HSBC

Transcript

Q1 Results
Analyst and Investor Call

2 May 2023, 7.30am BST

RICHARD O'CONNOR, GLOBAL HEAD OF INVESTOR RELATIONS: Good morning, good afternoon, everyone. Before I hand over to Noel, I want to give a quick reminder of the reporting changes that have taken effect this quarter.

Numbers in the presentation today are on an IFRS 17 basis, and thank you to all those who attended the teach-in in March. Our focus is now on reported numbers, but we will call out and specify notable items. Our global businesses are still the primary basis of our reporting, but we have moved to legal entity rather geographic regions as our secondary reporting line. Consensus hasn't yet fully caught up with all these changes, but now we've made them, we believe they will give you more clarity, transparency, and ultimately benefit your modelling going forward. Noel, over to you.

NOEL QUINN, GROUP CHIEF EXECUTIVE: Thanks, Richard, and good morning in London, good afternoon in Hong Kong. Thank you for joining our first-quarter results call. Georges is going to lead the presentation, but I'd like to make some opening comments.

We've announced a strong set of Q1 results. We delivered a strong profit performance, which was spread across all our major geographies. All three global businesses performed well, and cost discipline remained tight. In the first quarter, excluding the gain on SVB UK and the part reversal of the impairment on the potential sale of our French retail bank, we delivered an annualised return on tangible equity of 19.3%, so our strategy is working.

I'm also confident about the future, for two main reasons. First, we have built a good platform for growth. We have a strong balance sheet, broad-based geographic profit generation, a good combination of net interest income and non-net interest income, and a tight grip on costs. This growth potential was evident in the inflow of net new invested assets of $22 billion in the quarter, with a cumulative $93 billion over the last 12 months, which shows that our Wealth strategy is continuing to gain traction, and you have my commitment that we will continue to drive strong performance for the rest of the year, while maintaining cost discipline and investing in growth.

The second reason I'm confident is the diversity and connectivity of our geographical footprint, where we have access to markets that are exhibiting good growth and return potential. I've seen first-hand the strong economic recoveries underway in Hong Kong and mainland China. I've also visited the Middle East recently, where I saw a strong economy that is well-placed to continue to grow. And the UK economy is also showing good resilience, and our HSBC UK business is performing well.

Investing in growth is critical and we saw an opportunity to do that by acquiring SVB UK. For 158 years, HSBC has banked the entrepreneurs who have created today's industrial base. With the SVB UK acquisition, we have access to more of the entrepreneurs in the technology and life sciences sectors who will create the businesses of tomorrow. We believe they're a natural fit for HSBC and that we're well and uniquely placed to take them global. You will have seen the recent hires that we've taken on in the US in that regard, and we're going to continue to invest to grow this part of the business on a global basis.

We announced that the sale of our French retail bank has become less certain, due to significant interest-rate rises in France and the related fair value accounting treatment impacting the capital position of the purchase. We still believe it's right to sell the business, but we also have to keep our shareholders' interests in mind when negotiating revised terms. We are working with the buyer to try and find a solution, but the uncertainty on deal terms and timing has led us to reverse the impairment.

Finally, we made two important announcements today. The first was the resumption of quarterly dividends, with an interim dividend of 10 cents per share, which is the same level as the last time we paid a first quarterly dividend before Covid. The second was that good, continued capital generation enabled us to announce a share buyback of up to $2 billion.

Our AGM on Friday will be an important milestone. As you know, resolutions have been tabled by shareholders on the strategy and structure of the bank, as well as to fix the dividend. The board has recommended that shareholders vote against resolutions 17 and 18. I believe our first-quarter results reinforce our recommendations and demonstrate that our current strategy is the fastest and safest way to improve returns.

I'll now hand over to Georges to take you through the numbers.

GEORGES ELHEDERY, GROUP CHIEF FINANCIAL OFFICER: Thank you, Noel, and a warm welcome to all of you. Thank you for being with us on this call today. Let me begin with the first-quarter highlights. Profit before tax was $12.9 billion, up $9 billion on the first quarter of 2022 on a constant currency basis. This was driven by an $8.6 billion increase in revenue, which includes $2.1 billion from the part-reversal of the impairment relating to the potential sale of our retail banking operations in France, and a $1.5 billion provisional gain on the acquisition of SVB UK.

Credit performance was benign, with expected credit losses of $0.4 billion.

Costs were up 2% in the first quarter against our 2023 target of limiting cost growth to circa 3% on a constant currency basis and excluding notable items and hyperinflation.

Our annualised return on tangible equity was 27.4%, or 19.3% excluding the gain on SVB UK and the part-reversal of the impairment on the potential sale of our French retail bank.

And as Noel said, we're providing strong capital returns in the form of the first quarterly dividend since 2019 of 10 cents per share, and a share buyback of up to $2 billion, which we expect to start after the AGM and complete in around three months.

Going into more detail, net interest income of $9 billion was up $2.9 billion or 47% on the first quarter of 2022, and was stable on the fourth quarter on an IFRS 17 basis. Non-net interest income of $11.2 billion was up $5.7 billion, which includes $3.6 billion of notable items in the first quarter and was driven by strong performances in Markets and Securities Services, and in Wealth. Lending balances increased by $32 billion in the quarter on a constant currency basis. This was made up of $25 billion from the reclassification of balances associated with our retail banking operations in France, and $7.3 billion from SVB UK.

Deposits also increased in the quarter due to the same factors. If we excluded these items, lending and deposits were both stable. The tax charge of $1.9 billion included a credit of $0.4 billion. The CET1 ratio was 14.7%, which was an increase of 50 basis points on the fourth quarter and included the 30-basis-point gain relating to the part-reversal of the France impairment and the SVB UK acquisition.

As Noel said, all of our global businesses performed well. This slide gives you the evidence for that. Wealth and Personal Banking had a strong quarter, with revenues up 82%. Within this, Wealth was up 13%, driven by the economic resurgence in Asia and increasing traction from the investment we've made in digitisation and in people. Personal Banking also had another good quarter, up 64%, benefiting from our strong deposit franchise.

Across both Commercial Banking and Global Banking and Markets, Global Payments Services had revenues of $4 billion, which was an increase of 176% on the first quarter of 2022. Global Banking and Markets also performed well overall. Markets and Securities Services revenue in particular were up 12%, with a strong performance in foreign exchange.

Reported net interest income was $9 billion, which included $1.4 billion of interest expense due to the funding costs booked in Corporate Centre to fund the trading books. This was offset by $1.4 billion of non-net interest income reported in Corporate Centre. On a reported basis, the net interest margin was up by 50 basis points on the first quarter of last year and up by one basis point on the fourth quarter.

For the avoidance of doubt, our net interest income guidance is unchanged from our 2022 full-year results. On an IFRS 17 basis, we expect to achieve net interest income of at least $34 billion in 2023. This is equivalent to at least $36 billion of net interest income on an IFRS 4 basis, which was what we told you in February. Our current view is that the things we told you about net interest income at our 2022 full-year results remain unchanged.

Non-net interest income of $11.2 billion was up substantially by $5.7 billion, which was a combination of, one, $3.6 billion of notable items in the first quarter, two, a Global Banking and Markets trading income increase of $0.4 billion, three, a $1.3 billion increase in Corporate Centre income for funding Global Banking and Markets trading activity, and, four, other income, which grew by $0.2 billion and included higher Wealth revenues.

Fees were broadly stable compared to the first quarter of 2022, with a good payments fee performance partially offset by lower Wealth fees. However, net new invested assets in the quarter were $22 billion, and $93 for the last 12 months, which bodes well for future growth. I called out the global business revenue highlights earlier, and there is a detailed non-net income interest breakdown on slide 17.

Our credit performance in the quarter was benign, with a $0.4 billion charge for expected credit losses, which was $0.2 billion lower than the first quarter last year. This reflected a favourable shift in the probability weightings of our economic downside scenarios, as well as low stage 3 losses. China CRE was also benign, with a small charge relating to technical adjustments to two customers. We saw no China CRE defaults in the quarter for the first time since the fourth quarter of 2021, though there were also limited repayments. We are encouraged by the first quarter, but there are still downside risks, so our 2023 guidance remains unchanged, at a charge of around 40 basis points of average gross customer lending, including held-for-sale balances. We will review this at our interim results.

On a constant currency basis and excluding notable items, costs were up 2% in the first quarter, once we also exclude the impact of retranslating prior-year costs in hyperinflationary economies at constant currency. As you can see, most of this spend was on technology. We remain committed to limiting cost growth to approximately 3% in 2023 on that basis.

As I shared at the year-end, one of my top priorities is cost discipline. Equally, I also shared that another of my top priorities is to support our businesses to deliver growth and returns. The acquisition of SVB UK was an opportunity to do that. This is expected to result in incremental cost growth of circa 1% to Group operating expenses, the majority of which is the acquired cost base of SVB UK, together with some additional investment in the UK and other geographies. This will be in addition to our 2023 target of limiting cost growth to circa 3%.

Finally, at year-end, we also flagged $300 million of expected severance costs this year. A large portion of these severance costs are now expected to be incurred in the second quarter, with the cost benefits starting to come through in the second half of this year.

Moving on, we usually include information on customer deposits in the appendix, but we have moved it up to the presentation this time, because we appreciate the current interest. Overall, customer deposits are stable year on year and quarter on quarter. Of the $1.6 trillion of deposits we hold, half are invested in high-quality liquid assets, which gives you a sense of our strong liquidity position. This is a historic feature of the way that HSBC manages its balance sheet, and it has not changed.

Around 40% of our high-quality liquid assets are held in cash or cash equivalents. And there are only $1.4 billion of unrealised losses in our held-to-collect portfolio, which is down from around $1.9 billion at the end of 2022.

Three main points on capital. One, our CET1 ratio is 14.7%, up 50 basis points on the previous quarter, 25 basis points of which was from the reclassification of our French retail business from held-for-sale. Pending the outcome of negotiations for our French retail bank, there would be a commensurate reduction to CET1 in the event that the deal closes.

Two, as you know, our business in Canada remains classified as held-for-sale, and we now expect the transaction to complete in the first quarter of 2024, as we work with the purchaser to ensure a smooth transition. We continue to expect to pay the potential special dividend of 21 cents per share in the first half of 2024. And as previously indicated, we expect almost all excess capital from the Canada transaction accruing into CET1 to be returned to shareholders, primarily through a rolling series of share buybacks in 2024 and 2025 that would be incremental to any existing buyback programme at that time.

Three, share buybacks remain an active part of our capital management plans. We will update you on our assumptions for share buybacks in 2023 and beyond at our interim results.

So in summary, this was a strong quarter. There was a strong profit performance. Net interest income was stable. Strict cost discipline was maintained, which I told you would remain a key focus area for myself and the management team. Our credit performance was benign amid a more positive economic outlook. We are starting to see the impact of strong economic rebounds in Hong Kong and mainland China, and our Wealth strategy is gaining traction. And I am pleased there were strong capital returns, a quarterly dividend of 10 cents per share, and a share buyback of up to $2 billion, which we expect to start after the AGM and complete in around three months.

As Noel said, we are clearly on track to meet our returns target for 2023 onwards, and this upward trajectory will give us substantial distribution capacity, including, of course, the potential proceeds from the Canada transaction.

With that, operator, can we please open it up for questions? Thank you.

JOSEPH DICKERSON, JEFFERIES: Good morning, gentlemen. Congrats on a good set of numbers in what wasn't the easiest environment in Q1. Just a quick question on the buyback. You've been very precise in discussing that you would expect to complete the buyback over three months. Is this something now we can expect to be a regular quarterly event, given the strong capital generation, not to mention Canada completing early next year, or is it going to be slightly more erratic?

GEORGES ELHEDERY: Thank you, Joe. So first, we are hoping to achieve $2 billion in the next three months. In the past, we've managed to achieve between $1 billion and $1.5 billion in a quarter. We have five months to complete this programme. We are hoping to complete it in three months. Going forward, we're certainly considering a rolling series of buybacks in 2023, 2024, 2025, and those will be supported by organic capital generation as well as the Canada sale proceeds in 2024. And Joe, it remains our intention to return excess capital, including the Canada proceeds, if the conditions justify it.

RAUL SINHA, JP MORGAN: Good morning, gents. Thanks very much for taking my questions. Maybe just to follow up on that capital return question, firstly, and then I've got another one on asset quality.

When we look at your headline capital ratio, it's very strong and quite a significant tick-up over the last couple of quarters in particular. I guess there are a few adjusting items in there. Should we exclude the French disposal, let's say, reversal from the headline ratio? I guess, if we exclude the share buyback, we get back in your range towards the lower end. So I guess the question is how much RWA growth you anticipate the business to require over the next 12 months. Linking to your loan growth outlook as well, I'm just wondering if you could give us some colour on RWA growth expectations there, and that, hopefully, gives us a good idea of how much buybacks we can expect.

The second one, again related to how much capital you might be able to generate in the remaining part of the year, your guidance on asset quality still implies quite a significant tick-up in provisions, given your very strong performance in Q1. So I guess the question really is, are you guiding us to something specific in terms of the 40-basis-point provision charge, or is that just an element of conservatism built into your guidance there? Thank you.

GEORGES ELHEDERY: Thank you, Raul. So on your first question, Raul, I think it is prudent to adjust for the French part-reversal of the impairment insofar that capital is concerned. As indicated, if we do reach a transaction, there is a likelihood of a commensurate capital reduction taking place. And I will just remind you, our capital target operating range is 14% to 14.5%, and we expect this to be reviewed slightly lower in the medium to long term. And as we do our capital return projections or our share buyback projections, we look at our medium-term capital outlook and cautiously compare it to that range, and this is what's giving us now the flexibility to announce the share buyback and to consider additional buybacks going forward.

As regards RWA growth, in line with loan growth, it has been subdued in the first quarter. It may remain subdued for another quarter. We may see some pick-up, particularly with the Hong Kong and mainland China bounce-back, but again, for this year, we have not given guidance on loan growth, recognising some of the economic conditions. We do remain committed to mid-single-digit growth in loans for the medium term, which is what you can factor in for RWA growth commensurately, and equally for our share buyback.

If I move on to your next question with regard to asset quality, I would lean towards your latter comment, Raul, that we are baking in some conservatism, or we think at this stage the full-year guidance, which we have retained unchanged from February, is now leaning towards conservative. I just want to highlight some tailwinds. Certainly, the situation in the UK – the possibility that we may dodge a recession – is a tailwind. Equally, the recovery in Hong Kong and mainland China following the opening up of the borders and resumption of activities and trade is a tailwind at the same time. And China real estate has shown some positive signs, both from the economic standpoint as well as from the policy measures.

But at the same time, we wanted to remain cautious. There are a number of refinancings taking place in Q3 in the China commercial real estate portfolio, which we would like to stay cautious on, and we continue to watch some of the UK SME space – in particular those heavily reliant on discretionary consumer spend – before we revisit the guidance. We intend to revisit this guidance at H1.

NOEL QUINN: Just one additional comment from me. You'll notice on the capital walk that we've accrued dividends at 50% of the profit generation in Q1. And if you do the maths on that, the accrual on dividend is higher than the 10 cents that you've got in the Q1 declared interim dividend. So we're accruing dividend distribution at a higher rate than the payment of the 10 cents, so that's just factored into our CET1 ratio as well.

MANUS COSTELLO, AUTONOMOUS: Good morning. Thanks for taking the questions. A couple, please. On that slide you were talking about, Noel, about the RWA, I noticed that the risk-weighted assets from Silicon Valley were just short of $10 billion, which seems quite high relative to the loans that you've taken on. I wondered if you could share with us what the nature of those assets is and give us some indication about asset quality within the Silicon Valley Bank acquisition from what you've seen so far.

Secondly, with a thought to the structure of the group, you've obviously showed some willingness to make some acquisitions recently and indeed to do some disposables where possible. I just wondered if there will be any interest in further moves. In particular I'm wondering if there will be anything around some of your businesses such as insurance manufacturing, which you might think about being non-core to the group going forward.

NOEL QUINN: Thanks, Manus. Just on the asset quality of SVB, everything that we've seen since we bought the business reinforces the view that we had that weekend when we did due diligence. The book was a good quality book. We've seen no nasty surprises. We did do a bit of mark to market on acquisition accounting, but that was evident to us when we did due diligence that weekend. Georges can give you a little bit more detail on that, but fundamentally the asset quality of the SVB book is as we expected it.

The team have done a good job in building that business over the past 14 years. They've got good client relations, a good quality book, and good business development potential. On the back of that we decided to invest in putting more people on the ground in some of the key markets around the world that have strong technology and life science centres, to take that business model not just to the UK but to take it globally. We're investing in that as well. No nasty surprises on that.

In terms of other acquisitions that we may consider or M&A activity, the insurance business is a key component of the wealth proposition that we have. We have a very profitable insurance business in Hong Kong. It's a combination of manufacturing and distribution. The team have done a good job in building out the product line up in Hong Kong over the past few years to put us back into a market-leading position in Hong Kong, and we get access to the full value chain. One of the challenges we've often faced in the past is getting full recognition of that value, as a bank shareholder in an insurance manufacturing business. You can rest assured the economics of that business are very strong and we've got a market-leading position. We obviously, like all businesses, keep the strategy under review, and if we think there's a better position to take, we'll take it, but at the moment we're pleased with the way the insurance business is performing.

GEORGES ELHEDERY: Getting into some of the maths, we acquired a loan book that is just shy of £6 billion. That's about $8 billion. We've acquired $10 billion of RWAs, so if you consider those loans and some of the additional RWAs on treasury books, operational risk, etc, you kind of land on these numbers. Manus, we also acquired $1.5 billion of capital after the fair-value adjustments, so you're talking about effectively a 16% CET1 ratio business that we acquired, so we think it is where it should be.

OMAR KEENAN, CREDIT SUISSE: Good morning everyone. Thanks for taking the questions. I just had a quick question on rate sensitivity. If I look at your rate sensitivity at the end of 2022 it looks like you've been quite purposefully bringing down your rate sensitivity on a year one view. I was hoping you could perhaps give us a little bit of colour of the direction that sensitivity over one year has changed in the first couple of months of the year. Can we assume that some of the structural hedges have been further increased and when we see the sensitivity at the interim it might have reduced further? Any colour in that respect would be really helpful.

GEORGES ELHEDERY: At the end of 2022 the rate sensitivity on the downside 100 basis points scenario was reduced from around $6 billion at the half year to around $4 billion. That $2 billion reduction, the NII sensitivity reduction of 100 basis points is for about a third of it, justified by the structural hedges that we started putting in place or that we continued putting in place as of last year. Two-thirds of it is due to the fact that we're just at a higher level of rates and therefore we have less rates convexity on the downside.

If you look into Q1 we have not published a revised rate sensitivity but we continued the trajectory of our structural hedges. Just as a reminder, structural hedges will reduce somewhat our rate sensitivity, and our target is to take that $4 billion in the medium term to circa $3 billion. We are on that journey. We have certainly not arrived there. We will be giving you an update at H1.

PERLIE MONG, KBW: I've got two questions. The first one is obviously the beat was very strong, and a lot of it comes from non-interest income. It appears that a lot of it is from Commercial Banking, and maybe some from Global Banking and Markets. How much of that do you think is sustainable? Presumably you wouldn't encourage us to annualise the whole lot, so how much of that do you think is sustainable?

Secondly, on the AGM on Friday I guess a lot of the attention will be around the debate you're having with Ping An. They obviously recently published an announcement that made some critiques, especially around your cost-income ratio and RoTE. You've obviously printed very strong numbers to date, but in some ways you have guided to a lot of it already, especially around costs. I'm sure you've also been communicating with them anyway, so why do you think those critiques were still made?

NOEL QUINN: I'll deal with the second one later. I'll ask Georges to deal with the non-NII first, if that's okay.

GEORGES ELHEDERY: We expect many of you will adjust your full-year numbers to reflect our Q1 outperformance. That's a fair assessment, but I'll caution you not to annualise Q1. If I just unpack it, the non-NII relating to the funding of our trading activities, $1.4 billion, is fairly reasonable to assume this number will annualise. The wealth business – obviously with the outlook improving in wealth - it is fairly reasonable to assume we will see regained traction and bounce back in particular in Hong Kong, whereas for some of the other activities such as the foreign exchange trading up performance I would caution you not to annualise this number and just to bake it in as a Q1 outcome, and then for Q2, Q3 we will see how they fare.

NOEL QUINN: On the wealth performance you said most of the non-NII was CMB and GBM. I think it's also fair to say that in WPB the wealth business performed well in Q1. Its revenue was up 13% in Q1 relative to Q1 last year. What Georges is saying is I think we've seen a recovery taking place in that wealth revenue. We're not expecting that to just be a Q1 phenomenon. That is something that will continue in Q2, Q3 and Q4, but it's still early days to predict whether the 13% is an annual number or it's higher than that or lower than that. We don't expect it to disappear in Q2, Q3 or Q4, so there should be a level of annualisation on that as well in the WPB non-NII line.

With respect to the AGM comment, we said for a while that we believe the safest and fastest way to achieve higher returns, better performance, better dividends and capital generation was the existing strategy. I think the Q1 results provide a lot of evidence that that is the fact, that that is the best way. We guided the market over the last 12 months to a 12%+ RoTE. I did emphasise at the year-end that we should focus on the plus, not the 12, and I think you see in Q1, even excluding the notable items, we've done a RoTE of 19.3%.

I would just draw attention to the fact that in that RoTE of 19.3% there is a tax credit. That tax credit is not something that will repeat every quarter, but even if you adjust for that it's still a very healthy return on tangible equity. What we're focused on is driving performance on behalf of all our shareholders, and we believe doing what we've done is the best way to get improved returns and improved performance rather than some more radical corporate restructuring action. We believe Q1 is strong evidence of that. Georges, do you just want to clarify the tax situation?

GEORGES ELHEDERY: We've basically shown $1.9 billion as a tax charge, which is an effective tax rate of 14%. I just want to caution you that 3.2% relates to the provisional gain on SVB, which is a non-taxable item, and another 3.3% relates to the release of provisions for uncertain tax provisions, which is also a one-off item. Therefore, if you adjusted for those two we still expect a 20% ETR guidance for the rest of the year.

ANDREW COOMBS, CITI: Good morning. One strategic question and then one numbers question. On the strategic question, if the proposed French retail sale no longer goes ahead what would be the plan? Would you put it back on the block again or would there be a plan to reabsorb it into the broader HSBC Group? Is there anything you can say on plans for France, given that sale process and where we've got to? Secondly, on costs, you've actually had a very good cost print in this quarter. You've down 2% year on year on a constant currency basis, and yet you're still guiding to 3% cost growth or 4% with SVB UK. Is this a timing issue? Is it a case of the wage inflation coming through from Q2? Is there anything you can elaborate there?

NOEL QUINN: Two good questions. Georges will cover the second one and I'll cover the first one. We still believe that a sale of the French retail business is the right strategic outcome. That business probably has a stronger future in another purchaser's hands, however we have been in discussions for a few weeks now with the current buyer to try and overcome the challenge they have on their acquisition accounting impact on their capital base. We'll continue that dialogue. We're hoping we can reach a mutually agreeable settlement with them on that, but we can't be guaranteed of that outcome. We have to consider what is financially the right decision for all shareholders.

It's hopeful that we can reach an agreement but it's not guaranteed. In the event we can't, then I still think we'll continue to run the business, but I still think over time we wouldn't see that as a long-term strategic hold, but we're happy to wait and see what happens thereafter. We're very much focused on trying to reach an agreement with the current buyer to bring that transaction to a close. That's the update I have for you on costs. I'll hand over to Georges.

GEORGES ELHEDERY: Thank you Andrew for the question. Our reported costs on a constant currency basis is down 2% Q1 last year to Q1 this year. If you adjust for notables – and remember last year Q1 we had $450 million of additional costs due to the CTA programme. If you extract that notable item from last year's base, our reported cost adjusted for notables will show us up 2% Q1 to Q1. This is the basis on which we're measuring ourselves for this year.

It’s on that basis where we are targeting to achieve a 3% annualised number where our Q1 basically is coming in at 2%.

Why from 2% to 3%? I just want to highlight a few things. The first one is we still haven’t incurred, by and large, the severance costs which we announced at the year-end, and now we expect to incur the majority of it in Q2 this year. The second element, just to highlight, is that some of the pay increases have only been effected partially in Q1 starting March, and will start being fully effected in Q2 onwards. This is why our 3% target for the full year is where it is. As you said, Andrew, and just for avoidance of any doubt here, the acquired cost of SVB and some of the additional investments we need to do there will add another 1% to that 3% target.

NOEL QUINN: So just a couple of additional comments from me. On that reconciliation between the headline reporting number and the cost target, what we’re trying to do is be very straightforward and not try and bake in what was a CTA last year into the cost base of this year. So we’re adjusting the prior year reported number for the notable CTA last year so that the cost target of 3% is on an ‘apples and apples’ basis with the cost base of this year, so we’re not looking to take an easy option on that. We think it’s the right thing to do, but as we say, we’re in 2% against the 3% target in Q1. And then on SVB, I just want to clarify as well, the SVB business we bought, we acquired a cost base with that, and we acquired a revenue stream, and that revenue stream was in excess of the cost base. We’ve acquired a positive P&L that was contributing, if I remember correctly, around about $80 to $90 million of PBT. So although we’ve acquired – the majority of the $300 million is the acquired cost base of SVB, it is a profitable cost base.

GEORGES ELHEDERY: Andy, just to finish off, we provided a reconciliation on slide 30 to show you the work from reported cost to our cost target, and we will be showing this slide every quarter.

GUY STEBBINGS, BNP PARIBAS EXANE: Morning, everyone. Thanks for taking questions. One on net interest margin and one back on SVB. So on NIM, I guess the UK ring-fenced bank did quite a lot of the heavy lifting this quarter, allowing for one basis point of sequential NIM growth. As we look ahead, perhaps that tailwind fades, at least in quantum. So is that going to make it a tricky thing from here to deliver NIM sustainability, or is the drop in HBAP and the headwind from deposit mix in particular, likely to fade in your view to allow for some stable NIM backdrop? And then the second question on SVB. In addition to the acquired cost base, you flagged the incremental investment spend and plans to build the business outside the UK, so could you talk about associated revenue ambitions and what timeframe you expect to see any notable uplift there? How big a shift in that $80 to $90 million PBT reference could we see of SVB inside HSBC with that incremental investment? Thank you.

NOEL QUINN: Okay. Thank you. I’ll take the second in a moment. I’ll ask Georges to cover the NIM, please, and UK ring-fenced bank.

GEORGES ELHEDERY: Thanks, Guy. So indeed, you did call out the possibility of headwinds in the UK. Obviously, there may be still one or two rate hikes for which we will be passing most of that to customers through pass-through rates. And we do see continued headwinds in Hong Kong, with around 1% per month migration into term deposits, with the mix now at 25% term deposits across both our entities in Hong Kong. This being said, we also have tailwinds. The first one is we still have a strong momentum from Q1, which we are carrying over. The second tailwind is HIBOR normalisation. Just for reference, in Hong Kong, HIBOR and Exchange Fund Bills in Q1 were 65 and 35 basis points lower on average than where they were in Q4, and that was a major headwind for us in Q1. We are seeing now – over the last few weeks, we have been seeing normalisation in those rates. If we continue to see normalisation – and just for a reminder, we are about 200 basis points off the equivalent rate in dollars – if we continue to see normalisation, this will provide us material tailwinds in the Hong Kong base. And the other tailwind is our resilient deposit and loan base. We continue having stable deposits and loans despite some of the competitive pressures, and we continue to aim for mid-single-digit growth in both in the medium term, which should give us some supportive tailwinds.

NOEL QUINN: So just to reinforce what we said as the full-year results in February, we noted the consensus that was in existence in February, and we said we were not uncomfortable with where consensus was. We still have that view. The only adjustment you need to make to NII is for the IFRS 17 adjustment. Everything else remains, as we said in February, that the guidance that existed at that point in time, we were not uncomfortable with it. The same is true today. Just adjust for IFRS 17, which is around about a $2 billion adjustment from IFRS 4 to IFRS 17. That's the only change that needs to be made based on what we've given you as an update today.

And then on SVB, we recruited over 40 people in the US, to build out our SVB capability in the US. We did not bring a book with them - purchase a book - so they will be in build-out mode, so there will be a payback period on that investment. We think that it is a relatively short payback period based on the quality of people we've hired. We're looking at other geographies around the world. We think it's a sensible and modest investment to do that organically, and we're pretty confident on the payback will be relatively short. We'll provide more details once we complete our buildout. Hopefully by the half-year, we'll be able to give you more information. So there will be a profit drag to a degree, probably in the first year or 18 months, but then I think it will be back into proper territory, even on those organic buildout strategies, but we'll give more of an update at the half-year.

I think strategically, it's absolutely the right thing to do for the medium term. This is a sector of the economy that is critical for all geographies and has huge growth potential on revenue.

ROB NOBLE, DEUTSCHE BANK: If we just talk about the LCR, it's relatively low in a European context. Obviously on a deposit basis, it's a different structure. Are you happy running with that level in the medium term, given the uncertainty in the market, and how do you expect the regulation or approach to liquidity to change, given what's happened in the US? Thank you.

GEORGES ELHEDERY: So we don't target LCR. We are continuing to target medium-term, single-to-mid digit loan growth in our portfolio, and we obviously continue to cherish deposits and continue wanting to attract deposits. The LCR would be an outcome. I think insofar as we look at our liquidity management, it's the high-quality liquid assets ratio that we look at, it's the cash and cash equivalent within it that we look at. And in terms of loans, again, it's the short end. It's somewhat subdued and in particular in Hong Kong, in the medium term, some of the bounce bank and some of the trade bounce bank that we're seeing as well may support that loan growth ambition in the medium term.

NOEL QUINN: I think on the regulation impact, I think we have to wait and see what the various regulators around the world do on regulation, but I think the way I look at it, the primary responsibility for running a prudent balance sheet is on the management and board of the financial institution. That's a responsibility we've taken seriously throughout our history. Our high-quality liquid assets have been a feature of our heritage. Our high-quality cash and cash equivalents have been a feature of our heritage for many decades. We put the primary responsibility of liquidity management on ourselves, and then we'll see what the regulatory environment does as some of the consequences of some of the recent changes.

AMAN RAKKAR, BARCLAYS: Good morning, Noel. Good morning, Georges. I just need to come back to revenues. Both your net interest income and your non-interest income are performing really well in Q1, and they are annualising at levels that would suggest a pretty material upside to market expectations for both of those lines. Your net interest income is annualising north of $36 billion on the Q1 number. Your guide is obviously greater than $34 billion. I appreciate there's lots of moving parts here, but I guess to be more specific, Noel, in terms of your commentary around consensus at full-year and now, there's a $1.7 billion gap between where the street is and what you're guiding for the street at $35.7 billion. It doesn't actually sound like you see much downside to that consensus number at $35.7 billion, unless there's something here on term deposit mix. It feels like there's a lot of conservatism in that NII guidance, or there's something I'm missing, so can you help us with that?

And then secondly, on the non-interest income, I totally appreciate your markets business might have over-earned in Q1, but you are also pointing towards a wealth management business that is trending higher, and underlying momentum in your fee business. You talked about strategic initiatives at full-year that sit behind that. To what extent is that revenue number an over-earn, or is this the kind of level that we can expect you to crank out in a year? Because this is well ahead of what the street is. Any colour that you can give us there would be helpful. Thank you.

NOEL QUINN: Those are two good questions and let me just clarify what I said about what we said in February. I think you're right on your maths. I think if you go back to what we said in

February, there was – we talked about $36 billion plus, and when people were talking about our NII, they were sort of annualising it to about $38 billion, and consensus was around $37 to $37.5 billion, and I think we said that we were comfortable with that. So I think, if you go back to then, we sort of said, 'Yes, we're sort of comfortable that consensus had a calculation on the 'plus' bit of the $36 billion plus. That put it sort of north of $37 billion. That was around about consensus back then, and what I'm saying to you now is the only thing you need to adjust for is IFRS 17, which takes about $2 billion off of that. So we're talking about $34 billion plus, and that therefore would put you north of $35 billion. So I think what we're saying is – we're sort of saying the street has probably got NII around about the right place back in February, and we're saying there's no need to change what the street is. You've only got to do the mechanical adjustment for IFRS 17.

Hopefully that helps, and then Georges, I think, do you want to just come back on the non-NII? Because I think you're right. There's elements of our non-NII performance in Q1 that Georges is saying annualise, but some elements that we are saying it may be unwise to annualise them fully.

GEORGES ELHEDERY: So Aman, if I can unpack the non-NII, some of the outperformance that we've seen with regards to the funding of the trading book, where we've seen $1.4 billion this quarter against $0.1 billion in quarter one last year, because rates were zero, but against $1.3 billion quarter four. So somewhat flat – just slightly up from quarter four. That number, it is fair to annualise it, given current rate forecast consensus. Equally, as Noel mentioned earlier, the discussion on wealth growth in NNIA, in wealth – the resumption of activity in Hong Kong in particular bodes well for the future, and I think it is fair to assume that we will see continued performance in wealth. On the other hand, some of the outperformance in some of the markets activities such as foreign exchange trading, which had a record quarter, may not be repeated, and obviously, we may have to look at it quarter by quarter in terms of what business opportunities are there. And while you can bake in and factor in the results for Q1 outperformance, I would caution you not to annualise that outperformance. But in general, Aman, if I take a step back, it is a good set of results, and we are confident about the future, and in light of the strong Q1 performance, we will review the guidance in H1.

AMAN RAKKAR, BARCLAYS: Okay. Thanks very much.

MARTIN LEITGEB, GOLDMAN SACHS: Good morning, Noel and Georges. First of all, congratulations for this good set of results. I just have one broader question on growth and one follow-up on deposits. Just looking at the much-improved profitability levels of the group with NII being $2-3 billion higher per quarter, despite the capacity to scale up growth. And I was just wondering, if we look into the medium-term or starting 2024, do you see hope for the group to lean more into growth, so the single-digit loan growth could potentially be higher, or should we just think that any increase in profitability could be essentially returned to shareholders, just in terms of the trade-off between opportunity for growing more versus shareholder returns?

And secondly, with regards to the deposit franchise, I was just wondering if you could comment on the strength of HSBC's deposit franchise during the quarter. Have you seen, in particular, inflows in certain parts of your footprint helping delivering stable deposits in the quarter? Also wondering with regards to deposit migration – part of moving into time deposits, or whether you have seen any change in trend. Are we towards the end of that cycle in terms of deposit migration, or could we still go on for another quarter? Thank you.

NOEL QUINN: Just one comment from me on growth. I think, clearly, we want to pursue growth, but I think we have the capacity in our dividend pay-out ratio of 50% to pursue growth, and with the option of doing buy-backs as well. Now, at the moment, I think we've seen a relatively subdued lending market in corporate banking. I think the demand for term loans around the world is not particularly high at the moment, and probably isn't going to be particularly high in the very near term. As Georges said earlier, once we get to 2024, one would expect there to be an increase in demand starting to emerge, but the near-term, for the next few months in 2023, given the economic uncertainty, we've seen subdued loan demand. So I think the message I'd give you, in a 50% pay-out ratio world, we believe the second 50% after we pay the dividends, there is potential to fund both growth and buy-backs, and that's our plans going forward. Georges, do you want to just cover the deposit trend, the inflows, the outflows, and deposit migration?

GEORGES ELHEDERY: Sure, Martin. If I start with some of the outflows that we're seeing, and then I'll go into the tailwinds. Some of the outflows we're seeing, particularly in the UK – so obviously UK retail, Q1 is a tax payment period, so there is seasonality here. We are still seeing high cost of living resilient inflation in the UK, which is obviously draining some of the UK consumers' savings. We have, to a lesser extent, competitive pressure as well in the UK. Likewise for corporates in the UK, Q4 was in year-end where people shore up their liquidity, whereas in Q1, most of the companies pay dividends, and then you can see some of the draining liquidity. We're also seeing deleveraging of loans - using some of the deposits to deleverage on the loan side - especially for those with a strong rate differential between what they're paying on their loans.

This being said, we continue to see growth and strength in the deposit preposition, so if I take Hong Kong and all of Asia, actually, we're seeing definite deposit growth in the retail and personal banking space. We have seen 5% growth of our deposit base in Commercial Banking in the US. So we were one of the beneficiary banks of the deposit migration from medium-sized banks into large banks, and we obviously continued to cherish our propositions and deposits to continue attracting the deposits at the right price.

TOM RAYNER, NUMIS: Hi, there. Good morning, guys. Two, please. First one on the loan growth. You flagged the corporate demand, and maybe that is the answer. I want to ask, because you're quite upbeat on the economic recovery you're seeing now in Hong Kong and mainland China, and the UK that you said was quite resilient. Is there any other reason why you're so cautious in the short term on loan growth, or is it purely a lack of demand from corporates? And my second question is on cost, please. It's looking at the 3% target for this year and thinking forward to next year, because I guess you're still enjoying some of the flow-through this year from cost savings from the previous cost programme, which has now ended. So I just wondered if you or Georges would comment on your approach towards costs in 2024, whether you'll be thinking in terms of absolute growth, maybe similar to this year or whether a jaws approach might be more appropriate. I don't know if there's any colour you could add for the next year.

NOEL QUINN: On loan growth – listen, I think your point's a fair one. I think if there is a place where I think loan growth could pick up more in the near term, I think it would be Asia. I think Middle East is another option. So I think I am being a bit cautious on the near-term loan growth. I think probably it would start to emerge more in the working capital side of the balance sheet, trade finance, before people start investing in fixed capital, but I think there is a level of nervousness out there in the corporate world about taking long-term investment decisions in fixed capital. That is aside from sustainability. I think there's a lot of infrastructure spend taking place, and I could see some loan growth coming in and around that sustainable infrastructure investment. So maybe I am being a bit cautious on loan growth at the moment. I think I'd rather be that way in the near term, but I do believe there's going to be medium-term loan growth, and I think it is fair to say that Asia has the potential to pick up faster than elsewhere in the world. So yeah, I think it may be fair that I'm being a bit cautious.

GEORGES ELHEDERY: Just adding to Noel's comment, Tom, if you look at Hong Kong, in the retail space, both cards and mortgages have been growing in the first quarter. Even in the UK, we are seeing green shoots in the mortgage sector. I mean, market share in the UK for the first two months of the year is at 15% for new business. That's against the book market share for both 7.5%, and the Q4 new business market share of 9%, so we're certainly there in the retail space where we're seeing growth. On the wholesale side, I just want to add one comment to Noel's description, which is also bear in mind the rate differential between mainland China and Hong Kong. So all those Chinese companies who used to use Hong Kong as a base for raising funding internationally will be less doing so as long as the rate differential between dollar rates and onshore China rates are that wide. It is cheaper for these corporates to raise funding in mainland China as opposed to Hong Kong, and that will remain the case up until the time we see reversal in that rate trend.

If I move to your second question, Tom, we have not shared targets for 2024 as yet, but the few guiding principles, I can share with you. The first guiding principle, paramount guiding principle, is that you should expect our focus on cost discipline to continue. The second guiding principle is that we will continue doing transformation and restructuring as part of our BAU cost base and expect some of those saves to flow through also in 2024 and beyond, and case in point is the spend on severance, which we're planning now to do in Q2 this year, for which the benefit will flow through mostly in 2024. And thirdly, at this stage, we're still looking to guide towards a dollar cost number as opposed to jaws, and the way we would be looking at 2024 as we come to be able to give you additional guidance later in the year.

TOM RAYNER, NUMIS: Okay. Thank you very much.

NOEL QUINN: Thank you, all, for your questions. Really appreciate you taking the time. To close our first quarter results, I just want to say that the first quarter results provide further evidence that our strategy is working. We had a strong first quarter profit performance, cost discipline remains high, and we're clearly on track to deliver our RoTE target. We've resumed quarterly dividends and announced a share buy-back of up to $2 billion, but I'm also confident about the rest of 2023. We built a strong platform for future growth, and our geographical footprint puts us in areas of high growth. I look forward to speaking with you soon. Have a good morning or afternoon. Thank you.