HSBC

Transcript

Investor and Analyst Call
Full Year Annual Results 2021

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Good morning in London. It's great to see everybody in the room with us today. Thank you for coming. And good afternoon to everyone watching and listening in Hong Kong and elsewhere. Ewen will take you through our Q4 numbers very shortly, but I'd like to begin with a summary of how we delivered against our strategic plan in 2021.

As you know, we refreshed our core purpose as an organisation a year ago. 'Opening up a world of opportunity' draws heavily on HSBC's past, but it also encapsulates what we need to focus on to succeed now and in the future. By keeping our purpose and the values that underpin it firmly in mind, we've delivered good progress against our four strategic pillars: focus on our strengths, digitise at scale, energise for growth and transition to net zero. And this has contributed to a strong financial performance which was supported by the global economic recovery.

Starting now with a few highlights, I'm pleased with the progress we have made on both our transformation and growth agendas, and I want to pay tribute to the whole HSBC team for the job they've done in 2021. Underlying growth in key revenue streams came through strongly in Q4 to offset the drag effect of declining rates, resulting in a reported revenue growth of 2% in the quarter. Coupled with tailwinds from higher interest rates, this provides strong revenue momentum for the future. We are also well on our way through a number of announced exits and acquisitions that materially alter our capital allocation to areas where we have a distinctive competitive advantage. Reported profits before tax for the full year were up 115% to $18.9 billion. All regions were profitable. Asia led the way with $12.2 billion of reported profits, including $1.1 billion from India, up $90 million on the year. There were also strong contributions of $2.2 billion of adjusted profit from our non-ring-fenced bank operations in the UK and Europe and $900 million of adjusted profits from the US business.

I was also pleased that there was strong fee income growth across all businesses, which overall was above pre-COVID levels, plus international account opening in Commercial Banking was up 13% and trade balances were up 23% overall and today stand higher than pre-COVID levels. We increased spending on technology and performance-related pay, but I'm pleased we kept costs stable, able to do so due to the savings from our transformation programmes, which are ahead of plan. If rates follow the path currently implied by the market, we now expect to reach at least 10% ROTE in 2023. That's a year earlier than we had previously signalled. We took a charge on expected credit losses in Q4 primarily due to changing market conditions in the mainland China commercial real estate sector. Ewen will go into this in more detail, but I am pleased to say we have seen some positive movements in market sentiment since the year end. Finally, we've announced full-year dividends of 25 cents per share, up 67%, as well as our intention to initiate an incremental share buy-back of up to $1 billion on top of the existing buy-back of up to $2 billion announced earlier in the year.

This slide sets out how this translates into progress against our ambitions. It shows good progress in key areas. Revenue growth for the year as a whole was impacted by the low-interest-rate environment, particularly in Asia, where we experienced lower HIBOR rates in 2021. But we turned the corner in Q4, as net interest income grew year on year for the first time since the pandemic began, and all our global businesses grew fee income in 2021 by high single digits. Costs were down slightly year on year, and we expect 2022 adjusted costs to be stable on that position. ROTE was 8.3%; our capital ratio remained strong at 15.8%; and we expect to move into our CET1 target range of 14-14.5% in 2022. And we've made over $104 billion of RWA saves across the Group over the last two years against our original three-year target of $110 billion. Given this progress, we now expect to achieve $120 billion of cumulative RWA saves by the end of this year.

The next slides go through key metrics on our four strategic pillars. The first pillar is ‘focus on our strengths’, which is about capitalising on the unique advantages we have as an institution. Wealth and Personal Banking is one of those areas, particularly in Asia. Our investment in people, technology and capabilities yielded strong returns. We had a strong year in net new invested assets, especially in Asia, greatly helped by a strong flow of referrals from our wholesale banking clients. This is an inherent strategic advantage that we are investing in. Overall, Wealth balances grew to $1.7 trillion, and, within that, funds under management increased by 5%, supported by more than 30 new asset management products in Asia. Asia Wealth revenue also grew by 10% mainly due to the improvement in equity markets and customer sentiment, while we also saw strong mortgage growth in Hong Kong and the UK. Finally on this slide, I was pleased that the value of new insurance business in Asia in Q4 was higher than the same period in both 2019 and 2018. This is the cumulative effect of a significant investment programme and turnaround in that business over the last three to four years. It is also particularly encouraging given that the border between Hong Kong and mainland China remains closed.

Slide 5 focuses on wholesale banking. We saw strong fee income growth across our wholesale franchises, even as we exited clients and shrunk our capital base in Global Banking and Markets. This offset lower trading income when compared to the exceptionally strong performance we saw in 2020. International connectivity remains key to our strategy. As I said earlier, trade balances were up 23% overall and above pre-COVID levels. GLCM balances were up $54 billion or 8% year on year to over $750 billion and collaboration revenues were also up 8%, with referrals between Commercial Banking and Global Banking and Markets up 12%. I’ve been pleased with the way that Global Banking and Markets has performed for the past two years even while we’ve been repositioning that business. Adjusted RWAs were down 10% as we continue to transfer resources mainly from Europe into Asia and the Middle East.

Slide 6 shows how we’ve exited non-strategic businesses in the west while accelerating customer acquisition in the east. I’m pleased by the progress we’ve made in transforming the US and continental Europe business but also by their good profit performance in 2021. The transactions for the sale of the US retail business have closed on schedule in the last two weeks. Meanwhile, we expect to close the sale of our French retail business in the second half of 2023. We also accelerated the development of our Asia Wealth capabilities through the acquisition of AXA Singapore, which was completed earlier this month on schedule, the acquisition of L&T Investment Management in India, which we hope to complete towards the end of this year, and regulatory approval to take full ownership of our HSBC Life joint venture in China, all on top of the organic build-out of our Pinnacle business in mainland China, which continues ahead of schedule.

Slide 7 looks at our second pillar, ‘digitise at scale’, which is about making it easier for our customers to bank with us and making our processes more efficient. We’ve continued to invest heavily in technology while managing costs, spending around $6 billion in 2021, which is equivalent to around 19% of our adjusted operating expenses, which was up one percentage point on the prior year. Our ambition is to keep increasing technology spending to more than 21% of our operating expenses by 2025. This investment provides us with significant operating leverage as we grow the business in the future. It is also enabling us to deploy solutions at scale globally and to further leverage agile working and cloud technology. While our usage of both agile and cloud increased in 2021, we have ambitions to drive further growth in the years to come. Digital penetration levels have also increased, with today 84% of trade transactions globally initiated through digital channels, a 58% increase in the share of digital payments made through HSBCnet Mobile app by wholesale customers, and 43% of retail customers now mobile-active. Although this figure was up five percentage points on the prior year, I still see a significant opportunity to grow it much further.

Our third strategic pillar is about creating a dynamic, inclusive culture where people want to work and they feel empowered. In our most recent staff survey, our employee engagement score was 72%, unchanged on 2020 but encouragingly five percentage points up on 2019 and four percentage points above the financial services benchmark. We’re aiming to build a more diverse business. We were pleased to exceed our target for 30% of women in leadership roles globally in 2020, and we have set ourselves a new target of 35% by 2025. We've also made progress on ethnicity representation, especially for black colleagues, but we still have a way to go to get to where we want to be and need to be on both of those measures. And we're helping our colleagues to develop future-ready skills. Over 115,000 colleagues used the new Degreed learning platform last year, with the average time spent on training for full-time employees up 16% despite the pressures of COVID. An increasing share of this time was spent on areas like digital, data and sustainability, all of which are essential for our future. I also want to add that another important part of our culture is that we remain cost-conscious. I am absolutely determined we won't go back to the days when rising interest rates loosened our grip on cost.

Slide 9 looks at the transition plan to net zero, our fourth pillar. Our ambition is to provide and facilitate between $750 billion and $1 trillion of sustainable financing and investment by 2030. I truly believe this will enable us to play a leading role in the transition, and we've made a very strong start. Since the beginning of 2020, we've provided and facilitated $127 billion of sustainable financing and investment to our clients. We are committed to working with our clients to develop valid science-based transition plans to understand, sector by sector, client by client, how we move to net zero by 2050. These transition plans and the targets within them must be predicated on the science relevant to the individual sectors. We will use them as a basis for further engagement and decision-making, including how we drive change within our portfolio construct.

As part of this process, we have today disclosed interim targets for on-balance sheet financed emissions in the oil and gas, and power and utilities sectors. In the year ahead, we plan to set interim targets for financed emissions across a range of other sectors. And we will work on our climate transition plan, which will be published in 2023 and will bring together in one place how we embed our net-zero targets in our strategy, our processes, our policies and our governance, informed by bottom-up transition plans. I'm pleased by the progress we've made reducing greenhouse gas emissions from our own operations. A combination of less travel and sustainable energy deals enabled us to halve our scope 1 and scope 2 emissions compared to 2019. As the world normalises, we have to be clear that we do not expect our route to net zero to be linear, but we do believe that many of these changes are embedded for future years. Overall there is more to do, but I'm pleased with the progress we've made so far.

I'll now hand over to Ewen for the Q4 numbers.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel. Good morning or afternoon, all. I'll echo Noel: great to see so many of you in the room today with us. We had another good quarter of reported pre-tax profits of $2.7 billion, up 92% on last year's fourth quarter. Adjusted revenues were modestly up on last year's fourth quarter. This reinforces what I said at the third quarter: we think we're now past the trough in revenues. ECLs were a $450 million net charge in the quarter. Operating expenses were down $800 million on last year's fourth quarter due to a lower bank levy and continuing good cost discipline, while return on tangible equity for 2021 was 8.3%. Our common equity tier 1 ratio remained strong at 15.8%. Tangible net asset value per share of $7.88 was up 7 cents on the third quarter. We've announced full-year 2021 dividends of 25 cents per share. That's up 67% on the prior year. We also intend to initiate an incremental buy-back of up to $1 billion. This will begin after the buy-back of up to $2 billion is concluded in April.

Turning to slide 11, as a headline, we are pleased with the lending and fee income growth that we're now seeing. Lending balances were up 1% overall on the third quarter. Underlying this was 5% growth for our personal and commercial banking businesses combined, equivalent to $38 billion in total, which was partially offset by planned reductions in Global Banking & Markets. There was strong lending growth in Wealth and Personal Banking, up $27 billion or 6% on the fourth quarter of last year, reflecting another strong mortgage performance in the UK and Hong Kong. Lending was up $11 billion in Commercial Banking, mainly in trade and term lending in Asia. Fee income increased by 5% versus the fourth quarter of 2020. Within this, Commercial Banking increased fee income by 15%, reflecting both good volume growth and repositioning in some areas towards fee income.

On the next slide, despite the impact of lower rates, we've been seeing a recovery in revenues for Commercial Banking for a few quarters now, and this continued in the fourth quarter. Global Banking and Markets had another good quarter driven primarily by good performance in FX and Capital Markets & Advisory. And we saw our first quarter of year-on-year revenue growth in Personal Banking since the onset of COVID-19, and in Wealth strong new business growth was offset by adverse insurance market impacts. To note, for the current quarter we expect some weakness in our Asian Wealth revenues. As highlighted previously, our revenues will be impacted by the adoption of IFRS 17 in 2023. We continue to expect an initial downward adjustment to our insurance profits of around two thirds. As we said at the third quarter, we are planning for an around $3 billion adjustment to insurance's tangible equity, and we intend to provide further detail on IFRS 17 in the third quarter of this year.

On slide 13, net interest income was $6.8 billion, up 3% against the third quarter on a reported basis. This was mainly driven by higher yields on customer loans as well as underlying asset growth. On rates, the net interest margin was 119 basis points, unchanged on the third quarter, with higher asset yields offset by changes in the asset mix. Based on the current interest-rate expectations, in 2022 we expect net interest income to now grow materially, with further material growth in 2023. We think we've given you the building blocks to model this, including modelling the sensitivity as rate curves shift.

Turning to slide 14 and recognising the higher gearing we have to a better rate environment, I wanted to say a few words on our disclosed interest-rate sensitivity analysis. As a reminder, our high interest-rate sensitivity is driven by our balance sheet structure, namely a deposit surplus of around $700 billion and the short tenure of our lending portfolios and trade franchise. For illustration purposes, our tables now assume a simplified pass-through rate for all interest-bearing deposits. In reality, for the first few rate rises we assume we'll see a lower pass-through rate rising to towards or above 50% as rates continue to rise.

On the next slide, we reported a net charge of $450 million of ECLs in the quarter. This included stage 2 charges primarily relating to commercial real estate in mainland China, a substantial part of which is booked in Hong Kong. As Noel says, there has been some positive sentiment since the year end. We expect this to begin to help ease the current tight liquidity for the sector. Stage 3 charges remained low, and the quarter also included COVID-19 related releases. We're continuing to hold around $600 million of COVID-19 uplift to stage 1 and stage 2 ECL reserves, equivalent to about 15% of the initial reserves. The overall quality of our loan book remains good. Stage 3 loans as a percentage of total loans were stable at around 1.8%. We expect ECLs to normalise towards 30 basis points of average loans in 2022 with upside from potential COVID-19 releases in the first half of 2022 and potential risk from continued uncertainty in mainland China commercial real estate.

Turning to slide 16, fourth quarter adjusted operating costs excluding the bank levy were modestly down on the same period last year. 2021 costs were broadly stable on 2020 as per our third quarter guidance. The fourth quarter performance was driven by continued good cost control, together with a lower performance-related pay accrual in the quarter relative to the fourth quarter last year. The bank levy came in at $116 million. This was lower than expected due to an offsetting credit for bank levy fees paid in prior years. We expect the bank levy to normalise at around $300 million per year from this year onwards. We made a further $600 million of cost-programme savings during the fourth quarter, with an associated cost to achieve of around $600 million.

Turning to the next slide, in the first two years of our three-year cost programme, we've achieved savings of $3.3 billion with cumulative cost to achieve spend to date of $3.6 billion. We now expect to exceed our overall target of $5-5.5 billion of cost savings with at least a further $2 billion of cost savings in 2022 and at least a further $500 million of savings in 2023. We expect to fully utilise our $7 billion cost to achieve budget by the end of 2022, so please model the final cost to achieve spend of $3.4 billion this year. Despite inflationary pressures, Noel and I are committed to continuing to deliver tight cost control. For 2022, we aim to keep adjusted costs again broadly stable and in 2023 we intend to manage adjusted cost growth to be within a 0-2% range. A few things to note for 2023 costs and beyond: firstly, on recent M&A activity, we expect the net impact to be broadly neutral on cost in 2023 and modestly positive in 2024 following the completion of the sale of our French retail bank in the second half of 2023. Secondly, there will be a reduction in operating costs as a result of the shift to

IFRS 17 but also an associated reduction in revenues. And, thirdly, from 2023 onwards, we intend to move away from reported adjusted numbers, with any further restructuring costs absorbed above the line and any large distorting items disclosed under 'notable items'.

Turning to capital on slide 18, our common equity tier 1 ratio was 15.8%, down 10 basis points on the third quarter. Reported risk-weighted assets were down $1 billion on the third quarter, with risk-weighted asset saves and improving asset quality offsetting risk-weighted asset growth from lending and regulatory change. Our cumulative risk-weighted asset saves are now $104 billion against a three-year target of $110 billion by the end of 2022. Given this progress, we now have an ambition to achieve $120 billion of cumulative asset saves by this year end.

On the next slide, we're expecting to be within our common equity tier 1 ratio target range of 14-14.5% during this year. As shown on this table, we expect around 125 basis points of total impact during 2022 from notable items, including regulatory change and M&A, a large part of which will be in the first quarter. It will also include the planned sale of our French retail bank in the third quarter. Once within our 14-14.5% range, we intend to actively manage to be within this range, but please recognise that due to normal capital volatility you could see us above or below this range in some quarters. In addition, and in line with PRA regulatory guidance, the dividend will accrue at 55% of reported profits for each quarter of 2022. This is not a signal of future dividend intentions. And, finally, for clarity on our two buy-back programmes, the $2 billion buy-back programme that is currently underway has to complete by 20 April under its six-month regulatory authorisation. Post the AGM in late April, we intend to then launch the $1 billion buy-back programme that we announced today.

So, to conclude, in the context of a continued challenging macro-environment, these were a good set of fourth quarter and full-year 2021 results, heading into this year with strong core momentum underpinned by increasingly robust growth and continuing tight cost discipline. If the current rates outlook is maintained, we're on track to deliver a return on tangible equity of at least 10% in 2023. That's a year earlier than our expectations at the third quarter. And, finally and importantly, healthy capital distributions have now been restored. With that, Martin, can we please open up for questions in the room and on the line, and Richard's coming up to host Q&A. Thank you.

RICHARD O'CONNOR, GLOBAL HEAD OF INVESTOR RELATIONS: Good morning, everybody. I'll take the first few from the room. If you just give your name and your institution, please. Over to Raul in the front row to start with.

RAUL SINHA, JP MORGAN: Hi, good morning. Thanks for doing this in person. A couple of questions from me to start. Firstly, on NIM, Ewen, I was just wondering if you could unpack the moving parts across the big parts of the franchise. If you look at HBAP NIM, it's broadly stable; if you look at the UK, NIM is down quarter on quarter. What is driving the weakness in UK NIM and how do you think mortgage pricing will impact that going forward? I think we can do our numbers on HBAP NIM going forwards.

And then the second question is just coming back to the cost discussion. Perhaps more for Noel, I was quite interested in your comments about the historical slippage in costs when rates have gone up at HSBC. And I guess one of the things that is different this time is inflation is obviously moving up. So I was wondering if you could talk a little bit about how you're managing inflation. What are you seeing in terms of inflation across the bank and how you're managing that over the medium term within your cost plan? Thank you.

EWEN STEVENSON: On NIM – and I'm sure there'll be a few questions on NIM – in terms of what we're seeing, in the UK I think what you're predominantly seeing is the mix shift towards mortgages at the moment impacting NIM, together with continued very healthy liquidity levels. We do think over time what we'll see is a recovery in some of the other loan books, particularly unsecured. So you should begin to see both an improving shift in the asset mix together with significant benefits coming through from rate rises.

As you can see in our interest-rate sensitivity tables, sterling is our most sensitive currency. In Hong Kong I don't think there's anything particular to call out in terms of asset mix. Again, I think the main source of debate in Hong Kong, looking out, is that obviously the Hong Kong dollar is pegged to US dollar. If we are seeing, and when we do see, a rising US rate environment, how quickly that will translate into a rising HIBOR – I think, if you go back in time, typically there's been about a three-month lag period. I think given Omicron at the moment that may elongate it out a bit, but we would certainly think in the coming months we will start to see a very material recovery in HIBOR coming as well.

NOEL QUINN: On costs, we've managed to contain the costs. They're slightly down in 2021 relative to 2022. Why? Because, frankly, we took our $3.3 billion of transformation costs in the first two years of the transformation programme. That has allowed us to fund increased investment in technology; it's allowed us to fund an increase in the variable pay pool in 2021 relative to 2020 of 31%. And if you look at the VP pool, it's up 31% on 2020; it's up 5% on 2019. So our VP pool in 2021 is still inflated over 2019, but we managed to keep the cost flat.

Now, Ewen said we're also planning a further $2 billion of cost take-out this year as part of that transformation programme and another $500 million the year after. And that, we believe, gives us the cushion necessary to recycle that cost transformation into investment in technology and into investment in people whilst keeping the overall cost base flat for 2022 and within a range of 0-2% thereafter in 2023. And we've got a good line of sight on that cost take-out, so I think it's manageable and achievable. What we really want is the revenue momentum we have at an underlying level, complemented by the interest-rate curve that's coming our way, to actually flow through into returns, not to flow through into cost, and we're determined to try to enhance the returns of the business, which is why we're pulling forward the return target by a year, that 10%, but we want to go beyond that. And I don't want the cost to take away from that achievement.

EWEN STEVENSON: Yeah, I'd say the other thing we had during COVID was that the benefit in certain activities has fundamentally changed as a result of COVID, so, if you go back two years, we were spending $400 million on travel and entertainment. That was less than $60 million last year. We expect it to recover, but we've said that we're not going to allow our travel costs to return to – it's capped at 50% of what it was pre-COVID. We've announced that we're going to get out of 40% of our non-branch-based commercial real estate. We've done about half of that so far, but, again, I think COVID and the fact we are going to adopt hybrid working on a permanent basis opens up a significant opportunity. I'm now hot-desking, and I know that our COO has gone and stolen a whole bunch of printers out of the building to make it harder for us to print. For those of you who hot-desk, you certainly don't want any paper at the end of the day, because then you have to store it.

Then you've got this big shift in digital engagement from our customer base that's gone on through COVID, particularly in some cohorts of the customer base, like the elderly, who previously were not that digitally engaged. And, again, I think that will open up further cost opportunities for us. And it's some of those cost opportunities that I think have helped offset the inflationary pressure that we wouldn't have seen previously.

NOEL QUINN: Just to give you an example on that – on trade transformation, we embarked upon a digitisation programme of our trade platform. We're the biggest trade bank in the world, as you know. We fundamentally re-platformed that business over the past four years onto modern technology. A consequence of that, trade revenue for the full year last year was up 9%, trade balances up over 23%. If you look at Q4 on Q4, trade revenue was up around about 20%. So there's momentum in trade, in revenue, but what it's also done is it's increased our NPS scores. We've now got a positive NPS in trade of 69. We didn't have that four years ago. And if you also look at what it's done for cost, we've got a 26% reduction in our baseline headcount that existed in 2017 when we started that programme.

So if you look at it from whatever angle: facilitating revenue growth, because we're more competitive and we've got new product capability; better customer service, as evidenced in the NPS; and a lower cost-to-serve, as evidenced in the headcount in trade. That's why we're putting more money into the digitisation agenda, and that's the impact it can have on the business. And I think that's why we can recycle some of those cost savings into meeting the inflation needs of the remaining employee base.

JOSEPH DICKERSON, JEFFERIES: Just a quick question on the buy-backs – is this something you want to make a recurring feature of your capital return? Because, if rates do what you think they'll do to get to your 10% return on tangible equity, you'll generate a lot of capital. So is this something you want to do on a quarterly basis? What's the thought process around creating some regular cadence to buy-backs?

EWEN STEVENSON: Well, I'd broaden the question, I think, Joe. Our primary tool of distribution is dividends, and we've been clear that we're going to pay within a 40-55% pay-out ratio. This year we were right at the very bottom end of that range with a 40% pay-out ratio. I think that reflected our view on the sustainability of, particularly, the ECL line, where we had significant write-backs this year. So I think going forward you should expect – certainly for 2022 our expectation is that we'll be higher up on that pay-out range than last year. In terms of buy-backs, we pointed out today that if you were to effectively, if you want, normalise our common equity tier 1 today for items that we know that are coming, such as regulatory change and M&A, the 15.8% is probably closer to 14.5% today for that 125 basis points of adjustments we pointed out.

And then you've got for this year, I think, the natural growth in the business, where we said we're targeting mid-single-digit loan growth. We've pointed out that we still think we've got $14 billion or more to do of RWA saves. We've got the dividend; we've got the incremental $1 billion buy-back that we announced today. We do still expect there to be some inorganic activity. They will be similar to what we've done, small bolt-on deals. I think consensus for this year is sitting about $2 billion of buy-backs. I think we're reasonably comfortable with that consensus at the moment. But, look, we do intend overall to actively manage our capital base, as we said, but for this year I think we're sort of comfortable with where consensus currently sits. But you shouldn't view this buy-back programme as some sort of in-perpetuity buy-back programme. We'll use it to manage surplus capital.

JOSEPH DICKERSON: Thank you.

OMAR KEENAN, CREDIT SUISSE: Good morning. Thank you for the presentation today. I've got two questions, please, so one on rates sensitivity and then just a second one on the outlook for acquisitions and divestments. So, firstly on rates sensitivity, thank you for the disclosure on the deposit beta. I was wondering if you could help us with how much discretion HSBC has over its deposit pricing in places like Hong Kong, I guess with the idea being that the surplus-deposits position is quite good and the benefit from rate hikes might be much more than the guidance implies earlier on than later on.

And then secondly, on the outlook for acquisitions and divestments, you've completed the three bolt-on acquisitions that you said you would do, and you've also completed or at least signed the exit from the French and US retail business. Could you comment on how the footprint now looks like – I guess just bearing in mind there's a bit of movement in Mexico with what Citigroup is doing – and whether there's more potential for bolt-ons, whether we could see more inorganic activity at HSBC? Thank you.

EWEN STEVENSON: On rates sensitivity, as we said, we would certainly assume that for the first few rate rises the deposit beta is going to be less than 50%. I mean, it's a matter of public record what our intentions are in the UK. We've announced a series of deposit increases as of 1 March. They would imply a deposit beta well below 50% for the rate rises that we've seen. Hong Kong – we are the market leader, so we would expect there to be some increase in deposit rates, but I think, again, for the first 50 or so basis points of rate rises the deposit betas we would expect to be well below 50%.

Just to explain, we did change the table this quarter. Previously we had a sort of average 50% deposit beta, but it varied by market. So what you see, for example, is the Hong Kong sensitivity has come down in that table relative to Q3. The reason for that is because we've effectively increased the deposit beta up to 50%. We just thought that was easier for you, because it gave a consistent basis for you to then make your own assumptions.

NOEL QUINN: Just one other point – I was talking to somebody earlier about my liking of cash, and it's positive, particularly when you bring it in via operating accounts. And a lot of the cash deposits that we bring in are not paid-for deposits through savings accounts; it's operating accounts through GLCM, through Personal Banking, through Wealth Management. And therefore what we're able to see is a higher ability to hold on to interest-rate rises because we are focused on bringing in operating accounts as opposed to pure paid-for deposits. And that's particularly true in our Asia franchise, where we've drawn in a lot of balances via GLCM business.

EWEN STEVENSON: You like cash in a digital sense, Noel.

NOEL QUINN: Yes. There's one attribute I've carried with me for 34 years from Willie Purves, which is, 'Get the cash in first and then lend it'. Old fashioned. On M&A, listen, we're pleased with the progress we've made. We're pleased with the disposal decisions on the US and on France. I think Michael's done an excellent job and his team, on executing on time, on schedule, and driving out the costs as a consequence of that. I really congratulate him on that. We're on track for completing a more complex disposal programme on the French retail business, hence it will complete in 2023, but we knew that to be the case. But plans are progressing well on that.

On the bolt-ons – going well. We're still looking. We're observing other opportunities in the market, particularly in Asia, particularly associated with Wealth, and for Wealth read insurance, asset management and broader Wealth Management capability. If and when they become a reality, we'll let you know at that point in time, but we're still actively looking at opportunities on the acquisitions side of it. I stress: it's bolt-on.

And to maybe turn to your specific question on Mexico, no, we're not looking to acquire in Mexico. We have a good business in Mexico. It produced a return on tangible equity last year of about 13%, I think. Within that, the Wealth businesses and retail business in Mexico have high inherent returns. We've got an organic growth model there. We've previously guided the market and all of you that our M&A activity would be primarily focused on Asia and on Wealth. So I think we've got a very clear focus on where we want the bolt-ons to be focused on. Thank you.

TOM RAYNER, NUMIS SECURITIES: Thank you very much. Could I just have two, please? Just sticking with the rates sensitivity initially, the thing I'm most interested in is – how quickly will the sensitivity fade away once you go beyond a 100 basis points move? I guess you're going to see pass-through rates increasing as rates rise. Also I imagine there'll be some asset-spread issues, such as in the Hong Kong mortgage market with caps versus prime, etc. So I just wondered if you could give us a bit more colour on how things look when you go beyond 100 basis points.

And I have a second question on costs – the guidance 0-2% from 2023 – I'm just wondering what's going to determine whereabouts you land in that range, whether you're running a jaws target, if you like. So, if revenue is stronger, you'll be at the upper end, and if revenue disappoints, you'll be looking to hold it down at the bottom – is that your thinking there? Thank you.

EWEN STEVENSON: On rates sensitivity above 100 basis points, it's not a question we often get asked, but we're pleased we're getting asked it. If you look, I guess, going back to where we were in 2019, the NIM at the time was 158 basis points. It fell to 120 last year. We lost, I thought, about $7 billion in net interest income. The book – the average interest-earning assets - is bigger than where it was back in 2019. So you're right: in some markets, like Hong Kong, there is a relationship with the prime rate that does start to factor heavily in once rates rise by more than 100 basis points. So, if I were you, I would look at the trajectory of what happened from 2019 through 2021, and then it's not quite analogous because sterling rates are going to be much higher this time. But try to draw some comparisons from that as you do your modelling.

On costs, we're certainly not targeting a jaws number. It's hard to target jaws when you've got rising interest rates and you don't want the benefit of those rising interest rates to get reflected in rising costs. So I think that just highlights that a decent degree of uncertainty is where we are on inflation. When you go out to 2023, we've got the impact of M&A that we've highlighted; there'll also be the one-off IFRS 17, which will take cost down. That's not in our guidance, but you do have to model that. We know that we've got at least $500 million of cost savings coming through from the cost programmes that we're running. We are getting rid of the cost to achieve programme in 2022. It's definitely finishing at the end of this year, so any restructuring costs will be absorbed above the line.

I would say, in addition to that cost guidance – because we're comparing what we call adjusted to adjusted – typically at the moment we're having about $500 million of other cost that would be in significant items, being large litigation costs and, when we sell businesses and stuff, the losses on sale of that. So, in addition to that adjusted cost guidance, typically there's about $500 million or so of other items which will be on top of that.

NOEL QUINN: And, Tom, it's a good question, but, just to put into context, it's hard to predict how inflation will move forward over the next year or two, but there's likely to be inflation there somewhere between no cost increases on a like-for-like basis and $600 million. If you roll the clock back and you rolled in the interest-rate effect that we lost, $7 billion, the 0-2% is relatively insensitive, whether it's 0%, 1% or 2%, relative to what could be $6-7 billion of incremental revenue by that time. And I think what we're trying to signal very clearly is we're not looking to have an explosion in costs just because interest rates are going to come through, and to contain it in the 0-2% range is a reasonably flat cost base relative to what could be happening on revenue.

EWEN STEVENSON: If you look at consensus, as it existed a couple of weeks ago, there was about a $6 billion or 12% increase in revenues from 2021 through 2023, and we're saying we're going to keep cost growth to 2% over that period. And I think 2023 consensus, as it was a couple of weeks ago, is understated, because it hasn't fully reflected the impact of rate rises.

NOEL QUINN: The rate rise in that consensus a few weeks ago is inconsistent with today's curve.

EWEN STEVENSON: So, if you take those numbers, you've got very, very material jaws coming through.

TOM RAYNER: Thank you.

JASON NAPIER, UBS: Good morning. Thank you for taking my questions. The first one is around that revenue growth number that, Noel, you just shared. If I just focus on net interest income, you're annualised in the fourth quarter at $27 billion. 5% loan growth gets you to $28.5 billion and half of the rate gearing which you've given today on a beta that's too high would see NII over $30 billion in 2022, and the same maths would get you at minimum $35 billion or $36 billion in 2023. Ewen, in the past you've helped us with blunt expectations around NII. I'm sure you don't want the market to get too carried away, but it appears to me that on the simple loan growth and rate gearing numbers you've provided that consensus should be substantially higher, $2 billion or $3 billion for this year and maybe $3 billion for next year. That's the first one.

The second question is around the shape of the Group from a capital perspective. Most of the RWA savings work has been done, and yet the TNAV share of Asia is roughly stable at about 42% of the Group. And I just wondered whether the restructuring of balance sheets and the moving of capital around the Group shouldn't lead to faster RWA growth in the years ahead – or was it really more about taking capital out of low-return destinations? So should we be expecting faster growth out of Asia now that that capital has been freed up from its past uses? Thank you.

EWEN STEVENSON: You know I hate forecasting net interest income and NIM, but, anyway, I'll do my best to talk about it. I think, Jason, I don't know in your maths, but you are a bit toppy on 2022. We think that consensus for 2022, which we had at $28.7 billion, was understated, but not by the magnitude that you're talking about. And consensus that was published, average consensus, was $31.9 billion for 2023. We think that is more meaningfully understated.

And I don't know how you factored in things like the continued RWA run-down programme. Because, if you look at what's basically implied with our risk-weighted asset growth this year, if we're talking about mid-single digits, we're saying 3% of that is coming from regulatory change, so call it two percentage points of net increase, which is underlying loan growth, less the RWAs we're running off. So modestly understated for 2022, more materially understated for 2023.

NOEL QUINN: On the share of the Group, I'd probably draw your attention to two slides in the deck, slide 27 and slide 30. Slide 27 is a new piece of information I don't think we've previously disclosed, but what it shows for wholesale banking is the interconnectivity of the Group. So if you look at the percentage of client revenue in wholesale banking that has an international connectivity – those clients that bank with us in multiple geographies – that percentage is 77%. Now, what you see in the report and accounts is where we book it in the legal entity, so you see legal entity booking in Asia and you'll see legal entity booking in Europe and the US, but so much of what we book in Europe and the US is connected to our business in Asia and the Middle East. And what we try to give you in that is, in wholesale banking terms, essentially 77% of our revenue from clients in wholesale banking has some form of cross-border connectivity, but you'll see that revenue booked in multiple legal entities.

So I think your analysis on how much capital is Asia-related relative to non-Asia is a bit distorted when you're looking on a legal entity basis. And if you then go to slide 29, what you see from GB&M is 50% of the revenue booked in the east on our legal entity balance sheets in the east emerges from western clients. So 50% of Greg and Georges' revenue essentially gets booked in the east but originates in clients we bank in Europe, the UK, the US, in the west. And, again, if you look at it purely on a legal entity basis, you'll see European and US balance sheets and say, 'Why are they so capital-heavy?' It's because they are a feeder of business into our operations in Asia and the Middle East.

EWEN STEVENSON: In addition to what Noel's just been through, if you go back to what we announced a couple of years ago about the $100 billion-odd of RWA reduction in the west and redeployment in the east, what we've seen over the last couple of years is a very successful execution of the first part of that, i.e. that we're now in excess of what we started out with, but the redeployment in the east has been slowed down as a result of COVID. So we do think that redeployment rate will now pick up as the Asian economies progressively come out of COVID.

BENJAMIN TOMS, RBC CAPITAL MARKETS: Good morning and thank you both for taking my questions. Two, please. Firstly, your flow mortgage market share in the UK picked up significantly in Q4. Do you intend to keep being aggressive in terms of pricing and growth in the UK?

And then, secondly, you took a top-up of provisions for Chinese commercial real estate in the quarter. Can you just give us some flavour on what you're seeing on the ground in respect of Chinese CRE? And is it still the indirect exposure there that keeps you awake at night? Thank you.

EWEN STEVENSON: So our flow market share in the quarter, I think, was 9.6%; our stock share is 7.6%. I think, as you all know, we still feel structurally underweight in UK mortgages. Our share of current accounts by value, I think, has ticked up to just under 15% now, so we still feel structurally underweight mortgages. I don't think we'd describe our pricing as aggressive. We don't necessarily aspire to be in the top three of the best-buy tables, but we do think we can continue to take market share above our stock share.

I think a notable feature of what we saw in the market, which you'll all be familiar with, is that this was the first quarter for quite a while, I think, where our front-book margins were below back-book margins and have continued to drop a bit in Q1 as well. We've also seen a significant increase in risk-weighted assets for UK mortgages from the beginning of this year. We still think we're earning returns comfortably above the cost of capital at this point, but conditions are competitive at the moment in the UK mortgage market.

NOEL QUINN: And on China real estate, listen, there was no doubt that, in Q4, the level of market uncertainty increased and the level of contagion risk on that whole sector of commercial real estate in China increased relative to Q2 or Q3. And therefore, we thought it wise and prudent to model in additional Stage 1 and Stage 2 provisions to reflect that uncertainty, that refinancing risk and that liquidity risk.

We've seen the market conditions ease a bit at the start of 2022. We think that is likely to have a benefit on the risk position on commercial real estate in China. Time will tell. It's still too early to tell how it will all play out. It's affected pretty much every private CRE client in China. As Ewen said, we have a mixture of private-owned enterprises (POEs) and stateowned enterprises (SOEs) in that sector, around about 30%/70% – 30% SOEs, 70% or so POEs. Time will tell as to whether that sector has more losses coming or not, but we thought it wise to model in some additional provisions, based on that level of uncertainty.

The one thing I will also say is that we still stand by the fact we have good-quality clients that we've known for a long time, operating in Tier 1 and Tier 2 cities, with good properties, but the sector as a whole has a level of uncertainty over it that's affecting all of them.

EWEN STEVENSON: All of that thinking that Noel's just been through is behind our guidance when we've talked about approaching 30 basis points of ECL provisions for this year, which, I would note, is probably more conservative guidance than is in current consensus.

NOEL QUINN: It's the uncertainty over CREs within that 30 basis points.

AMAN RAKKAR, BARCLAYS: Good morning, I would have two, please. One, back on rate sensitivity, one thing that I've found remarkable for a number of quarters now is how low your USD rate sensitivity is, I think, even on the updated deposit pass-through assumption, relative to the $460 billion of deposits, I think, that you can imply from slide 27. Why is that rate sensitivity so low out of the US? Does it imply a lot of hedging? Is there something you can help us understand there?

The second would be on aspirations for wealth management. I note the cautious guidance in relation to Q1. I guess I'm specifically thinking about the border between Hong Kong and mainland China reopening. Is there any way you could help us quantify what the potential benefit could be if we were to rediscover a pre-COVID level of activity for that business? I note it looks like the onshore Hong Kong insurance franchise has done really well last year, so maybe there's a bit of easing there, but anything you can help us put some numbers to that would be really helpful. Thank you.

EWEN STEVENSON: In the US dollar, there's, effectively, an accounting mismatch, which is driving that lack of sensitivity, in the part of the funding base in the US that's used to fund the trading book. So in a rising rate environment, the accounting benefit on the revenue side goes to trading income, so you don't get that normal rate sensitivity that you would expect.

I think, on the border reopening, if you go back to 2019, I think about 40% of our new business sales on insurance were to mainland Chinese, so yes, keep the current profile of the domestic business in Hong Kong and assume going back to 2019 levels or higher as that border reopens.

AMAN RAKKAR: Just on that first rate-sensitivity point, then, is that additional rate sensitivity that goes through non-interest income or are you saying that –

EWEN STEVENSON: Yes, that would be inclusion of that, but it would be low hundreds of millions, I think.

NOEL QUINN: Just on wealth, we covered it a bit in the slide, but I just do want to re-emphasise – because it's such an important plan of our strategy – Asia Wealth – and I'd just draw out some stats. Net new invested assets in our Wealth business were up 22% year on year last year. That's despite a bit of a slowdown in Q4. But for the full year, it was up 22%. Wealth balances were up 5%. The invested assets of Wealth were up 7%. So the net new money was up 22%, but the overall balance sheet of invested assets was up 7%. Asset Management was up 5% year on year. That's full year/full year. And Wealth revenues were up 10%. So that's with a relatively subdued cross-border activity flow that's just driving the domestic market.

What we're also investing in is China. So what we're trying to do is we've got a strong business that we've invested in in Hong Kong. We're now investing in China through the joint venture, taking full ownership of the joint venture of our Insurance and Wealth business there, an organically investing in Pinnacle – 3,000 people over the next few years. So we want to drive stronger domestic growth in China, stronger domestic growth in Hong Kong, and then connect them through the likes of Wealth Connect and Stock Connect. And that's where I think we got the icing on the cake, you can say, when the border opens up. So I think there's still strong underlying growth for the medium term and, although we're signalling a softening in Q1, there's a strong track record of the Hong Kong economy bouncing back and I think that's what will happen at some point later this year.

GUY STEBBINGS, BNP PARIBAS EXANE: Morning. The first question was back on back on income, building on the last question. And thanks for the comments already on net interest income and reflecting on where consensus is. I guess, for other operating income, it sounds like it's going to be a tough start to 2022 and you've refrained from giving guidance for this year on revenues versus the medium-term double-digit guidance. I'm just wondering if your sense is there's potentially a bit of a give-back to the NII upside this year from some of those trends in other income. I appreciate it's very difficult to judge in this environment but any colour there, and would you see that very much as a short-term issue and, indeed, there could be potential catch-up on that line as the environment normalises, so any distortion there is really isolated to 2022? Indeed, your medium-term guidance for other income to be 35% of Group suggests a rapid pace of growth to come through at some point in the future.

And then the second question was on costs. And thanks for calling out that restructuring is going to be above the line from 2023. I think that's a very helpful development. It also goes against what we're seeing at a number of banks in terms of talking about perennially higher restructuring-type costs than maybe we've expected in the past. And in that context, 0-2% cost growth over two years looks like a very good target to hit, if you do, indeed, manage to reach that. I'm just wondering what gives you confidence you can do that, if there are still some investment-type actions. We are in an inflationary environment. Is it just a sense that the amount of run-rate cost saves coming through the business gives you that significant comfort you can deliver that? Thank you.

EWEN STEVENSON: On non-interest income, I guess if I haven't made the same comments versus consensus, that should be a hint. But look, in Q1, we had a couple of things going on. Firstly, we've had weak markets in Asia, which is impacting both the insurance MCU, the market impacts, and also impacting equity brokerage. We've now got about half of the branch network temporary closed in Hong Kong at the direction of HKMA as a result of COVID-19 restrictions. Q1 is typically our best quarter for selling Wealth products, and a lot of that is sold through the branch network. So if we look at what's happened in every other market with Omicron, it's been a three-month thing, and then the economies are reopened again, so yes, we do think it is short-dated in nature and we're not trying to re-guide on 2023 at this point. So yes, I do think there could be some disappointment in Wealth in Q1, but by the time you get back into Q2, with Hong Kong reopening, we should see a really rapid recovery.

If you go back to 2018 – the back end of the year that I joined – we grew costs at about 5.5% that year. We did exactly what we're trying not to do now, which is we were trying to inflate the cost base in line with rising rates. Since then, we've done an enormous amount of work to embed good cost discipline across the organisation in a way that didn't exist three years ago. We've got a very well-drilled cost programme at the moment. I would say the investment that we're making into various parts of the bank in digitisation and automation can drive out huge potential cost savings in some areas. If I look at what I'm trying to do in Finance at the moment, we've got a big move to take all of our reporting into a single dataset on the cloud and run all of our reporting engines off the cloud. We think that can reduce operating costs in Finance by 25-30% over the next three to four years.

And it's the same analogy that Noel used in the front office with the trade transformation that we've done in the last few years. So I think we've got confidence as we look at the combination of those investment programmes going on. In addition, we are continuing to, effectively – if you were to cut our cost structure on a geographic basis, what you see is the costs in mature markets are declining – so Europe, UK, US, Canada – which is allowing us to fund the growth that we want to put on in the Middle East, Asia and Mexico. So it's a complex mix of costs, actions going on across the organisation, but we do think that, based on the work that we've done to date, there's pretty good bottom-up grounding for the cost targets. We don't put them out lightly, because Noel and I know that you'll remind us if we miss them.

NOEL QUINN: So I'd say we got the bottom-up analysis. We got the benefit of a committed three-year transformation programme. Two years into it, we delivered what we said. We'll continue that in year three this year. So it's a combination of bottom-up and, frankly, determination. I want that revenue benefit to go into the return, to go into the P&L, not just to be spent on incremental costs.

And I'm trying to get a much more stable cost base for the organisation over time and not have it cyclical – high rates/high costs, low rates/low costs. I'd much rather have a much more efficient machine that is constantly re-engineering itself, and technology is playing a big role in it. Hence we spent more than $6 million on tech last year and, if you take the guidance, we said that was 19% of our operating costs and we're willing to take it north of 21% of operating costs. If you roll that forward over a period of time, over two or three years, that would take $6 billion up to $7 billion.

So implicit in that incremental IT investment is a re-engineering of our fundamental processes. We saw the impact of digitisation on trade. We're seeing the same thing in the payments arena. We've got a similar programme running on our Wealth business, re-engineering our frontline internet banking capability. Build it once, roll it globally, you get scale globally. So that's what we're working on.

PERLIE MONG, KBW: Thanks for the presentation. Just two questions. One on income – well, loan growth, really. You've delivered 1% loan growth in 2021, so what gives you the confidence that you're going to be able to do mid-single-digit in 2022, given Hong Kong and mainland China are still very much sticking to zero COVID policies, so putting a lid on growth there? And related to that, if you are thinking about mid-single-digit loan growth in a rising rate environment, why are you only targeting mid-single-digit revenue growth, again building on a previous question? So that's on the revenue side.

And then, on costs, you've talked a lot about digitisation and investment in technology. Roughly, what is the split between maintenance spend and innovation spend?

NOEL QUINN: I'll deal with the latter question on innovation and maintenance.

EWEN STEVENSON: On loan growth, I think 2021 was heavily distorted by a couple of things. Firstly, the impact of COVID in the first half of the year, which I think had a significant dampening effect on loan growth in the first half. I think what we've seen coming through now, we've had it in Commercial for some time – just continued quarter-on-quarter loan growth. I think, in Retail, we're seeing very, very good growth in mortgages, both in the UK and Hong Kong. Despite what you refer to in Hong Kong, underlying loan growth there in the mortgage sector continues to be very robust.

But the other big offset is the rundown that we've seen in Wholesale, and Global Banking & Markets in particular, which has dampened that growth rate. But if you look at the Q4 growth rate, I think it doesn't take much to get that growth rate up on an annualised basis to mid-single digits.

NOEL QUINN: The growth in CMB, Q4 to Q4, in Asia loans was 9%. If you take trade, Q4 to Q4, growth in the balance sheet in CMB, I think, was 29%. So what you saw was a slow start in the first half of the year and then a pick-up in the second half of the year. Trade grew faster, earlier than term lending, and term lending started to pick up in the second half of the year. As economies came out of COVID, they first went to reactivate the supply chain and then they went to reactivate some of the term lending. I still think term lending is quite muted at the moment. I don't think there's a huge amount of capital investment taking place, but we're starting to see some early signs of that come through in Q4. I think we just have to wait and see how economic recovery continues in the first half of this year.

And then your other question on how much of the investment in technology is innovation versus maintenance. Listen, the term 'innovation' can mean many different things to many different people, so I don't use that term necessarily for IT investment. What I'm looking at is how of that investment is fundamentally re-engineering the business as opposed to doing care and maintenance on today's systems for regulatory reasons. And I think more and more of our technology is going into the re-engineering space and less into the care and maintenance. We don't give a breakdown on that, but a significant proportion of our investment – circa over 50% – is going into the re-engineering activities of the bank, not just keeping the lights on and maintaining the existing systems. We're investing in re-engineering.

Take trade as an example. We fundamentally re-platformed the whole software base for trade, so we're turning off the old and turning on the new, and that has multiple benefits. It lowers the ongoing running costs of technology. It lowers the ongoing running costs of the bank. It provides new product capability, better customer experience, better operational control. We're doing that in many other areas as well.

Listen, thank you very much for attending today and for all of your interest and your questions. To sum up, I'm pleased with our 2021 performance. I'm particularly pleased with the return to revenue growth in Q4, which I think bodes well for 2022. We've got good cost control and we're determined to maintain it. Based on current interest-rate assumptions, we would expect a ROTE of at least 10% in 2023, and a year earlier than previously planned. We've made good progress, executing against our key areas of our strategy and our transformation. And I'm pleased that we were also able to provide our shareholders with healthy capital returns this year. Richard and the team are available to you if you have any questions but, in the meantime, please stay safe and have a good day, evening, wherever you are. Thank you very much.