HSBC

Transcript

Post-Results FY Event
2023 Results

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GEORGES ELHEDERY, GROUP CFO: Good morning, everyone. Again, thank you for joining us this morning. I just want to share a couple of messages, three in particular, and frankly, make best use of your time so we can move straight into Q&A.

The first one is me sharing all my empathy with all of you, given the very messy, noisy set of results we published in Q4. I know, for many of you, it was 4am, and you had to deal with this in a couple of hours, and there were a lot of non-recurrent items that you had to go through, so genuine apologies, and you have my empathy, because I can imagine only how complicated sometimes these things can get within the timeframes you have to work with.

I also don't want anyone to lose sight that, if you clear out all of these items – we still had an exceptional quarter and an exceptional 2023, where we achieved a return that we haven't achieved in more than a decade. We achieved a PBT that we haven't achieved, probably, ever, and we paid a dividend that we hadn't paid since the financial crisis. So I just want to put this in perspective, which kinds of gets lost sometimes in translation when you're looking at some of these items.

The second one I want to say is banking NII – first, thank you for all of those of you who really helped us transition, but we do realise we haven't probably been clear enough for everyone to be able to cleanly transition. I've taken the feedback, and it's very important for us now that we can get that sorted between now and Q1, and we've taken the action with the IR team to work with you as much as we need to get to a place where banking NII can be established in a way that doesn't lead to any future confusion.

Why banking NII? It's because that's the right way to understand, economically, how our earnings depend on rates. We felt it important that we're able to split our revenue in two broad categories: one which is directly dependent on rates, and that is the statutory NII – plus the funding cost of the trading book, or the offset of the funding cost of the trading book offset. That component has a direct dependency on rates, and therefore, if we really want to understand the dependency on rates over earnings, that $44 billion we called out last year, or the at least $41 billion we're calling out going forward, are the ones that will have that direct dependency.

The residual $21.6 billion of 2023 is essentially much less dependent on it. There will always be indirect correlations, but they have no direct correlation to rates. Half of that $21 billion – so $10.5 billion exactly – is Transaction Banking fees and Transaction Banking other revenue, not related to, say, the value we get from deposits and payments and not related to the value we get from the rate component, so the pure non-rate component of payments, trade fees, foreign exchange, Securities Services fees. That's about half, $10.5 billion of the $21 billion.

Then, about a third – or $6 billion – is Wealth. That's essentially our Private Bank, Asset Management, Insurance and Investment Distribution. Between those two, we're at about $16.5 billion of the $21 billion.

The residual $4 billion-ish comprises everything else that's non-rate dependent, in particular the other trading activities if you exclude foreign exchange, so you really have the fixed income and equities trading activities. It includes investment banking activities, so capital markets is a big component of it, but obviously, it includes other investment banking – M&A, ECM, etc – fees, and it includes bits and bobs.

We recognise that the rest, this $4 billion, you may put a cyclical value to, but not necessarily a growth value to, whereas the first two – Transaction Banking and Wealth – you can attribute a growth value to, because we clearly have a strong ambition to grow these areas: Transaction Banking, because this is our global wholesale network, one of our key differentiators; and Wealth because of all the investments we have been putting in, and because we believe it's a key differentiator. We can talk to that if need be. But those two are growth areas for us which we continue investing in, both in terms of technology and in terms of people.

The third message – and I am also cognisant that many of you want to have clarity on revenue guidance, which we cannot give, and I recognise some others may have given, but I understood some of the arithmetic many of you have done. If I look at the arithmetic you've worked around, you said 'mid-teens' RoTE, which in our language is approximately 14 to 16%. You may have taken 14% as a starting point. You may have then plugged in a cost number and an ECL number, given we gave you guidance for those two items, and then you may have come up with a revenue number, and I've heard $64 billion being quoted a few times.

Without commenting on the number, I just want to follow a little bit further your arithmetic. We guided to 'at least' $41 billion in banking NII, and then, in 2023, adjusted for Canada and France, we made $21 billion in non-banking NII revenue, I'm taking out Canada and France, so $21 billion if you want a base case. If you take a no-growth assumption in non-banking NII, you get $21 billion in 2024 – no growth. If you take the bottom end of our 'at least' $41 billion – you take $41 billion – you get to $62 billion, and then the maths that many of you are squaring up is, 'Where does the $2 billion come from for those guys to be comfortable giving us a mid-teens RoTE, which means $64 billion-plus? Where do these two come from?'

To your judgment, without me commenting on where should they come, we've given an 'at-least' $41 billion, which means we do get comfort in higher scenarios than $41 billion, and the $21 billion is an area of massive investment for us. This is probably one of the few areas where we keep investing. In 2023, just for the sake of comparison, we've grown Transaction Banking 5% to 2022, ex rates – purely the fees, and we've grown Wealth 7%, ex interest-dependent earnings. So therefore, when I take a $21 billion, putting no growth in 2024, subject to market conditions and everything, would be obviously a harsh assessment, because this is an area where we're already proving we can grow, and it remains our strong intention to invest and grow.

And this is where your arithmetic can get you and how much do you believe we can achieve in that space? 5% growth on 2022 – that's $1 billion. 10% growth – that's $2 billion, but then, 'at least' $41 billion – how much upside? We've seen the latest consensus. So you're guessing some of the upside, your views on rates, etc.

Anyways, so your maths, from those that I've heard, can – you can work it this way. Your logic makes sense, and it's then your judgment on how you fill the gaps – your judgment or your best estimate of the market conditions.

I'll pause here. These were the three messages I wanted to say. I'm happy to open it up.

RAUL SINHA, JP MORGAN CAZENOVE: Just staying on NII to start with, on the $41 billion, Georges, how much of the $41 billion would relate to Hong Kong banking NII, that we understand from your messaging is maybe slightly more challenging to hedge, the more difficult to hedge part of the $41 billion?

Then, just trying to understand the rate sensitivity that you show, the updated one, year one, year two, year three, when we think about the hedging policy that you have, I appreciate that there's going to be some hedging that will reduce the rate sensitivity in year one of that period, but when we think about the hedge roll, what is your intention for reducing the sensitivity in year two and year three? Do you think that the year three sensitivity also goes down materially because of the actions you're taking?

Just related to that, why did you feel you couldn't give us the yield numbers on the hedge – I would have thought that's an audited number, so maybe some colour on your thinking there?

GEORGES ELHEDERY: I'll take them in that order. We do reported NII by legal entity. I'm not sure if you can work it out, but Asia for us is about half, and Hong Kong is between half and two thirds of Asia. That kind of gives you a quantum of the overall component of Hong Kong.

NEIL SANKOFF, GLOBAL HEAD OF INVESTOR RELATIONS: So on Hong Kong, you have the full-year NII of just under $10 billion, and then we've said that about 60% of the funding cost of the trading book is in Asia.

GEORGES ELHEDERY: So that's $4 billion, $5 billion, basically. It's Asia, so Hong Kong will be two-thirds of Asia, if you want. You can get to that.

RAUL SINHA: Mid-teens billions.

GEORGES ELHEDERY: Yes. Your second point is on the hedging. First, it definitely is our intention to increase the quantum and the duration of the hedge. We've indicated we've done between $75 and $100 billion of additional hedges in 2023, and it's reasonable to believe, subject to market conditions, we can continue doing the same in 2024. I'm saying 'subject to market conditions' because the rate environment will dictate how much more or less we would do. That probably will take us quite close to how much capacity we have. We may have capacity for twice that much, and that's it, then the balance sheet will be fully stablished, which means we will not have additional capacity.

On the duration, our ambition is to go beyond three years. Our ambition is to target three-and-a-half years, exceeding three years will probably be achievable, and as you already said, it's easier to achieve it fairly quickly in pounds and dollars and euros. It will not be achievable in Hong Kong dollars, so we will always weight. The weighting will always bring the average a bit lower, but in hedgeable currencies, yes, we can get there fairly fast.

One thing I want to say relating to question one and question two is that in Hong Kong a lot of the liquidity is unhedgeable, but you also need to look at Hong Kong in terms of when you're trying to forecast your banking NII in a rate-drop environment. There's a lot of drag we got on the way up from mortgages, because they're capped. The average mortgage in Hong Kong is capped at around 3.25%. In a rate-drop scenario, those mortgages will probably remain at their 3.25% cap, so they indirectly behave like a hedge. We won't call it a hedge today, because this is not a strategic hedge, but it's a de facto hedge, just because you're so deep in the cap that, on a rate drop, you remain in the cap. That fixed rate remains varied, and that gives us protection.

That dynamic is important, and we disclose how much mortgages we have. We practically have half our Hong Kong dollar deposit book in mortgages; anything we may lose on the deposits, half of it will be compensated back in mortgages as long as we're within the cap, i.e. within the 3.25-ish%. You have to bake this into your thinking when you're thinking about a rate-down scenario. It's a mitigant on the way down, as it was a headwind on the way up.

On the yield, we've been fairly recent as a bank in disclosing structural hedge considerations. We obviously have a lot of tools internally to manage it, but we have historically not taken them like some of our peers, frankly. We've not taken them to standards where we felt comfortable disclosing them, because probably historically, we didn't feel the need to do it. We clearly have come over that last year, and we said, 'Look, however much we are happy with the tools we have to manage our own structural hedge, there is a requirement for us to be able to go more public with that information and be able to disclose'.

What we have been doing over the course of the year is take some of the information we have and bring them to standards that we can put out. The bar may be higher for us. I can't tell, but the bar for us is where we feel comfortable. All I can say now is, whenever things reach a status where we feel are disclosable and they will be meaningful for you, then we're minded to disclose that. They need to be meaningful for you, but – so the yield maybe falls in that category.

Obviously, the maturity used to fall in that category. The quantum used to fall in that category. Both of them are over the hurdle now, and this is why we disclosed them. A split by currency used to fall in that category; now that's disclosable. Banking NII sensitivity used to fall in that

category; this is why it was between square brackets back then. Today, it's a firm number that we can stand behind as well.

So we've made great progress. There are half a dozen metrics now that we're disclosing, but you keep asking for more, so we'll take the message.

ANDREW COOMBS, CITIGROUP: One follow-up and then a technical one – so, firstly, on the structural hedge, you actively extended the duration during Q3 and Q4, and in order to do that, you took some treasury management losses. You've talked about further extending the hedge. Is that just because of the new positions that you're putting on, or should we think there'll be more active management and more treasury losses in 2024?

And then the second question is a technical one on the hyperinflation accounting. From what I can see, it looks like that NII charge is booked through the intragroup reconcile, or the bulk of it, certainly, but perhaps you could just clarify exactly where it's been booked in terms of the entities or the group reconcile. Thank you.

GEORGES ELHEDERY: So on your first question, Andy, that acceleration we did in Q3 and Q4 is an arrow in our quiver as a mechanism that we could use, but we have no further intentions at this stage to consider it, and if we think the conditions are right to consider it, we may let you know, but at this stage, there are no plans to do so. The reason sometimes you need to do it, like we did it in Q3, Q4, is that we didn't have enough maturing hedges to accelerate in a quite attractive rate environment, so we then decided, 'Let's accelerate it by taking off some of the existing hedges', but if we have maturing hedges that come along, those could be your natural source of new hedges, so there is no point for acceleration, and the rate environment today is fine, but it's not a cause for us to consider a massive acceleration, just because the rates are in a steady place, quite attractive. So no plans at this stage, but if there are plans, we will let you know, but there are no plans at this stage.

On your second point, it may be you're confusing two things, and let me just clarify. There is an NII reclassification that we conducted, $0.3 billion, which we called cash flow hedge reclassification. In one of our legal entities, there was a misclassification, an error, of where some of these hedges should have pointed to, and that was since the start of the year. We've rectified this and we've taken the full adjustment. It's not a charge. It's a charge to NII, but to benefit to non-NII. It's zero PBT, but it was in the wrong category. We did a one-time correction in Q4, so the impact of $0.3 billion is effectively a full-year impact, of which a portion relates to Q4 proper, and a portion is an adjustment for the three previous quarters. And that charge, you can assume, will not be repeated, because that balance sheet where the error occurred may not be with us anymore starting end of Q1 – not giving more details.

On the hyperinflation proper, which is Argentina-related, the charge to NII we've booked in Q4 was $0.5 billion. The charge to revenue was $0.8 billion, so $0.5 billion plus $0.3 billion, and there was a positive impact on costs of $0.2 billion, roughly. This one is more difficult to say, 'Is it a full year?' It's a one-time event, essentially driven by the massive devaluation that took place following a couple of quarters where there was no devaluation.

It's very difficult to argue how much of it relates to prior quarters, but it is fair to say the following: going forward, the NII from Argentina is $250 million per quarter, where we stand today. So it's $1 billion – of the 'at least' $41 billion, there's $1 billion related to Argentina. That $1 billion, or that $250 million a quarter, will increase as inflation increases, and then will decrease as you face devaluations. The net of the two is difficult to forecast, and therefore, the best guess at this stage is to just use $1 billion. Historically, you have had inflation, and then you had devaluation, and then inflation and devaluation kind of balanced themselves out, but sometimes, they're not in sync.

JON BINGHAM, GLOBAL FINANCIAL CONTROLLER: On your specific question, some of the hyperinflation adjustment is booked in the entity, which refers to the inflation element of it. Some of it is booked on consolidation, and simply, that's the currency devaluation. So you would have seen probably more looking like it's coming through consolidation adjustments, given the December devaluation.

MATT CLARK, MEDIOBANCA: Firstly, a follow-up on the $41 billion NII – can you just confirm that that embeds your 50% deposit beta on interest-bearing account assumptions, or marginal

deposit beta on interest-bearing account assumptions, and if so, whether you think that's a realistic assumption here or not?

And then second question is on return on tangible equity guidance. Usually, the problem with banks is that they give long-term guidance and don't guide in the short term, whereas for you, it's the other way around. You're guiding short-term. What needs to happen for you to have the confidence to guide mid-term? Thanks.

GEORGES ELHEDERY: Thanks, Matt. So, in our forecasting, we apply different betas by currency and by balance sheet, so it's a very, very complex mishmash of betas where we have the best assessment within the jurisdiction where we're looking at it and for the currency.

I think your best guess is, if you want to use an average assessment, 50% is fair. It's difficult to talk to deposit behaviour in a rate-going-down environment, because we just haven't seen how it's going to happen. It is fair that, the last 100 basis points of rate hikes, our betas were closer to 75 to 100%, so our betas were materially higher for the last hikes. From 4% to 5%, most of that benefit has gone to customers, and I know you will have a natural inclination to say, 'Well, then, if you go back from 5% to 4%, you'll take most of it back'. It's difficult to call this out, and this is part of the uncertainties we're facing. As a starting position, that's a good thinking process, but we need to see the competitive pressures on deposits, etc. So your 50% is probably still your best guess in the current environment. On the RoTE –

MATT CLARK: And, sorry, that's an approximation for what's embedded in the $41 billion.

GEORGES ELHEDERY: It's a fair approximation. Look, I can give you a sensitivity, if that helps. A 10% change in beta across all currencies is an annual sensitivity of $600 million. So the $3.4 billion we communicate as 50% beta, your 10% up or down would move it up or down by $600 million on a full-year basis, so then you can do your impact, if it happens in H2, and if it's phased in H2, what it means, etc.

On the RoTE, look, we've taken the feedback. We are minded, but we'll update you in time. For the moment, we're committing to 2024.

MATT CLARK: I wasn't expecting you to guide today. I just want to know what has to change for you to be confident enough to guide. I want to understand the 'why not'.

GEORGES ELHEDERY: Philosophically, when we guided to 12% plus RoTE, we were at single digits. You all took it as clear, aspirational, ambitious, 'We want to work hard to get there'. We are already at mid-teens, so whatever we're going to guide to is going to be more than aspirational. We need to feel that we've done all the necessary work in terms of risk assessment, etc, to put a guidance out. I can understand that others have guided, but they've guided long-term on aspirational numbers. That's a different story when you're already there.

ALVARO SERRANO, MORGAN STANLEY: Just on Argentina, a quick yes or no, hopefully, answer – is the big issue that the devaluation came in the last quarter, and you have to restate the whole previous three quarters to the last exchange rate of the year, and that's what makes it worse? If we get future devaluations made during the year, it shouldn't be as impactful.

Hopefully, that's a quick answer, and then a follow-up on structural hedge for some regional colour – the results – I think earlier you may have given the figure, but I missed it – the results – you were talking about an $80 billion or so increase in the notional hedge as a reasonable number for 2024, and you've been growing it. Can you give us a flavour by regions – because, if I look at your UK NII, it's been growing very nicely, which suggests there's not a lot of hedge there. I think, when you had the UK seminar, there was around a $150 billion hedge in the ringfenced entity. It doesn't look to me like it's grown that much, given the NII growth, so can we infer from that that about a third of the hedge is in the UK, and that broadly makes sense, and where would the growth come from in the hedge? Some regional colour would be much appreciated. Thank you.

GEORGES ELHEDERY: On your first question, the answer is yes, and this is because of consolidation. You're automatically consolidating Argentina at a materially weaker dollar, so you'll see a bigger impact for everything that hasn't happened in previous quarters, so correct,.

On your second question, we can give it by currency, but I think we've given part of it by currency, which kind of gives you a sense of how regions – based on which currencies they're using, but the UK is actually quite well hedged. The UK has taken advantage of the last 12 months to really use the curve levels now to extend the hedge, so I would say the UK is probably – unlike, maybe, your perception, the UK is probably one of the most mature now in terms of hedging at these levels. And obviously, the one that is least hedged is the Hong Kong dollar in Hong Kong, and that's virtue of the structural situation of the market. And US dollar is quite well-hedged, just because US dollar has had a more historical experience of hedging. We can check what we can disclose for the UK going forward, but you should assume that the UK is actually quite well advanced in its hedging strategy.

AMAN RAKKAR, BARCLAYS: I had two questions. One is around Transaction Banking and Wealth Management. Thanks very much for highlighting the year-on-year growth rates. I'm struggling to get a clean read on the actual underlying run rates of those businesses, though, because I guess a lot of your markets were in a version of a lockdown at the beginning of the year, or at least for a decent chunk of 2022. So what do you think is the actual underlying run rate of these businesses as it speaks right now? Even Q1 – sequentially, I can't get a clean read because of seasonality in various lines, but that would be really helpful. I'm cognisant of the fact that your trade balances, I think, turned a corner in Q3, for example, so I think the actual underlying run rate in these businesses is probably have to be a lot stronger than they look like in the numbers that you called out, but please – anything you can give us there.

I did a bad job of asking this question last week, so I'll ask again. Markets is, I think, a bit harder to predict next year, and I know some of this is volatile and episodic and whatever terminology people are using now, but I think the revenue bridge that you're calling out in part will depend on what the market does in 2024, and again, it feels like there's various moving parts there because it's not earning at full capacity, but also, I think Global FX has been coming off a decent period. So can the markets business specifically grow meaningfully in 2024, please?

GEORGES ELHEDERY: First, on Transaction Banking, Covid has not been a major detractor to Transaction Banking because payments and exports continue to happen, even in the Covid lockdown economies such as China. What's going to affect it is some of the trade tariffs, etc, which have created friction.

Now, this can be a positive revenue earner for us because, whereas previously, let's say, for the sake of example, you would have one trade transaction between China and the US, and one foreign exchange underlying it between renminbi and US dollars, and one payment underlying it with maybe a step through Hong Kong, today, trade friction is meaningful – we've published good reports from our economists, which we encourage you to look at. Today, what's happening is that China's exporting essentially to ASEAN, from ASEAN back into US, or ASEAN back to Mexico, Mexico to US, or China to Mexico, Mexico to US. India and others have become the 'plus-one', so it's not only about China-US, but also India-US and India-Europe, etc.

So this friction means, for the end consumer, that getting access to goods becomes a little bit more cumbersome, and obviously for importers and exporters, but for the banks who are serving all these legs of the trade, when one leg has become three legs, one foreign exchange transaction has become three, one payment has become three, so that is a potential source of growth. Now, you add to that the fact that, when you were doing US-China, you probably had every bank on the planet that could service that corridor, because that was *the* corridor. When you're moving China to Vietnam and Vietnam to Mexico, etc, suddenly you're in corridors where those who can deliver the services for payments and FX and trade finance, etc, are materially fewer. So there's also an opportunity for us to gain share, because the fragmented corridors mean you need banks who are present in all these fragmented locations, which is not any more the case with many of the big banks. So there is a multiplication of legs, and there are fewer competitors that can compete on these, so that should be a source of growth.

In terms of Wealth, you, granted, have had in 2023 a jump, because Hong Kong has been a major component – Insurance in Hong Kong and Wealth in Hong Kong – and those have benefitted from the opening of the border in January 2023, and that had driven a lot of the revenue increase. But we're talking revenue increase and ensuring new business CSM increase of 50% plus, so it was a massive increase, but going forward, one of the major pullbacks on the opportunity in Wealth has been the slowdown of the Hang Seng Index in Hong

Kong and the various mainland Chinese indices and equities, and any revival in this space you could equate to additional growth for us, simply because there will be more attractivity from these markets.

So today, for instance, our Investment Distribution, while it's up 2%, the equity component in it was down 50%. It's been up in structured products and mutual funds and bonds and, net-net, it's all up 2% Q4 to Q4 – but the equity component of it is down 50%, so you can imagine how much upside there is if we start seeing normalisation of the equity markets. So that's an underlying growth we can leverage.

Third, the rate differential between onshore China rates and US dollar rates still means that there is wealth that is within what's lawful in terms of wealth investments. There's still a lot of wealth moving from China into higher-yielding products in Hong Kong or Singapore or internationally, if you want – even US dollar – and that corridor is one of our main corridors as well in terms of Wealth growth. So that's another potential for the growth.

In terms of Markets, Foreign Exchange, we count as part of Transaction Banking, because 80% of the revenue is driven by our flows in payment and trade. And that will be highly correlated with our overall performance in Transaction Banking, and we very much cherish that.

Securities Services is also part of Transaction Banking. As you know, our Securities Services business is, essentially, Asia and Middle East. We are the number one sub-custodian in Asia and the Middle East. Again, an attractivity of the Hong Kong and China markets would give us a lift-off in this space. Obviously, India and other ASEAN markets have remained attractive, but there is a clear gap which can be compensated if these markets become attractive again.

And then you have the other trading activities, which is Equities and Fixed Income. Incidentally, Fixed Income depends heavily on our Debt Capital Markets. Usually, when you do an issuance, half of the trading in a given issuance happens in the three weeks after it's issued, and then it finds its way to long-only, or buy and hold. So, if you have a new issuance, half of the trading happens in the first three weeks. If you don't have a new issuance, you're missing out on that. So, if you regain activity in Debt Capital Markets, you regain activity in this space. That will be dependent on the rate level. This is why we believe rates coming down will allow some of these businesses to form.

And Equities, for us, has been Asia and Middle East equities. There was a big drawdown in Asia because equities is a big part of Asian Wealth in terms of equity structured products or other, and that has been also pulled back by the subdued environment. So, do they have potential upside? Yes, they do – for one, from DCM revival, the other one from the mainland China / Hong Kong markets revival – but, in all cases, I'm assuming you're not putting a very high multiple on these revenues, so this is why we haven't been calling it out, but thanks for asking the question.

AMAN RAKKAR: So the Wealth Management piece – there's no reason to think, then, that can't accelerate from that kind of growth rate in 2023. Transaction Banking sounds like it's showing you a run rate. Wealth Management, for the numbers that you've called out and for a number of reasons, could accelerate quite meaningfully in 2024, right?

GEORGES ELHEDERY: There are two reasons. The first one is if we see an underlying improvement in the equity conditions in Hong Kong and mainland China, which is an underlying trend. The second one is the investment we are putting to grow this business. I want to remind you, in Wealth, 60% of our client acquisition to the Private Bank, for instance, is internally generated. It's either referred to from the retail bank or referred to from our wholesale banking activities. So we have a cheap customer acquisition compared to many of our competitors in Asia, and that allows us to, therefore, grow it faster for the same amount of investment than others. This is why it's an area of massive investment for us.

JASON NAPIER, UBS: The first question is about capital returns. So, I think you've been very clear that you think that the buyback capacity is $2 billion in a normal quarter and $3 billion in a longer one. Last year, you did $9 billion. This year, you've got Canada. That's going to give you another $6 billion on top of whatever the organic generation is. The dividend missed consensus on a rigid application of the payout ratio. I just wonder whether, mathematically,

hypothetically speaking, if we were to arrive at more capital than you target, whether we assume 50% again, whether you keep it for later years when organic loan growth might be better – just how do you think about the return of capital and the ways you might do that, or are buybacks the only way to do it?

GEORGES ELHEDERY: I do need to say, because I think it went somewhat unnoticed, because I've heard some say, 'But you did $3 billion last quarter. Why? We were expecting $3 billion'. We announced $2 billion, but this is a quarter of two months. On a per-month basis, that would be the fastest we've ever done, because we did $3 billion for four months – that's $0.75 billion per month – and, previous to that, for two consecutive quarters, we did $2 billion for three months, which is $0.66 billion. So we moved from $0.66 billion per month to $0.75 billion per month. And for this quarter, we're announcing $1 billion per month.

Now, whether we can achieve it or not remains to be seen, but it is the most ambitious on a per-month basis ever. So, for some who were expecting $3 billion, it would have been impossible to achieve in a two-month period. So, I think $2 billion for this quarter is the fastest we would have ever done it on a per-month or per-day basis.

Your maths are correct, and Canada capital returns after the special dividend is correct, and it remains firmly my intention to do a rolling series of share buybacks. Based on our current projections, we have capacity for both growth from our own capital generation and buybacks, and Canada is adding to our capital generation. I look at the buybacks partly as a distribution mechanism in and of itself, and partly as a means to reduce our share count and protect future dividend per share. So, our buybacks so far have yielded 4.6% - $7 billion bought back is a 4.6% reduction of our share count - and you add the other $2 billion and you can do the maths.

There are conditions. Our corporate brokers do the buybacks for us, and they have very strict conditions on how they hit the market. We try to be within 15% daily average volume. If you exceed it, then we're too heavy in the market. We have lockout periods. That could be periods where we're buying shares for our staff, or periods where the share price has gone up too fast. That's a lockout period, then they stop buying back. So, there are limitations that are quite technical in nature, and we just need to see how they manifest.

In terms of dividend, yes, we applied 50% to the dot. We thought, when we shared 50%, we meant 50%, and you expect 50%, so you got 50%. And for 2024, that remains our intention. We have not given a future assessment, but, for 2024, I think 50% plus the special dividend is a fair assumption of what the dividend will look like.

JASON NAPIER: Thank you. And then the second question is linked to the first, which is why I didn't tell you at the outset. And that is Noel, in his explanation around the Canadian sale, emphasised you got a great price relative to where HSBC is trading. You clearly have a very strong balance sheet. In your introductory comments, you mentioned several times that last year was exceptional. It may be a new level for ROTE. Let's hope it's not a one-off. But the question I have is whether HSBC should be buying earnings rather than selling them, given the stage in the cycle, the strength of your balance sheet and the fact that the market doesn't reward opex investment in Wealth or anything else. And so, the things you've done have been very small so far. Is that what we should expect from the firm going forward?

GEORGES ELHEDERY: So look, we definitely continue looking at opportunities to buy – to accelerate our growth in the areas where we decide to grow, so Wealth in Asia in particular would be an attractive area. The way we're looking at it is, first, strategic fit, naturally. Obviously, pricing conditions, etc. But my benchmark internally is, 'Is it accretive to buybacks?' because our investors will say, 'Look, if it's more accretive than the buyback' – $2 billion, $4 billion, whatever – 'if it's more accretive than the buyback, then that's the right thing for our shareholders. If it's not more accretive than the buyback, then probably our shareholders expect a buyback'.

So, it's the benchmark we're putting, but we keep looking. We're looking very actively – in other words, we see a lot of propositions. Our selection criteria are going to be quite tough, because we want to make sure, when we're going for it, there is a very clear justification for it. So yes, we're not ruling out opportunities where we acquire.

PERLIE MONG, KBW: Hello. Apologies for not being there in person. Just going back to NII, thanks for all the guidance for 2024. I think that's reasonably clear. Do you have something in mind in terms of what your sustainable level of banking NII is? Because whether you look at NIM or whatever the bank looks at, in the past the easiest thing to do is look at what happened on the way down and say, 'This is going to happen on the way up and maybe we'll go all the way back down to where they started', broadly speaking, but now you have a structural hedge element to it. Is it as simple as looking at what happened on the way up and then adjust for the reduction in sensitivity? I presume it's not as simple as that, but is it? That's the first question.

Secondly, I guess, is the shape of how you get to that sustainable level, because, in the domestic space, a lot of the upside protection in the second half of this year, and maybe even next year, is the rolling of the structural hedge. But a lot of it was put on more recently, and you don't have a lot of structural hedge maturing at 1%, so would it be fair to think that the profile of banking NII would broadly follow whatever the rate environment is?

GEORGE ELHEDERY: A couple of observations. The first one is, yes, indeed, I don't think you can take history when rates were zero and then moved to 5%. That spread – $10 billion to $12 billion of NII – isn't reflective of how it will work on the way down. And there are two, I would say, major reasons. The first one, you called out, which is the structural hedge. The structural hedge, today, for a 100-basis-point drop in rates, has divided our sensitivity by more than 2, so we're less than 50%, and that should be counted in.

And then the second one is volumes. Clearly, our loan book hasn't grown in 2023 but, in a lower-rate environment, subject to economic conditions, but if it's lower rates because it's lower inflation and a soft landing of the economy, you do then expect balance sheet growth and loan growth, and that will be also a form of a mitigant to a drop in rates. So this is why the dynamic will be quite different than the dynamic on the way up and, rightfully, more mitigated than the dynamic on the way up. So if you want, that's the consideration on NII. Sorry, your second question was on...?

PERLIE MONG: The shape of it – the shape of evolution.

GEORGES ELHEDERY: Yes. Look, the moment we reach a level of comfort to share this, we probably would have reached a level of comfort to give you targets for ROTE in the medium term, so hopefully, one will lead to the other in due course.

GURPREET SINGH, GOLDMAN SACHS: Thank you for taking my question – a very simple one and most likely a follow-up from a couple of questions asked. On top of mind, I also had this capital usage thing from the $6 billion extra post the special dividend on Canada and how likely an M&A. So, will it be meaningful for group revenues if that happens or whenever that happens?

And then a follow-up – is that one of the two big reasons for not guiding for revenues and ROTE for 2025? First is the interest rate outlook from the policy side and, second, whether we have any inorganic or not. Can you think of any others that go into the equation for determining the outlook for next year? If we have an inorganic, would it be meaningful for group revenues in terms of how we are modelling how big will that be, etc?

GEORGES ELHEDERY: Yes. Just following on Jason's question, we will look and we continue to look at M&A opportunities. We've always said we're looking at 'bolt-on' M&A opportunities – and by 'bolt-on', we mean in the billion to a couple of billion dollar opportunities. We've done four over the last two years – or five over the last two years. We've acquired AXA Singapore. We've acquired L&T Investment Management in India. We've acquired SVB UK, of course. We've acquired the Citi business in China. We increased our share in the investment bank in China from 50% to 90%. And we bought back the 100% ownership of our asset management business in China, which we only used to own 50% of. So those are some visible ones. I'm sure I may have missed one or two. Yes, we acquired an asset manager in Singapore as well. So that, in total, is a couple or $3 billion. It's fair, then, to assume we will continue looking at these opportunities.

Now, in terms of outlook for banking NII, the interest rate component is definitely a component we forecast and stress in our outlook. Just to be transparent, we are assuming now, in our central scenario – not in our 'at least' $41 billion scenario but in our internal central scenario,

we’re using three cuts for the US, two cuts for pounds, which is what the market is expecting, and we would stress this a little bit as well. We are not taking into account M&A, especially if it’s material. If there is a material M&A, we have to call it out separately. Equally, we're not taking any material M&A in our ROTE. We will be giving a ROTE exclusive of notables. Therefore, if it’s a material M&A, we will exclude it and we will look at it separately, because it will contaminate too much our internal metrics if we just mix it with the rest and confuse everyone.

NEIL SANKOFF: Thanks very much, everyone. That’s all the time we have, but you’ll have the IR team and we’ll still be here for a little bit after the call. Thanks very much, everyone.

GEORGES ELHEDERY: Thank you, everyone.