billion compared to the third quarter of last year.

Let me now move on to the third quarter numbers. Revenue was $16.2 billion, which was up $4.6 billion of 40% on last year's third quarter on a constant currency basis. This was driven firstly by group net interest income of $9.2 billion, which was up by $1.3 billion on the same period last year. Secondly, non-NII was $6.9 billion, up by $3.3 billion primarily due to, first, the non-recurrence of a $2.5 billion impairment in last year's third quarter relating to the planned sale of our retail banking operations in France; second, a $1.6 billion higher revenue offset into NII from the central costs of funding GBM trading activity; and, three, offset by $0.6 billion of treasury disposal losses taken for structural hedging and risk management purposes for our balance sheet.

Banking NII of $11.5 billion was up $2.8 billion on last year's third quarter and broadly stable on the second quarter. Expected credit losses of $1.1 billion were broadly stable on the same

period last year and included a $0.5 billion charge in relation to our mainland China commercial real estate portfolio booked in Hong Kong.

Costs were up 1% in the quarter, as lower restructuring costs were offset by higher technology spend, a higher performance-related pay accrual and costs from HSBC Innovation Banking. Lending balances and deposits were both broadly stable, and our CET1 ratio was 14.9%, an increase of 20 basis points on the second quarter. Finally, we announced the third consecutive quarter of strong capital returns, with a quarterly dividend of 10 cents per share and a further share buyback of up to $3 billion, which we expect to complete before the full-year results in February.

The next slide shows that our global businesses all performed well. Wealth and Personal Banking had a strong quarter, with revenues up by 71% or by 7% excluding the impairment taken in last year's third quarter relating to the sale of our retail banking operations in France. Within this, Wealth was up by 6%, as our ongoing investment in that business continued to gain traction, and Personal Banking also had another good quarter, up by 21%, due mainly to higher rates.

Across Commercial Banking and Global Banking and Markets, Global Payments Solutions had revenues of more than $4.3 billion, which was an increase of 56% on the third quarter of 2022. In our trade business, lending balances were up 3% in the quarter, mainly in Asia, reversing the declining trend from previous quarters. Global Banking and Markets also performed well, up by 2%. This included a resilient performance in Foreign Exchange compared to a strong third quarter last year and a good performance in Securities Financing and Debt Markets.

On this next slide, reported net interest income was $9.2 billion, which was broadly stable on the second quarter. Banking NII was $11.5 billion, up $2.8 billion on last year's third quarter and stable on the second quarter of this year. As a reminder, Banking NII in the second quarter was favourably impacted by a $0.4 billion year-to-date catch-up due to methodology changes, approximately half of which was attributable to the first quarter. Adjusting for this, Banking NII was slightly up in this third quarter on a like-for-like basis. The net interest margin remained broadly stable at 170 basis points. We are not updating our 2023 NII guidance and are also not expecting consensus to change.

Next, constant currency non-NII of $6.9 billion was up $3.3 billion on last year's third quarter primarily due to 1) a $2.3 billion favourable movement in notable items and foreign exchange, as last year's third quarter included a $2.5 billion impairment relating to the planned sale of our retail banking operations in France and this year's third quarter included a $0.6 billion of treasury disposal losses; 2) a $1.6 billion increase in the revenue offset into non-NII from the central cost of funding GBM trading activity; and 3) a $0.3 billion decrease in 'other', which includes lower Markets Treasury income.

We continue to reposition our treasury portfolio as part of our balance sheet structural hedging and risk management initiatives. In the third quarter, this resulted in $0.6 billion of treasury disposal losses. These losses do not have a material impact on CET1 capital or TNAV as they have already been taken through reserves last year, although they will have a modest benefit to our CET1 ratio this year. The disposal proceeds are reinvested into higher-yielding or higher-duration assets. Disposal losses are forecast to be more than recovered through NII, with the majority over the next five years. Further restructuring of the treasury portfolio, leading to a loss of around $0.4 billion, is expected in the fourth quarter, which will also be reported as a notable item and have modest CET1 upside.

Turning now to credit, our third-quarter ECL charge was $1.1 billion, which was stable on the same period last year. It includes a $0.5 billion charge related to our mainland China commercial real estate exposure booked in Hong Kong, following a $0.4 billion charge in the same quarter last year. The remaining wholesale charge was $0.3 billion. The $0.2 billion personal lending charge included modest UK releases, although we retain overlays to address the current risks in the economic outlook. Stage three balances of $19 billion were down $1 billion on the second quarter and account for 2% of total loans. We continue to expect a 2023 ECL charge of around 40 basis points of average gross customer lending, including held-for-sale balances.

Focusing now on our mainland China commercial real estate portfolio, our principal area of focus remains the portfolio booked in Hong Kong. As you can see, our total exposure stands at $7.5 billion, which is down by $0.5 billion from the half year, primarily due to write-offs. In February this year, we communicated the management-assessed plausible downside scenario of around $1 billion. The deterioration in the third quarter means that we crystallised around $500 million of provisions into the P&L that were part of this plausible downside. We're encouraged by recent policy measures, which will help the sector, but need time to take effect, so the plausible downside scenario does now look more realistic for full year 2023.

Our exposures rated 'strong', 'good' and 'satisfactory' were broadly stable on the third quarter last year. Around half of these exposures is lending to state-owned enterprises. The other half is primarily lending to privately owned enterprises that are not residential property developers. This is reflected in the minimal ECL allowance in this part of the portfolio. And if I now turn to the table at the bottom of the slide, against unsecured credit-impaired exposures, we already have now a 73% coverage ratio, and against unsecured sub-standard exposures, we have a coverage ratio of just under 10%. This is clearly an area that we will continue to monitor closely, but to reiterate, we continue to expect a 2023 ECL charge of around 40 basis points of average gross customer lending, including held-for-sale balances.

Next, on costs, reported costs for the first nine months of 2023 were down 2% on last year, primarily due to lower restructuring costs. Our cost efficiency ratio for the same period was 44%, improved from 66% last year. On a constant-currency basis, costs were up by 1% on last year's third quarter as the lower restructuring costs were offset by increased technology and operations spend, a higher performance-related pay accrual and the acquisition and investment costs from HSBC Innovation Banking, which were not included in our original plans.

On our cost-target basis, we now expect our 2023 costs to be around 4% higher than 2022. This is around 1% or $300 million more than previously guided due to higher technology and operations spending, which we believe is appropriate given the importance of digitisation to the group and the strong financial performance of the business. In addition to this, we are contemplating an increase in performance-related pay in the fourth quarter, depending on the outturn of our performance and ongoing execution of our strategy in the fourth quarter. This would represent a further increase of around 1%. We have provided a full reconciliation from reported cost to our target-basis cost on slide 15 of the deck, and to reiterate, tight cost discipline remains my priority and a priority across the whole group.

The next slide shows our strong capital position. Our CET1 ratio was 14.9%, which was up 20 basis points on the second quarter. A few things to draw your attention to. 1) The dividend accrued year to date is $9.6 billion or 49 cents per share whilst we have announced dividends of $5.9 billion or 30 cents per share; 2) We have announced a further share buyback of up to $3 billion, which is expected to have a circa 40 basis point impact on our CET1 ratio in the fourth quarter. We are aiming to complete it before the full-year results in February; 3) We also expect to reclassify our retail banking operations in France as held for sale in the fourth quarter, ahead of completion of the planned sale on 1 January 2024, which would have a further impact on the CET1 ratio of around 30 basis points.

Finally, the planned sale of our Canada banking business also remains on track to complete in the first quarter of 2024 and, as a reminder, profits from our Canada banking business accrue to the buyer and are not included in our dividend calculations for the year. We estimate the gain on sale will be around $5.5 billion, which we will recognise through a combination of earnings from Canada and a remaining gain on sale at completion. Upon completion of the transaction, it remains our intention to consider a special dividend of 21 cents per share as a priority use of the proceeds and as previously announced.

So, in summary, this was another strong quarter. We delivered a good profit performance and an annualised return on tangible equity of 17.1%, excluding strategic transactions, reflecting the successful execution of our strategy. Transaction Banking and Wealth both performed well, and continued investment will help accelerate the growth of our Wealth business. We continue to expect a 2023 ECL charge of around 40 basis points of average gross customer lending. We remain committed to tight cost discipline, and we have a strong capital position and have increased return to shareholders by way of dividends and share buybacks. And with that, can we please open it up for questions?

AMAN RAKKAR, BARCLAYS: Two questions, please. Firstly, on costs, can I just probe you a little bit more on exactly what's changed around costs? Because I think as recently as mid-September HSBC were reiterating their expectations for costs very much in line with the existing guide and the commitment to the cost base. So particularly around the point around compensating staff - or potentially compensating staff - for performance - I understand that it's been a strong year for profits, but it doesn't look like the view of profitability changed materially since you last spoke to us. So that component there would be interesting, and the related point then is to what extent should we expect that element of cost growth to roll over into next year? At its heart, I'm trying to get a sense of what the underlying cost growth is that you're currently seeing through the business.

And then the second question was around margins. I was wondering if you could just help us a bit on your experience on deposit beta and term deposit mix, particularly in Hong Kong but also a comment on the UK would be helpful and, as part of that, what your expectations are for NIM in both of those markets, please?

GEORGES ELHEDERY: So, first, on costs, I think with regards to this 1% cost we contemplate for Q4, look, we have to put this in the perspective of the financial performance.

Obviously, at the start of the year, we weren't necessarily realising the performance of the group. We obviously need to wait for Q4 both to assess the financial performance but equally to assess how we continue to deliver on our strategy. It ultimately will be a matter for the Board and the Remuneration Committee to decide, but we felt it appropriate and fair to recognise that our colleagues have contributed, participated for the last many years through the whole strategic reshaping of the firm, through ensuring we have a great deposit franchise and a strong balance sheet and obviously delivering the growth we've seen in Wealth and Transaction Banking, that we can channel 1% or the equivalent $300 million towards performance-related pay. Again, all this is at the stage of contemplation and naturally we will reaffirm at the year end, and, again, subject to our Remuneration Committee's opinion.

In terms of next year, now we're not giving guidance, but I think we are reflecting in this performance-related pay a year-on-year material change in our performance, as you've seen from our returns and our PBT, obviously with that quantum probably not expected for next year.

In terms of margins, Aman, as we indicated, at these levels of rates, mostly in the UK and certainly in a number of western markets and for our wholesale businesses – at these levels of rates, we were expecting to have materially higher betas than 50%. We've expected that additional rate hikes from here would be mostly for the benefit for our customers. If you look at the overall betas in the UK, overall beta is just north of 50%. So while the marginal betas have exceeded 50%, the overall number is in the range of 50%.

Term deposit mix – Hong Kong kind of same trend as we've seen through the nine months coming to this quarter, about 1% migration per month. So we have seen 4% over the quarter after 2% previous quarter and 3% in quarter one. That took the total term deposit mix to 31% in Hong Kong. We have not seen a deterioration of the trend. So we expect the trend to remain the same as we look into potential headwinds in the future, but equally we continue to see some of the tailwinds we were calling out before to continue.

Just to put in perspective, the UK term deposit mix is just single-digit percentage points, so it's a modest increase in Q3, but it's not the main contributor to the dynamic of our NII.

NOEL QUINN, GROUP CHIEF EXECUTIVE: If I could just add a couple of comments on the variable pay, there are two factors that are really coming to play in Q3. At the half year, when we talked about our cost position, we had an eye to variable pay, and we had a very strong first six months of the year. There was a lot of economic uncertainty around at that time – inflation, interest rates, ECLs, mainland China commercial real estate – so we didn't want to anticipate exactly what the financial performance would be in the final six months of the year. We were confident of mid-teen returns, but we needed to make sure that the final six months traded well.

I think as we've gone through Q3 we've continued to trade well. So I think our expectations now on a full-year outturn are probably higher than they would have been when we started this year and started to build the financial plan for this year.

So, in the context of things, we've given an indication that given the strong profit performance, and if it continues into Q4, it would be right to share some of that upside in profit compared to original expectations with our colleagues, in the way that we intend to share the upside in expectations with our shareholders on both dividends and buybacks. A 1% $300 million top up to variable pay for a level of performance that could well outturn this year is a reasonable amount of additional variable pay to put in, and I will remind you that variable pay is not a continuum and a baseline. It is assessed each year on the profit of the bank against targets and can go up and can go down.

But that's a final determination we'll make at the end of the year, and we're just trying to be fair to our colleagues on what they've done. Trading performance has become less uncertain as we've got into Q3 – and you've seen the numbers – and we hope will continue in Q4 in a strong manner and, if that's the case, we feel we should reward our colleagues for a very strong performance this year, but that's the background to it. Both myself and George remain absolutely committed to strong cost discipline.

JOSEPH DICKERSON, JEFFERIES: Just following up on costs, how much of the tech and ops cost spend was, if you will, necessary versus discretionary in terms of needing to keep up with competitors and so forth?

Then the other aspect would be on the trading book funding costs. You have guided to greater than $7 billion for the full year, and on my numbers, you're already at $6.2 billion, so that implies a material step down in that cost, unless we should be emphasising on the 'in excess of' $7 billion element there. Any colour on that front would also be helpful.

GEORGES ELHEDERY: I'll answer your second question. You should definitely, as you mentioned, emphasise the 'in excess of' $7 billion. We haven't revised our guidance. We felt, by and large, that the consensus is in the right place, and didn't need to influence it.

JOSEPH DICKERSON: So a similar quarterly run rate we should be thinking about?

GEORGES ELHEDERY: Purely for the funding costs of the trading book, you should expect that the trading balances will remain broadly stable at around $130 billion for the quarter. Then the maths are simple. It's just that, times the short rate levels, essentially, in USD. As you look at the overall Banking NII, I think the indication is that we've grown $0.1 billion Q2 to Q3. We haven't given indication for Q4. Again, we feel comfortable with where the consensus is for Q4, and just to reiterate that Banking NII is probably a better measure, because it gets you immunised for some of these choices we make in how much we fund the trading book with.

With regards your first question about tech and ops, it's a mix of necessary and discretionary. We made the decision on the basis that, first, when we put our cost base at the start of the year, we had a materially higher inflation in some areas, in some geographies and in some pockets than we anticipated for the year, and we felt that it would be adverse for certain customer outcomes if we needed to take more restrictive action on it, and this is putting it in the context that our nine-month year-to-date reported cost is down 2% year on year, so this is why we were willing to tolerate the continued investment in tech and ops.

I just want to reaffirm what Noel said. We are absolutely committed to our cost discipline, and we will be giving you visibility about how we are spending our money now and in the future. Thank you, Joseph.

JASON NAPIER, UBS: The first one please on the $600 million of losses on the hedge reset and risk management this quarter, and the extra $400 million that's pencilled in for Q4 – I wonder whether you wouldn't mind adding a bit of colour in terms of exactly what it is you're doing there. The payback period – you said longer than five years. It feels like a downside risk hedge that's being put in place. If you could just talk about how much you might get the sensitivity down, once all is said and done, and just confirm that it really pays you if rates fall rather than supports revenues in the near term.

Then secondly, we've had a busy week of mainland Chinese bank reporting. All of the majors have missed our own forecasts, and one of your peers wrote down their mainland China stake

with their third-quarter results. Could you update us please on where value-in-use is versus book value on BoCom, and how that process runs towards year-end?

GEORGES ELHEDERY: So first on the treasury losses, a few things to share here. The first is we see this as one of the multiple tools we have to manage our structural hedge, and to manage the risk in our balance sheet. Second, importantly, the losses themselves have been taken already into CET1, mostly last year, so these are already factored in our CET1, and this is why, effectively, they have a mild CET1 ratio benefit where we sit today.

Then third, as you indicated, Jason, we are looking to retrieve these losses in the NII line, essentially over the next five years, so this is a reinvestment into either longer dated or higher yielding instruments by faster disposing of lower yielding instruments to allow us to move faster in our structural hedging of the balance sheet. If you wanted some sense of maths, you could argue if we have taken $600 million losses, it is about $100 million additional NII every year for the next six years or so, which gives you a sense of how we are looking at it, and it's indeed as part of our structural hedging, which means part of how we are protecting the balance sheet, mitigating risks of a rate downfall in the future.

On your second question about mainland China, first I can comment on BoCom's Q2 performance because, as you know, in our numbers we have one quarter delay, so the exercise relates to Q2. Our value-in-use as of Q3 has room of about $0.4 billion compared to our carrying value. Impairment is not a management discretionary decision. There is a rigorous accounting process and we will just follow the process and, based on their Q3 results, we will evaluate those as we go into Q4, and that will be part of our end-of-year assessment.

I think the important thing I want to share about BoCom is because it sits in significant investments and because we hold regulatory capital deductions against it, as you can see from the slide on capital, $16 billion capital deduction – it effectively means that any impairment on our holding of BoCom, should it happen, will have virtually nil CET1 ratio impact, and that's because any impairment will be compensated like for like by a release of the deductions of a similar amount. So therefore, no implication on CET1. It will have an implication on accounting reported profits, but we'll treat it as a material notable item and it will have no implications, either on the way we calculate our dividend or our dividend payout ratio, so this is why, at this stage, this is not a concern. We'll just follow the accounting rules as we do the VIU assessment.

NOEL QUINN: Just for clarity, based on the impairment test we did at Q3, we have headroom against our carrying value. There is no impairment due at Q3, and we'll reassess it at Q4, but based on the Q3 results that BoCom issued a couple of days ago, those results, at a headline level first side, did not cause us any concern on our impairment test at Q3, but we'll reassess that at Q4.

GEORGES ELHEDERY: You'll have the details in the AR&A in how we do the impairment testing for the value in use of BoCom, in case you need it.

GURPREET SINGH SAHI, GOLDMAN SACHS: First one on loan growth – how do we see the areas of loan growth going into next year? You have done a good growth around mortgages, but they have been offset by shrinkage in the commercial book. So that's the first one. In terms of medium term, of course you are highlighting single-digits, but specifically as interest rates remain high, how is the borrowing appetite into next year? Then the second one with respect to the special dividend timing, the 21 cents – will it be paid by June or will it be announced towards the second quarter and paid later on?

GEORGES ELHEDERY: In terms of loan growth, what we've observed so far is strong continued growth in mortgages. We said $11 billion year to date, essentially in Hong Kong and the UK. That continued even this quarter, despite softness in the housing market, but we remain competitive and we continue to support this business for our customers, so that is definitely there. We are also seeing some loan growth in the unsecured space in our retail business. It will be smaller proportions.

In terms of commercial, the reality is the main softness in loan growth in commercial is in Hong Kong, and this is what's driving the commercial overall number. The softness in Hong Kong has two parameters. One, the rate differential with mainland China, and as long as we have such a rate differential, it is expected to have mainland Chinese borrowers continue borrowing

onshore mainland China rather than borrowing offshore, and that probably will not reverse in the next couple of years. But also, two is some of the softness we've seen in the economic conditions in Hong Kong, which we start to see reversing, and we have been encouraged by the policy measures that have been taken by way of supporting the economy and, as those materialise, we will start seeing some pickup in this segment.

Now, outside these softness areas, we do still have strong loan growth potential in growing areas in our geographies, such as Southeast Asia, India, and the Middle East. We even had growth in some of the Western economies, so that is happening. Quite importantly, also, I want to call out growth in trade. I called it out in the earlier speech, but trade is bucking the trend for the first quarter, where we've seen 3% growth in our loan book after several quarters of decline, and that's encouraging. We'll obviously need to see how it evolves, but that's definitely encouraging, and if you look at it, most of that growth is in Asia, which means it's bucking the trend in Asia, and that's certainly on the backdrop of now the trade between China and ASEAN has exceeded trade between China and Europe or China and the US, and that obviously will benefit, given our footprint in China and ASEAN.

On the special dividend, at this stage we're aiming for completion of Canada sometime in Q1. We will then have to go through due governance and due approvals before we do it. I think H1 2024 is reasonable to expect, but it is obviously, at this stage, just a matter of a process we need to go through. I think that's what I can say at this stage. We'll pay it as soon as we can, that's what we can say at this stage.

MANUS COSTELLO, AUTONOMOUS: Can I probe you a bit more on the hedging that you've got in place? You've talked about increased hedging for the last couple of quarters and you have this quarter, as you've discussed previously, taken some losses through the held-for-sale portfolio to improve that now and next year, but we lack an overall understanding of what you've got in terms of the hedge, and so my question specifically is: how big is your hedge and what's the duration of your hedge, so that we can do some modelling to understand how much protection you've got into 2024 and beyond? Thank you.

GEORGES ELHEDERY: Thank you, a very insightful question. We are intending to have much more disclosure around our structural hedge at the full year. We're planning to give you additional disclosures from the one we already gave today, which is the usual NII table with multiple rate shifts over the five years. That includes duration; that includes yields on the structural hedge, etc, which hopefully can allow you to model all of this. We're not ready to do it at Q3. It will be more appropriate to do it at the full year.

I think what you should take into account is some of the information we shared at the half year, which is the hedge itself has allowed us to reduce our NII sensitivity at the back end of last year from $6 billion for 100 basis points down to now $2.6 billion, over which you should add the funding of the trading book sensitivity of $1.3 billion. So that's giving you an idea of how much the overall hedge, among other contributors, have supported the reduction of our NII volatility and our NII sensitivity to the downward pressure on rates, and I think you should definitely assume that it remains our intention, at this phase of the cycle in rates, to continue doing hedges as appropriate across all our balance sheets where we can find them. So more on that at the full year.

RAUL SINHA, JP MORGAN: A couple of follow-ups from me, please, if I can. I guess the first one is just around slide 17, looking at the split of NIM across your main subsidiaries. I'm just trying to understand the underlying NIM trajectory for the bank in the absence of any rate changes from here on. If you look at the UK bank – the ringfenced bank – obviously, that margin has been under pressure this quarter, and a number of peers are obviously flagging the lag effect on deposit costs as well as the migration is going to have an impact in Q4. I was just wondering if you could give us a little bit of colour on what you think is the outlook for your business in terms of margin in the UK.

Then just linking it back to the group margin, which is, as you say, broadly stable but starting to come under a little bit of pressure, the HIBOR-LIBOR gap is obviously very narrow. Seasonally, I guess HIBOR tends to go up in Q4, but when we take a step back and think about the overall margin trajectory, would you say that, in the absence of rate changes, the margin is stable, or do you think there is a little bit more pressure creeping in because of what is going on in the UK?

GEORGES ELHEDERY: Let me unpack. There are quite a number of considerations here. The first one is I, as always, will encourage you to look at Banking NII, because that will – first, it's a better reflection of our rate-sensitive earnings, and second, it will immunise you from some of the business choices we make by putting more funding to support the trading activities or not, and that can create noise in NII versus funding of the trading book, which is unrelated when you look at it from a Banking NII perspective.

Now talking a little bit on Q3, before I talk about the outlook, on the Q3 numbers, if you look at Banking NII in Hong Kong, it was up 10%. Now, this is not reflected in NIM. NIM is up two basis points, but essentially, because a lot of that upside went into the funding of the trading book, but the full rate-sensitive earnings in Asia, in our Asian entity, has grown 10% by about $0.3 billion. So that's the first thing to observe. If you look at HIBOR rates Q2 to Q3, obviously they were up 75 basis points. When we look at Q4 to date, there is another something like 50 basis points baked in the average, so there is additional tailwind into Q4 from HIBOR, which we'll obviously need to see how the next two months fare before we evaluate.

If you look at the UK, the UK NIM was up 16 basis points Q1 to Q2, down eight basis points Q2 to Q3. The first thing I want to say is this is definitely not the trend here to be read. I think NIM is broadly stable from here for the next few quarters. Some of these moves are idiosyncrasies in our Markets Treasury management, not necessarily drivers of trends, so we are looking at it, in the whole, as broadly stable. Obviously, it continued facing pressure on deposit costs, but as I just said earlier, at these rates any additional rate hikes are expected to be passed through to customers, and this is what's been happening, so we've benefited from a 75 basis point rate hike in pounds between Q2 and Q3, most of which has gone either to customers in the form of passthroughs, some term deposit migration, in the UK minimal, but some, and then obviously asset margin compression in the UK.

As you look forward, how can I invite you to evaluate forward first? I'm not giving guidance for 2024. The only guidance we are doing in 2024 is the mid-teens RoTE. We will be giving more details at the year end, but if you want some indicators of how to think about it, first think about it as we will continue facing the usual headwinds of margin compression, but that probably is easing now, having seen most of that compression in Q2 and Q3. We will continue to see pressure on deposits. Migration may continue. We've seen a pace of 1% per month in Hong Kong, steady for the last nine months. That is likely to continue, so these will be the main headwinds.

The tailwinds would be the additional rate upside in Hong Kong from HIBOR – probably no further rate upside in the major other currencies. The tailwinds will be reinvestments of maturing structural hedges that have been put at lower rates and, as they mature, we reinvest them in higher rates and that will give us additional tailwinds. Then the main tailwind, which we anticipate at some stage in 2024, but not yet – at least not for the next couple of quarters, but at some stage in 2024 – is volume growth. When we start seeing volume growth, we will see the support for the NII in the medium term. As we have always indicated, mid-single-digit percentage point growth for balance sheet is our medium-term aspiration, and as and when this starts, after the next couple of quarters of transition, this will give us the additional tailwinds. I suppose that's probably as much as we can say at this stage.

PERLIE MONG, KBW: Just a couple of follow-ups – the first one is on your hedge strategy, because in the disposal losses, you've essentially brought forward some of the rolling of the hedge, which we haven't really seen so much, especially in UK banks. They tend to use it as a pure smoothing mechanism, to let the lower rates run off and then reinvesting, but you seem to have brought forward that. So the question is: does that suggest that you're not just using the hedge as a smoothing mechanism, but it's to more actively trade it? Is that fair? That's the first question.

The second question is really for Noel. I saw on Bloomberg that you made a comment that you feel like the China CRE situation has bottomed out. Acknowledging that the Chinese government has taken steps to support the sector, but the news flow still seems to be pretty negative. To the extent that there have been actions taken, they are probably not as large as maybe some of the market would have expected or hoped for a few months ago, so it's probably around tailoring deposit requirements in some of the tier one cities. What gives you the confidence that we have bottomed out?

GEORGES ELHEDERY: I'll take the first question and I'll invite Noel to comment on your second one. The hedge strategy – first, we have a number of tools at our disposal. We will use them as effectively and as opportunistically as we can to achieve what we want to achieve, which is 1) reducing the downside sensitivity of our balance sheet to a reduction in rates, and 2) extending that reduction of downside as far out in time as possible. This strategy that we've used, which is disposing of existing low-earning positions, is one of these measures. So number one, to remind you, it does not have a CET1 impact. At least the loss does not have a CET1 impact, because the loss has been taken capital mostly in 2022 already, so that gives us this flexibility on our capital.

The second one is, yes, part of the hedge considerations is indeed allowing us to extend higher yields for longer rather than retain some of the lower yielding assets for longer than we wish for and give us additional protection, and the third is it's also risk management considerations. We also look at how we use our RWAs and treasury portfolio and how we can optimise the utilisation thereof, and how we use combination of bonds and swap hedges and fair value accounting relationships, etc. So there are all sorts of number of other considerations which we look at, but the outcome of which, for the purposes of our bottom line, is indeed giving us this runway.

Now I need to point out we have done an exercise in Q3. We indicate that we intend to do another exercise to the tune of about $0.4 billion in Q4, but we do not look at this as a recurring activity. This is by exception, occasional, when risk management and performance justify it, we will do it. This is not meant to be a recurrent, quarter-on-quarter activity. I just want to be clear about that. We've done it last quarter; we'll do it next quarter. Anything beyond that we will give you indication, but it'll be on a case by case and occasional basis.

NOEL QUINN: On China CRE, my comments this morning were really about the massive policy correction that has taken place over the last 18 months in commercial real estate in China. It has really impacted very heavily the real estate market. Do I think that big negative correction in the market has been delivered and do I expect further negative correction? No. I think what we're now into is the workout phase of that policy correction. Equally, I think I said this morning I don't see a big swing back into positive policy territory for commercial real estate. I see it as fine-tuning from this low base.

So what I'm talking about is the market as a whole – the commercial real estate market in China – a massive correction down. I think we're at the bottom of that correction phase and we're now in a gradual reclimb back out, with possible policy tweaks taking place, but as you quite rightly say, they're not going to be big swings back up in policy correction. They're going to be smaller policy corrections taking place, as we've seen in recent weeks.

Now what does that mean for ECLs for banks, both domestically and internationally? Those ECLs have and could still emerge over time, but I think the market itself has bottomed, and now we're in a period of readjustment for the new norm, and I don't see a big readjustment back up. From our point of view on ECLs, I think we feel, as Georges has said, we've got good coverage ratios on the unsecured book – the 50% of our offshore book that is SOE-related or POE-related. We do not see that same policy correction affecting the SOEs the way it's affected the POEs, so we don't see necessarily a downside on that at this stage, and on those POEs in that 50% I talked about, those POEs are largely either secured or they're not in the residential sector. They're in CRE and other forms of the sector.

So from our point of view, we feel well-provisioned at this stage. It's not to say that there aren't potential problems on the horizon from an ECL point of view for the industry, but we feel as though we're well-positioned. I suppose my comment was on the market as a whole, in that there's been such a massive correction. I think we're now in a gradual rebuild, but that gradual rebuild will take time and there will be the potential for the industry to bear some further losses, and we are keeping a close eye on that and what it means for us, but we think we're well-provisioned at the Q3 level. We're probably going to take some more of our plausible downside scenario in Q4, but as Georges said earlier, we think that we've got the capacity within our overall guidance on ECL of 40 basis points to absorb any further charges we may or may not take in Q4.

ROB NOBLE, DEUTSCHE BANK: Just on the treasury sales, you've announced another potential $400 million in Q4. Why not do them all in Q3? What's the advantage of waiting if you're just going to realise a loss and do it now? Why not just do them all now?

Secondly, just a little bit more on China – what's the sensitivity of the balance sheet to rates in China, and how concerned are you about the rate differential between China and Hong Kong? What are the moving parts of that differential on all of the businesses, not just the commercial side? Thanks.

GEORGES ELHEDERY: On your first point, this is a matter of phasing it in time so that we're doing it thoughtfully, carefully, we're evaluating the impact every time we do an activity, so we didn't put a cut-off, per se, for Q3 and Q4. As you can see, the numbers don't follow a given symmetry. It's just a matter of where we are on the journey when we cut off the books on 30 September, but we carry this activity throughout, and we look for the right market opportunities to do it. I think this is the way we look at it.

With regards to your second point, a couple of things I can share here. The first one is the rate sensitivity of China. So, just to give you an indication, the impact of the China NIM on our HBAP, or our Asia NIM, is about three basis points, so the fact that we have some rate compression in China, simply because of the policy rates compression – this has affected our overall Asia NIM by a couple of basis points. That's the quantum or the magnitude given, obviously, the size and scale we have in Hong Kong versus the size and scale we have in mainland China and other geographies.

The second one to call out is that the rate differential – we expect it to remain for a matter of many quarters, probably a couple of years, which does mean that mainland Chinese customers borrowing offshore in Hong Kong will probably remain subdued for the next couple of years because it's much cheaper for them to borrow at lower rates in RMB, and this headwind is likely to continue for the next couple of years.

Now, on the flipside, again because of the rate differential, the growth in wealth that we observe in Hong Kong is obviously a positive and a beneficiary of the rate differential, so the fact that we're seeing more wealth build-up in Hong Kong, the fact that we're seeing more demand for our insurance products and capabilities in Hong Kong, also reflects the fact that, for mainland Chinese, for some of them and subject to the quotas they're allowed to do, etc, it is interesting. It's an attractive proposition to invest offshore because they're getting great pickup. So we're seeing the benefits of that when we talk about our insurance business in Hong Kong and our new business CSM, while we're seeing the challenge on the other side.

Look, all this, at the end, to say is we remain very optimistic in the medium to long term on both Hong Kong and mainland China, and we just need to see some of the short-term difficulties play out specifically in mainland China, specifically in the real estate sector, until we recover and are able to see some of the momentum back on positive growth there.

ANDREW COOMBS, CITIGROUP: Just a quick one, firstly – you've reiterated the greater than $35 billion NII guidance. In the past, you've talked about being comfortable with consensus, which is obviously above that, $36.5 billion, so if I could just push you as to whether you are still comfortable with the consensus.

And then, second question – buybacks and how you're thinking about those. Obviously, a step change today going from $2 billion to $3 billion for the next quarter. Pro forma, for the buybacks and for France retail, you're looking at a 14.2% CET1 ratio, still within your target range. You've said 2024 RoTE similar to 2023, payout ratio for the dividend similar to 2023, so the only delta seems to be loan growth, where you're still talking cautious short term but aiming for mid-single digits in medium term.

So, when we're thinking about the buyback going forward, is it a trade-off with that loan growth? Is it a case of, if the loan growth goes to mid-single digits, you go back to $2 billion, whereas if it stays low single digit, you stay at $3 billion? Conceptually, how are you thinking about the buyback?

GEORGES ELHEDERY: On your first question, NII guidance, I can reaffirm we're still comfortable with the 2023 consensus. As you look into 2024, we haven't given guidance yet,

apart from the mid-teens RoTE, but I'd like to just point out two things just to keep in mind. The first one is, again, Banking NII would be a better guide of how our earnings will behave with rates, so look at NII in combination with the funding costs of the trading book and immunise, therefore, your analysis from how much we end up channelling or not in terms of funding to the trading book activities.

And then, the second one, just to keep in mind, is the disposal of Canada and France, which will both contribute to an annualised $1.5 billion of NII, which will obviously not be there when the sale is complete. And finally, balance sheet growth at some stage in 2024, where we start resuming the expectation for our balance sheet to grow. That in the broad sense, is how we should look at for 2024. Again, we're not guiding, but we're giving you some tools that you can do your analysis.

In terms of buyback, a couple of things: first, the reason we announced a $3 billion buyback – certainly because we have the capital to support it, but equally, because we have an extended period to do it. We mentioned that this is an intent to do it up to February results. That gives us four months. So I'll definitely encourage you not to look at $3 billion as the new $2 billion; it is not. It is a reflection of the fact that we're aiming for – well, we have a longer period ahead of us, four months instead of three, and we're aiming to see if we can get up to $3 billion during that period. It's therefore a specific consequence of this length of the period that is ahead of us for that buyback.

Look, I continue saying it remains our intention to perform a rolling series of share buybacks, as long as the capital supports it. We look at our forecast, and our capital build up does seem to be reasonably realistic in our forecast, and therefore, it remains our intention to do the series of buybacks.

About the question of trade-off between buybacks and loan growth, a couple of things: first, as you know, the proceeds of the sale of Canada will give us a buyback runway regardless of loan growth because the proceeds less the priority use for special dividend will still allow for a few billion dollars of additional buyback, and irrespective of our loans, so that will give us runway for loan growth.

Second, I just need to also highlight, when we talk about mid-single-digit loan growth, we're not saying mid-single-digit RWA growth. Some of our loans, specifically in the mortgage space, which is a big component for our loan growth, have lower RWA density, and therefore benefit from lower RWAs, and therefore, our RWA growth is expected to trail loan growth, absent credit reviews. And therefore, we don't see that there is a competition between loan growth and buybacks. I think this is a fine balance between the two and an appropriate trade-off between the two.

I'll move straight to the closing remarks. Thank you, everyone, for joining us today and for your questions. I want to end by reiterating that we've had a good nine months. All of our businesses have been performing well. We have delivered an annualised return on tangible equity of 17.1% when you exclude strategic transactions and really remain committed to tight cost discipline. We're investing in growth while we're also supporting dividends and buybacks, and I will be looking forward to speaking with you all again soon. So have a good morning or afternoon, everyone. Thank you very much.