

Transcript

2018 Annual Results

Conference call with Analysts and Investors hosted by John Flint, Group Chief Executive and Ewen Stevenson, Group Chief Financial Officer

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John Flint

Good afternoon from Hong Kong, good morning in London and welcome to the 2018 HSBC annual results call. With me today is Ewen Stevenson, Group Chief Financial Officer. I'll start by putting the results in the context of our strategy and broader vision for the bank, before Ewen takes a look at the numbers. I'll finish by talking a bit more about 2019.

In June I outlined eight strategic priorities to get the organisation growing again and create value for shareholders. Those priorities focus on delivering growth from areas of strength – particularly from our Asia franchise. They commit us to redeploying capital to higher-return businesses, and the turnaround of our US business. But they also aim to fundamentally change some elements of the bank so we can compete in the long-term and serve our customers better.

In particular, we are focused on improving our digital services and future capabilities. We are also committed to improving our ESG performance and creating stronger, healthier relationships with all of our stakeholders. This includes all 235,000 people who work for HSBC. Helping our people be at their best is the critical enabler of our business strategy, and absolutely fundamental to delivering our financial targets. If we can do all that – and I am confident we can – then the financial outcomes should be a Return on Tangible Equity above 11 per cent, and a stable dividend.

We made encouraging progress against seven of our eight strategic priorities in 2018. We've accelerated growth from Asia and our international network. We've established the UK ring-fenced bank, grown our UK customer base and increased our UK market share. We've also delivered more sustainable financing and continue to be a leading player in helping clients make the low-carbon transition. The US turnaround is our most challenging strategic priority. We made progress last year but there is still much further to go. We've improved capital efficiency, largely on the back of revenue growth. Our technology investment is improving customer service and making us more competitive. There's more to do, but progress is positive.

On the human side, we've started a conversation throughout the bank about how we help every person who works for HSBC be the best version of themselves. Employee advocacy – our key measure here – is up on 2017. Again, lots to do, but we have made real strides in a relatively short space of time.

These achievements are reflected in our 2018 financial performance. Reported profit before tax of 19.9 billion dollars was 2.7 billion dollars, or 16 per cent, higher than 2017. Group Return on Tangible Equity – our headline target – was 8.6 per cent, up significantly on the 6.8 per cent delivered in 2017. This is a good first step towards achieving our Return on Tangible Equity target of over 11% by 2020.

The area where we've fallen short is jaws – strategic priority six. When I updated you at the third quarter, we were on track for full-year positive jaws. What we didn't know then was that markets would weaken in the last two months of the year, and hit us and many other banks hard on revenue. While costs were on plan at the end of the year, revenues weren't because of market movements in the fourth quarter. I don't take the jaws miss lightly, and our commitment to the discipline of positive jaws has not changed. What has changed is the economic outlook, which has softened since our June strategy update, and even since Q3.

I'll go into the outlook in a bit more detail at the end of the presentation, but what we are seeing is that risk and uncertainty have increased and customers are more cautious. We remain alive and alert to these risks. Where necessary, we are proactively managing costs and investment in line with the softer outlook, and will continue to do so. What we absolutely will not do, though, is take short-term decisions that harm the long-term interests of this organisation. We will continue to invest sensibly and sustainably.

Ewen will now talk you through the numbers.

Ewen Stevenson

Thanks John. Good morning or afternoon all. It's a pleasure to be presenting my first set of full-year results at HSBC, and despite a softer fourth quarter, it's a good set of full-year numbers. John's just talked about the strategic progress we made last year and you can also see this reflected in our financial performance.

Underpinning our business strategy is a clear set of financial objectives. We're targeting growth where we have a sustainable competitive advantage. We're investing both to support that growth, and to accelerate our digital transformation. We're also actively managing our capital base as we transition to higher returns sustaining our dividend, keeping a healthy CET1 ratio and funding our growth aspirations.

A few numbers for full-year 2018: Reported revenues were \$53.8bn, some \$2.3bn or 5% higher than 2017. Reported pre-tax profits were \$19.9bn, 16% higher than the previous year. On an adjusted basis, revenues were up 4% and pre-tax profits were up 3%. Our Return on Tangible Equity was up 180 basis points to 8.6%, and Earnings Per Share was up more than 30%, to 63 cents.

Adjusted loan growth was 8%, while RWA growth was 2%. Our CET1 ratio was 14.0% at year-end, and we've declared a final dividend of 21 cents, representing a stable full-year dividend of 51 cents.

Slide 4 breaks down our full-year revenue performance in more detail. While total adjusted revenue growth was 4%, this masks much stronger underlying growth in the areas we've targeted.

Looking at our four global businesses in turn: Retail Banking & Wealth Management had a very good year with particularly strong growth in Hong Kong and the UK. And in spite of adverse Q4 market impacts hitting revenue in Insurance Manufacturing, adjusted revenue for RBWM was up 8% on 2017, and within this Retail Banking was up 13%.

Commercial Banking had a strong 2018, with adjusted revenue up 12%. We increased revenues in all business lines with notable 22% growth in our Global Liquidity & Cash Management franchise.

In Global Banking & Markets we increased adjusted revenues by 1%. This was largely due to the strength of our transaction banking franchises: Global Liquidity & Cash Management, FX and Securities Services all achieved double-digit revenue increases. This more than covered the impact of market volatility and lower customer risk appetite. On our markets-related franchises, with revenues in Rates, Credit and Equities down materially, overall Markets revenues were 7% lower than 2017.

With Global Private Banking, we returned to growth. While adjusted revenues were up only 4% we see strong potential for this business with material scope to improve both returns and profits in the coming years.

Revenue fell in Corporate Centre. There were several reasons for this, but primarily a combination of: lower Balance Sheet Management revenues, higher interest expense on MREL debt issuance as our MREL stack continued to build, valuation differences on long-term debt and associated swaps and the impact of Argentinian hyperinflation.

In terms of split by geography, our two biggest markets – Hong Kong and the UK ring-fenced bank – both delivered strong adjusted revenue increases, with Hong Kong adjusted revenues up 14% and the UK ring-fenced bank up 7%.

We're also pleased with the growth we achieved last year across Asia, including in the Pearl River Delta and the ASEAN region and in the Americas in both Mexico and Canada.

On the next slide, looking at our Q4 revenue performance in more detail, we were clearly impacted by volatile markets in November and December, compared to a soft Q4 2017. Adjusted revenue in our

Global Markets franchise fell by around \$200m, or 16%, and was down by around \$700m, or 38%, on Q3 2018.

In Wealth Management, revenues were down c. \$250m primarily from adverse market impacts in our insurance business as a result of weak equity markets in Q4. But away from these markets-sensitive revenue streams, Retail Banking & Wealth Management and Commercial Banking both had strong quarters. We grew adjusted revenue by 10% in Commercial Banking compared to Q4 2017. Revenue growth in Retail Banking & Wealth Management was 4%

Overall, Group adjusted revenue was still up 5% on a soft Q4 2017, but down 8% on the third quarter. Markets have been more supportive so far this year, and we've made a good start to 2019 with our Group revenue performance in January ahead of plan.

As John said earlier, we've got a clear strategy to accelerate growth in areas of strength. Slide 6 shows the progress we've made both in terms of our mix of revenues and the allocation of our capital. Asia now accounts for 49% of our total revenues, up from 46% in 2017, and this understates the Asia-centric growth we achieved across other geographies.

If you look at the adjusted revenue split by business, the contribution of Retail Banking & Wealth Management and Commercial Banking increased by 3 percentage points to 68%, in line with prioritising capital towards the higher returns we're achieving from these businesses. In Global Banking & Markets, we're continuing to focus on allocating capital where we see the potential to sustain returns above the cost of capital. All of this together represents real improvement since our strategy day last June.

As you can see on Slide 7, Net Interest Income in Q4 was up 8% on the same period last year and up 8% for the full-year. This was mainly due to a 7% increase in average interest earning assets with a more modest benefit from a 3 basis point increase in our Net Interest Margin.

There are 3 things I wanted to call out on NIM. The first is the improving rate environment, this increased the yield on free funds, benefitting NIM by 3 basis points. The second is the change in how we made our net interest spread. The improved rate environment meant we made less from the asset side and more from the liability side. The third is the excess funding from the formation of our UK ring-fenced bank which reinforced our strategy of building mortgage share by targeting the broker channel. Equally, we needed to build up liquidity in the non-ring-fenced bank, and this resulted in a largely one-off resetting to a lower non-ring-fenced bank NIM in 2018.

Looking ahead to the rest of 2019, for those who know me, you'll know I'm not a fan of guiding on NIM. There are various macro and competitive variables that we don't control as a management team including volatile HIBOR movements. But given underlying loan growth, we continue to expect modest Net Interest Income growth in 2019.

Turning to operating expenses on slide 8: they were up \$1.8bn or 6% for the full-year. While jaws were negative for the year, cost growth was on plan.

In 2018 we made a very conscious decision to step up investment into both growth and our digital transformation, with total investment of \$4.1bn, up 10% on 2017. We firmly believe this is the right thing to do, investing sensibly now for long-term value creation.

As John mentioned earlier, we will not make short-term decisions that jeopardise our long-term competitiveness. But equally, we do recognise the need to be flexible on cost growth and the need to be responsive to the outlook for revenue growth.

As we look out at 2019 we can see that the revenue environment is less predictable. There are idiosyncratic risks to growth in the UK and to a lesser extent Hong Kong and mainland China. The outlook

for interest rate rises has become less certain in Hong Kong in particular this translates more rapidly into NII than other markets.

So we've dialled down the speed of some investment growth for 2019, and we've tightened up on headcount plans, until we've got more confidence that we'll see strong revenue growth coming through.

Turning to the next slide, we had a total ECL charge of \$1.8bn, or some 18 basis points, in 2018. This is not strictly comparable to 2017, given the introduction of IFRS 9 at the start of 2018. To understand ECL trends under IFRS 9 you'll know that you need to split the discussion into two parts: the first being the underlying asset quality and impairment trends, and the second the impact of changing forward economic guidance.

If you look at actual default data, there are very limited signs of deterioration at the moment with only the UK showing some softness in certain corporate sectors. With forward economic guidance, the UK presents unique challenges at the moment. Given this increased UK forecasting uncertainty, we've taken what we consider to be an appropriately conservative additional adjustment of some \$165m in the quarter. This is on top of the \$245m adjustment we made when adopting IFRS 9 on 1st January last year.

Looking forward, we expect credit performance to continue to normalise compared to the historical lows of the past few quarters. No change to how we've previously guided; the lower end of a 30 to 40 basis point normalised range. And, as a result, we are planning for ECL charges to be higher in 2019 and 2020

However, the total ECL charge will be sensitive to forward economic guidance, particularly in the UK, but also to a lesser extent in Hong Kong and mainland China.

I'll finish with a few words on our CET1 position before I hand back to John. No change to our guidance to keeping our CET1 ratio above 14%. Our CET1 ratio was 14% at the end of 2018, down 50 basis points from the previous year, including adverse FX movements of 20 basis points. Just to remind you, the Q4 movement of 30 basis points included the impact of the UK bank levy, and the final dividend of 21 cents.

With Basel 3 reform on the horizon in a few years' time, we'll continue to prioritise a strong common equity tier one position until we have more clarity on its impact. We know there'll be some RWA uplift from Basel 3 reforms, but given continuing uncertainty around final reforms and national discretions, we're not comfortable providing guidance at this point.

Ahead of Basel 3 reform, we're managing competing demands on our CET1 and CET1 ratio. Three core objectives for me: keeping a healthy CET1 ratio, sustaining our 51 cent dividend, including neutralising any scrip take-up over time, and being able to fund attractive growth in areas that we want to grow.

Achieving higher returns underpins managing these competing demands. Our 2020 ROTE target of over 11% equates to a return on CET1 capital of over 13%, allowing for a sustainable mix of dividends and growth. We still see more opportunities on RWA management; last year is a good example of us continuing to deliver on this. We expect some one-off uplifts in Q1: \$7-8bn of higher RWAs on top of net business growth, primarily due to the implementation of IFRS 16.

With that, I'll hand over to John to briefly sum up

John Flint

Ewen, thank you. So we have taken the first steps in getting HSBC back to growth. We are doing what we set out to deliver – growing revenues from areas of strength, using capital more efficiently, and

investing in the future of the business while empowering our people. This is reflected in a good set of numbers for 2018.

As I said earlier, the outlook for 2019 has softened. Uncertainty and risk in the global economy is higher, relating mainly to the UK economy, global trade tensions and the future path of interest rates.

This is yet to translate into higher credit losses, but that could change if the global economy deteriorates further.

We have made a good start to 2019, but we remain alert to the downside risks of the current economic environment, and will be proactive in managing costs and investment to meet any risks to revenue growth. We remain committed to the plan that we outlined last June.

The strategy is working, and the long-term drivers of revenue growth remain strong. The fundamentals of growth in Asia are sound; we expect China to avoid a hard landing and continue growing; and while barriers to trade are increasing in parts of the world, they're also falling rapidly in others – especially Asia. We're also at the heart of financing the low-carbon transition, one of the biggest drivers of global investment this century.

At the same time, we have a business that is diversified, resilient and well-placed to navigate the risks inherent in today's world. So HSBC is in a good position. I am encouraged by our progress and looking forward to the year ahead. We remain focused on growing returns, creating value for shareholders and meeting our Return on Tangible Equity target of greater than 11 per cent by 2020.

We will now take questions. The operator will explain the procedure and introduce the first question. Operator...

That concludes today's call. Thank you for joining us.

Magdalena Stoklosa

I have two questions. One is about the revenues within the retail division, and that's page 5 I will be referring to, and the second one is on NII. So let me start with the page 5. Ewen, could you give us a sense what it would take to reverse some of the negative delta that we have seen within the insurance manufacturing and Wealth Management. Of course, you have talked about the market impact, but of course I'm sure there's also a big transactional impact there as well, so could you give us a sense of how – of the moving parts of those two revenue sources, particularly with the year to date market trends, and what you're seeing in Asia transactionally? So that's one.

And two, I will try to draw you on the NII discussion, because we are – of course there's a lot of moving parts, as you've mentioned in your remarks, but of course year to date particularly they all look more challenging. So we've got the flatter curve, the absolute levels of Hibor, the Hibor-Libor spread, the mix shift, and of course not even mentioning the good old asset spread competition across your key markets. But you still mentioned that you think that your NII is going to grow slightly, but how shall we think about particularly Hong Kong and the UK on – in UK margins in that context of what's been happening year to date? Thank you.

Ewen Stevenson

Okay. Thank you. So I think John's going to take your first question on insurance manufacturing.

John Flint

Thanks for the questions. So page 5, the top bar, the insurance manufacturing market impacts, and then the one below that is the Wealth Management excluding market impacts. So to the extent that there was any lower customer activity, you can read that into the \$51 million number. The big number on top, the \$205 million, is the effect of the PVIF accounting for insurance. So we present value in force

all of the contracts and, in substance, when risk assets fall in value, we take losses through the P&L, and when risk assets rise in value we take profits through the P&L.

The vast majority of that negative adjustment in the fourth quarter, the \$205 million, was driven by weakness in the equity markets, predominantly in Hong Kong. Now – and we do actually describe that sensitivity somewhere. I can't remember which page, but we can point you to that later. Given what's happened to equity markets since the start of the year, I think it's reasonable to read across that a lot of that will have been reversed through the course of this year already, but it still remains subject to any future movements in markets. So it really is market driven and not primarily customer driven. Ewen on the NIM.

Ewen Stevenson

Yes, on NIM I didn't mean to convey that I was overwhelmingly negative on it. I just said I wasn't going to forecast it. The NIM in Q4 was 163 basis points and as we look out in 2019, and you'll obviously be able to run your own numbers on this, we're continuing to see some benefit come through from rate rises in 2018. We continue to see a mix shift going on because we're growing lending faster than deposits, which is obviously beneficial to NIM. In some markets that's clearly the case, like the UK, where we continue to have an excess funding position in our ring-fenced bank. I talked about earlier the fact that we've done the liquidity repositioning in the non-ring-fenced bank that we had to do in the second half because, effectively, ring-fencing created a funding surplus inside the ring-fence and a liquidity deficit outside the ring-fence that we had to address.

We're obviously continuing to build up our MREL stack. That will have some impact on margins. And I'm not going to predict what will happen when asset and liability spreads, but there's a bunch of pluses, there's some neutral factors, there's some negative factors in that, but I think the main underlying driver of net interest income growth in 2019 will be no different to what we saw in 2018. It will be driven by underlying volume growth that we see, and we continue to be reasonably positive about the volume growth that we're going to be able to put on in various markets.

Chris Manners

Thanks very much for your first set of results at HSBC. So just two questions, if I may. The first one is on the net interest margin again. Maybe if you could talk a little bit about the UK dynamics. You know, you obviously have a lot of surplus liquidity in your ring-fenced bank, but then, you know, when we look at some of the offers that you have out there like the 1.6% one-year fixed rate bond, it does look like you're sort of paying up in certain segments. So just maybe to try and understand a little bit more about the UK net interest margin and how you expect that to develop.

The second question was on the sort of revenue outlook. When we look at where consensus is, it's about \$57.5 billion of revenue for 2019. If we look at your revenue you've just printed for the year, the \$54 billion, we reprofile it for current FX, that would probably get you down to about \$52.5 billion. That looks, to me, that you probably need about 10% revenue growth to get to where consensus is. You know, do you think that's achievable? And it's just trying to work out, you know, what parts of the business might be able to grow at that pace and what parts might struggle. Thank you.

Ewen Stevenson

Okay. Well, on the UK, look, I wouldn't overly read into the fact that we have a short-term deposit offer out in the UK market at the moment. We have one of the lowest funding costs in the UK. We continue to enjoy a significant funding surplus. I think we are sensitive to the fact, when we look at future deposit pressures in the UK, the fact that the Term Funding Scheme has got over 120 billion of funding out in the market. We obviously didn't take any of that. That's, as you know, about 3-4 years of funding growth in the UK, so understanding price elasticity is stuff that we'll do every so often. You know, that offer out in the market, at the moment, in totality, has less than a one basis point impact on our net interest margin in the UK.

On the revenue outlook, a couple of things. Firstly, if you look on slide 4 on full-year adjusted revenue performance, you'll see any number of those line items, the red bars, which are volatile items that we would expect some or much of that to turn around in 2019, depending on how much of that you want to take. I think that provides about 2-3% of underlying revenue growth support into 2019. As I said, we continue to be reasonably positive on loan growth in 2019. I think you can run your own analysis on what you think will happen to NIM. I don't think that gets us to close to double-digit revenue growth in 2019, but if you're saying consensus is at \$57 billion, it feels a bit high in that respect, if that's implying 10% revenue growth.

Chris Manners

Okay, that makes a lot of sense. Basically, to get to the sort of lower baseline, to get to that 10% revenue growth I was taking your Q4 FX-adjusted revenues, the ones that you reprofile for the rest of the year, which got me to about \$52.5 billion rather than the \$54 billion reported.

Ewen Stevenson

Yeah, but I think, equally, you probably need to adjust consensus somewhat for FX as well, because I don't think consensus has been adjusted for the same FX, which, you know, maybe you take a billion off consensus for that as well.

Chris Manners

Okay, no, that makes a lot of sense. Thanks, Ewen.

Alastair Ryan, Bank of America

Afternoon, afternoon, welcome. One on Hong Kong and one Global Banking and Markets, please. On Hong Kong, there's quite a material slowdown in both loans and current and savings accounts in the market in Hong Kong. You had good momentum in the fourth quarter, but does that catch you up into Q1? It looks cyclical rather than permanent, but it is quite material, so things are sort of going backwards rather than forwards at present. Is that your experience as well?

And then Global Banking and Markets, was there anything wrong you'd call out in the fourth quarter? I mean, Rates and Credit were very poor and those are naturally volatile items, but they're sort of particularly weak this quarter. Was there anything you'd call out or that was just the market in the round, you're happy with the income mix at GB&M? Thank you.

John Flint

Alastair, hi, it's John. I'll start and Ewen will chip in. We saw very, very strong year in Hong Kong last year: revenues up 14%, really good balance sheet growth. We saw that moderate towards the end of the year. Just checking in with the team early part of yesterday, for the first part of the year it's fine, actually,— so I think your question suggested that there was going to be a drop off into the beginning of this year from where we were last year and I'm not aware that that's what we've seen. But I do think we should expect to see, irrespective of that, a lower rate of asset growth this year than we enjoyed last year.

I think the other thing to note whenever we think about Hong Kong is just the state of the Hibor/Libor basis, which is very wide at the moment. It's at its kind of widest point for quite a while now and there's nothing in the market, other than the fact we're close to the top of the HKD exchange rate trading band, that suggests that that's going to narrow in the short term.

So that's the Hong Kong one. With respect to GB&M, I think it's worth remembering we had a really strong third quarter, and the fourth quarter was weak any measure, but relative to the third quarter it looked extraordinarily weak because we had a great quarter in Q3; much of that was driven by FX. I'm

not sure we got any calls wrong. I don't think there were any big market positions in the fourth quarter that we got wrong. Our results in the fourth quarter stacked up with the other European banks. We're quite a long way behind the American banks, driven mostly by Equities, but our Equities franchise is small relative to the American banks and the American banks outperformed. So I think it was just one of those quarters. I don't think there was anything particular.

Ewen Stevenson

I think the only thing, as you know, Alastair, is that the mix of our GB&M business is different to others given that we have more transactional-related business in there and if you look at the underlying trends in some of the transactional businesses last year, they continued to be very positive. FX, Securities Services, Global Liquidity and Cash Management all had double-digit growth rates. So, while the overall Markets franchise for the full year was down 7%, I think, in terms of revenues, Global Banking and Markets, in totality, was up 1% and Samir and team did that while managing RWAs down by 4% too. So, you know, they did well.

Alastair Ryan

That's clear, thanks very much.

Tom Rayner, Numis

Thank you. Hi, good morning, Ewen. Good morning, John, or afternoon, wherever you are. A couple, please. Just to stick on the NIM, one final NIM question maybe.

I think the Q3 NIM was 169, so that's fallen to 163 in Q4. I think there was also a basis point in there for the hyperinflation, so it would have been 162. That's quite a big drop in the quarter, could you just help us understand how that splits down between the liquidity issue in the UK and maybe some of the competitive issues in Hong Kong?

And then I've got a second question, on the ECL, please. I can give you that now or wait.

Ewen Stevenson

There were a few things going on, in Q4 NIM. There was liquidity build up going on in the non-ring-fenced bank, partly in anticipation of Brexit. So, if anything, we have too much liquidity in the non-ring-fenced bank at the moment and there will continue to be. There was a bit of NIM pressure on the deposit side in Hong Kong and there were slightly lower balances in Global Banking and Markets in some of the Global Liquidity and Cash Management, overdraft products, but the biggest swing, I think, were the first two things I talked about.

In terms of where to from here, I wouldn't view that drop as something we would anticipate seeing in Q1.

Tom Rayner

Okay. Alright, thanks. The second one, when you talk of normalising charge to sort of low end of the 30-40 basis points range, which I think is fairly in line with what consensus expects over the next 2-3 years, have you – when you talk about the ECL charges going through, are you thinking about any additional build up in the coverage on stage one and stage two as things normalise? So maybe something might push the charge higher in the near term.

Ewen Stevenson

You all may not have had the chance yet, but we've provided some additional disclosure on pages 98 and 99 of the annual report.

Tom Rayner

I expect Jonathan is probably looking at that right now.

Ewen Stevenson

You will see in there, you know, what our economic scenarios are for the UK. We've also taken an economic scenario on trade disruption. You know, as we look at – when we guide to higher ECL charges in the next couple of years I think we're just being prudent. If you back out the additional UK overlay we took, 18 points for the full year was about 16 basis points ex that. There's a long way to go from there to get to the low end of a 30-40 basis point range. You know, when we look at the UK overlays, we've got \$400 million in total, which certainly to date is higher than UK peers, even though we've got a smaller book; and if you look at last year's stress test results, actually a less stressed book than others. So we feel that we're being appropriately conservative there, and we can even imagine scenarios in the UK where we get to softer versions of Brexit that would cause us to revisit that overlay and write some of it back during the year. So, yes, they will normalise, but how quickly they normalise I don't know. The only places we talked about earlier that we're seeing any softness, at the moment, in credit is the UK and most of that's not to do with Brexit.

Tom Rayner

Okay. Alright, lovely, thanks a lot, that's helpful.

Ronit Ghose, Citi

Hi, thanks. It's three quick questions, please. Just if I can go back to NIM, so the standalone exit run rate is 162 basis points in the fourth quarter and if – assuming the rates don't change from here, are there any positives that I should be thinking about for the year ahead? I know you don't want to guide explicitly, Ewen, but are there any positives? I can think of lots of negatives that I need to add to the 162 exit run rate, but what are the positives I should be thinking of is question number one.

Question number two is on buybacks. I think you said that you'd like – you were hoping to neutralise the scrip dividend, but can I just – can you just clarify what your plans are on the buyback? That'd be great.

And thirdly, circling back – John, you called out January had started well, how much of this is simply reversal of Markets in the tough end of the year, November, December, going positive in GBM in Q1, or is there anything else you want to call out about January going well? Thank you.

John Flint

Why don't I do the buybacks and then talk about the January / December thing; then we'll come back to Ewen for NIM. I think what we're saying is our policy towards buybacks has not changed. What we intend to do is neutralise the scrip take-up and, over time, use buybacks to keep the share count broadly stable. At this point, I don't want to get drawn into a conversation about the timing of the next buyback, but the policy remains the same and that achieves the same; we want to keep the share count broadly stable over the medium term.

So that's buybacks. With respect to what we've seen in January, I mean, clearly there is some element of revenue slipping out of December into January. Outside of that, I would say January's been a solid month. I think we're seeing lower levels of credit demand in some parts of the Group than at the same time last year, so we note that. I think, for the retail investors in Asia that are a big part of our revenue base, their core investing activity is holding up well, but their equity broking activity is low, for example. So there are definitely some signs that customers' confidence is, in some way, impacted by the trade tensions and the uncertain outlook. But the balance sheet's holding up well – no issues, as Ewen has already indicated, from a credit perspective. And yes, there's definitely some slip of revenues out of December into January in both the Retail business and I think, to some extent, in Global Markets as well.

Ewen Stevenson

On positive things on NIM that I'd point to: we still are getting some benefit from rate rises that happened in 2018. I think we still do anticipate some further rate rises in 2019 albeit at a slower rate than what we may have anticipated one or two quarters ago. We are getting benefit in terms of mix shift going on in several markets. We're growing lending faster than deposits. We've got, as you can see from our liquidity metrics, and we are still pretty liquid in most markets and therefore can continue to sustain that for a while.

The other thing I would say is, I wouldn't do two negatives on top of each other: i.e., if you're going to see margin pressure it's probably because asset quality trends are benign and therefore, you know, take the two together; but if you're going to take a harsh view on margin pressure, then I think you do need to slow down the normalisation of ECL charges as part of that, because the two go hand in hand with each other.

Ronit Ghose

Sure, thanks for that. I just am thinking, I'm circling back to your earlier comment about moderate or modest NII growth, because I've got a 162 exit run rate given – given you started the year in Q1 at 167 or so and then you had rate rises during the year, so if – let's just assume there aren't rate rises from here, then I'm looking at, you know, year-on-year, quite a big delta on NIM, so I'm struggling to get even moderate NII growth. I guess it goes back to what we decide is moderate at that point. It's – yeah, I guess it circles back to what Chris was saying before about consensus looks quite punchy right now on NII.

Ewen Stevenson

Well, again, I'd sort of go back to the fact that we grew average interest-earning assets last year by 7%, NIM expanded by three basis points and we grew net interest income accordingly. You know, the growth in underlying volumes will be a key support for net interest income growth in 2019 and we are positioned in a bunch of markets that are growing. Last year, we grew top line revenues – just as a reminder – in Hong Kong at 14%, in mainland China at 14%, Retail Banking at 13%, Commercial Banking at 12%. There are very few other banks in the UK that are achieving that.

Ronit Ghose

Right, right. No, I mean, obviously you had a strong tailwind going into last year and you started the year strong in terms of volumes and NIMs, but given where we are today, I guess you're looking at more like low single-digit NII growth based on your comments. So you're going to need pretty strong non-NII growth to get to kind of previous guidance of mid single-digit revenue growth.

Ewen Stevenson

Those are your comments, not mine.

Ronit Ghose

Indeed, indeed. Can I have a quick supplementary, just going back to costs? Because I know we don't want to get too hung up on jaws, particularly on a short-term basis, but based on my comments that I just made of low single-digit NII growth and, you know, it's going to be a challenge to get to mid single-digit revenue growth, can you just elaborate a bit more what you're doing on sort of levers you can pull on costs, John, and Ewen?

John Flint

Yeah, sure. So I think it's worth remembering that we start this year in a fundamentally different position with respect to jaws than when we started last year. So we transitioned from 2017 into 2018 moving away from a CTA budget of \$3 billion to zero, so we spent pretty much all of 2018 chasing the jaws

discipline and the plan was to land positive jaws in December and, for the reasons we've just stepped through, we missed it. The way that we've planned this year, we're not going to be chasing jaws. I would expect to see quite a different start to the year, from a jaws perspective.

Now, we are noting that the revenue outlook is a little more difficult than it was at this point last year. So, as Ewen indicated in his remarks, we are phasing some of the planned investments that we contemplated probably 3-6 months ago. We're not changing how we plan to invest or what we prioritise, but we'll phase it and we'll defer some of the spend, so that's what we're doing now, effectively. We'll still be investing more this year, probably, than we invested last year, but the rate of growth will moderate in line with what we see as the revenue outlook.

Ronit Ghose

Great, thanks, John.

Joseph Dickerson, Jefferies

Hi, good morning, guys. Hi. Just a couple of quick things, if I may. Just on the comment around the UK softness, how broad-based is that? One of your competitors who reported last week, very close to your heart, Ewen, who lends to one out of every two corporates in the UK, did not indicate that there was a broad-based deterioration outside of a few single names here and there, so how broad-based is the UK? What are the mechanics between the 165 million, effectively, Brexit top-up and why not 100 or 500? What drives that, the calculation thereon? Number one.

And then, number two, I think you alluded to it, but could you just clarify? I mean, it looks to me like there was just under 400 million in Q4 quarter-on-quarter swing in low-quality revenues, notably in GB&M around Principal Investments and credit and funding valuation adjustments. So, since you've been already discussing the start to the year, could you just discuss, you know, what drove the Q4 result there and how we might think about that as having started the year? Thanks.

Ewen Stevenson

Look, on softness, I would sort of echo the comments from the bank that reported last week. We don't see it as a broad-based deterioration. At the moment, it is quite concentrated on a few sectors, high street retailers, restaurant chains and the like, some of the government contractors, so very, very specific at the moment, not broad based.

The \$165 million charge is, I mean, as you'll know, under IFRS 9, with forward economic guidance we need to construct a set of forward economic forecasts, which we do in our annual report. We then need to probability-weight them. What we've done this quarter because of Brexit, and because it's hard to call a central economic scenario at the moment in the UK, is we've broadened out the probabilities across a range of scenarios. Obviously, the skew is to do the downside and that creates the need for that additional overlay. You can put different probabilities in and, no doubt, as the year progresses we will get to different probabilities depending on the future of the Brexit negotiations.

There were negative credit and funding valuation adjustments in Q4 and there were some swings in Principal Investments, so you should assume that they are not repeated, so far, in 2019.

Joseph Dickerson

Thanks. I guess I'd also ask, John, you mentioned the fundamentals of Asian growth are sound, I think, along those lines. What gives you conviction? What really drives that comment?

John Flint

Well, there's nothing fundamentally that's changed other than, I guess, the injection of trade tensions between China and the US, which are not to be diminished in any way, they're significant and they are

causing customers to pause. But otherwise the demographic trends that underpin Asia's growth, the emerging middle class, the very high savings rates, etc, all of those drivers remain intact and we've got a strategically privileged position for that, particularly in Hong Kong and Greater China. So it remains sound. I think we're looking at slightly lower rates of growth this year in Asia than we saw last year, but otherwise we're talking about another year of growth.

Joseph Dickerson

Great, thanks.

Chris Cant, Autonomous Research

Good morning. Thank you for taking my questions. I just have two quick ones, please. I appreciate you don't want to guide on NIM, but obviously you've made reference to the Hibor/Libor gap. I was wondering if you could just give us a sense of how you think about the sensitivity to changes in that gap, if we do see that move over the course of the year. Just sort of a rough rule of thumb would be really helpful.

And you also talked in your opening remarks about flexing cost growth given the softer revenue outlook. Just looking at your consensus, I think consensus is looking for about 4% cost growth into 2019. Do you think you could do better than that, potentially, given that you just did about 6% cost growth year-over-year into 2018? 4% already does seem to give you some credit for slower cost growth. I'm just wondering how you're thinking about the cost numbers, since that's obviously an area of focus for you. Thank you.

John Flint

I'll do the first one on Hibor/Libor. The Hibor/Libor basis is kind of round about 100 basis points in the one month at the moment and that's as wide as it's been. We either need to see intervention, i.e. the exchange rate move to the top of the band and Hong Kong dollars drain through the system that way. That's going to happen either through FX demand or through IPO activity in the Hong Kong market, which will often create liquidity squeezes. I think we need to see resolution of the US-China trade tensions before we see Hong Kong's China IPO pipeline open back up again. So those are things to watch for.

We do show NII sensitivity in our appendices. For the Hong Kong dollar's 100 basis point uplift, so closing that basis on a – for the full year would benefit us to the tune of 700-800 million US. It's that kind of order of magnitude, so it is material and, at the moment, I don't think that basis will widen from here. I don't think it'll deteriorate, get any worse than 100. That wouldn't be my view. But if it were to close, on a full-year basis it's kind of a \$700-800 million number, as indicated in the tables in our annual report.

Ewen Stevenson

On cost growth, Chris, it's a rare luxury for me, being at HSBC and being able to talk about cost growth; something I wasn't used to in my previous role. So can we manage cost below 4% growth? Yes. I think the trade-off that we're constantly debating internally is, you know, we can continue to pace the growth of investment growth consistent with – and headcount growth consistent with what we see going on in terms of underlying volume and revenue growth. And to the extent we've already started, so far, this year, with a much more prudent view on pace of investment growth and pace in headcount in areas that we want to grow into, consistent with a more uncertain revenue outlook. As that revenue outlook firms up one way or the other, I think, will dictate the pace of cost growth.

Chris Cant

Okay, thank you.

Edward Firth, KBW

Morning, everybody. Just a very quick question, actually back on revenue. There's been a lot of mixed messages about revenue growth in terms of one-offs and in terms of underlying drivers, etc, so can I just ask you a slightly simpler question, which is: if we look into 2019, are you expecting revenue growth to be better or worse than 2018?

Ewen Stevenson

Okay. So I'm not sure that's a simple question, but as I've said, if you look at slide four in our pack and the red bars, I think you could easily convince yourself that there's underlying 2-3% revenue growth just from the reversal of one-offs or volatile items in 2018. Then, on top of that, underlying volume growth and we've spent a long time on this call talking about our confidence in volume growth. And then I spent a long time telling you I'm not going to guide on NIM. So, you take all that together, you get decent levels of income revenue growth in 2019.

I think the other thing we are seeing then is there's two idiosyncratic events out there that we don't control. One is the outcome of Brexit negotiations and the other is the outcome of US-China trade discussions. The deltas around those are not insignificant, particularly around the first one, so we are injecting an element of caution into anyone's ability to forecast at the moment.

Edward Firth

Okay. Yeah, no, I mean, I guess those are – but it sounds to me then, if I'm looking at slide four as a sort of where we end up focusing as the basis for our outlook, that you would expect revenue growth in 2019 to be better than 2018, because you've got a – I mean, – if you took out the reds you'd almost double your revenue growth.

John Flint

Just be careful, because those reds you wouldn't plan for them to be reds in the same way again, but, equally, they could be. So, for example, the insurance manufacturing market impacts, if there is a scenario in which risk assets deteriorate, equity markets correct again through the year, it will be red again. Year to date, clearly it's been positive because markets are up. So it's – I completely understand what you're trying to read from this. Just don't be too mechanical about it.

Edward Firth

No, what I was saying is the reds, I guess, we can accept are un-forecastable, or un-forecastable by me anyway.

Ewen Stevenson

Exactly.

Edward Firth

So we're left with the blues. My impression, from what you're saying, is you expect the blues' orders of magnitude to be not dissimilar this year to last, which sounds quite optimistic to me given the broader environment.

Ewen Stevenson

Was that a question or a statement?

Edward Firth

Yes, that was a question.

Ewen Stevenson

Well, look, you would expect us to be optimistic. But I do think you have got some capacity to forecast the blues, so we're not going to forecast it for you.

Edward Firth

Okay. Thanks so much.

David Lock, Deutsche Bank

Afternoon. I've got a couple of things and then a clarification. The first one, just on the loan growth expectations, apologies if I've missed it on the call but you previously pointed to mid-single digit growth, but you're talking about some headwinds for that on this call. I just wonder if you could clarify whether you're still – that's still the medium term target, to have mid-single digit loan growth within the organisation. And then secondly on the January comment, I'm conscious that the first quarter last year was particularly strong in Wealth Management. I wonder if you could give any further colour on the revenue trends you're seeing, and which areas have been particularly strong in January, as it would help frame how we're thinking about cost yields in the first quarter of the year. And then the final clarification, really, just on the scrip there was a lower scrip take out in 2018. Would it be prudent, therefore, for us in the market to think about a lower buyback as a result from that, or are you really thinking about buybacks as conforming to the average scrip take out, which has been, I think, of around 25% of the last few years? Thank you.

Ewen Stevenson

On the last one, we think of our commitment as being neutralisation, so if it is a 15% scrip take out, we would think of lower numbers, obviously. On loan growth, Q4 was just over 5% annualised, which gets you into your mid range. I think depending on economic scenarios we can get more bullish than that, but depending on others we'll see. As we keep referring to, our two biggest markets, Hong Kong and the UK, and the UK in particular is facing some quite broad economic scenarios at the moment, so difficult to predict.

John Flint

On the Wealth Management, I think probably just three things to think about. One, markets have been favourable so far, so the red bars, there'll be some reversal of that. In terms of underlying cost of our activity, I think I indicated earlier the core savings activity, mutual fund investing, insurance policy investing, that's holding up really well. Where we've seen customers a little bit less active is in things like Foreign Exchange and Equities, which are smaller pieces of the revenue pie for us, but there's definitely lower customer activity, indicating, I think, lower cost and/or confidence or an inability to decide what the trend in equity markets is. So we've definitely seen that to date. Six weeks in, though, it looks okay at this point. Still looks reasonably solid.

David Lock

Okay, thank you.

Martin Leitgeb, Goldman Sachs

Good morning, Ewen, John. Two questions from my side. The first one on growth and just the mix of growth going forward. In light of the weakening global growth outlook, I was just wondering if your expectation of the growth mix, in terms of geographic mix, where the growth comes from: obviously, previously, you mentioned Hong Kong, Asia, the UK, or in terms of product and here in the split between loan growth and maybe Wealth Management. But anything that's changed in terms of your expectations, how the contribution of that growth stacks up. And the second question, related to that, in terms of UK ring-fenced bank, obviously we saw a nice acceleration of loan growth, I think in particular in the second half 2018, and I was just wondering has that reached now a static state level in terms of your growth in

business from here, or could that be one of the levers, potentially, to compensate some weaker growth elsewhere as market uncertainty clears or reduces over time? Thank you.

Ewen Stevenson

On the UK, if we choose to grow in the UK we continue to think we've got the capacity to take share, both in retail and in commercial. As you all know, we were not a significant player a few years back in the broker mortgage channel, which is about two thirds of all mortgage origination. We've rebuilt access to the brokers. Last year we grew mortgages in the UK by about 10%. We shifted stock share from 6.1% up to 6.6%. We've got a low double digit share of current accounts. We can continue to take decent share, which is if we choose to continue to take it. And similarly in commercial, we do think that we've got an advantaged position in relation to customers who want to trade internationally. So under whatever Brexit scenario you come up with, we do think that we've got a set of core competencies that will advantage us relative to others. On geographic mix, product mix globally, I don't think we're trying to signal any significant change in terms of how we're thinking about the business, where we think growth will come from. Just to repeat, we've clearly got areas where we are competitively advantaged: UK, Hong Kong, Asia, international trade and the like. You saw that in the growth that we achieved in 2018. No reason to think that we're not going to continue to be advantaged in those areas and be able to continue to take share.

John Flint

Very good. Thanks, Martin, for the question. And thank you all for dialling in. That's the last question I think we've got on the list today, and I think we're out of time as well. So to all of you who dialled in to be with us, thank you very much for your time. And any further questions, let us know. The team will do their best to help with any answers.

Ewen Stevenson

Thanks a lot, everyone.

John Flint

Thank you.

Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Interim Report. Past performance cannot be relied on as a guide to future performance. This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at www.hsbc.com.