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Investor and Analyst Call
Q1 Results 2021

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Good morning in London and good afternoon in Hong Kong. I've got Ewen with me today and I wanted to start by sharing on screen our purpose, ambition and our four strategic pillars: the focus on our strengths, to digitise at scale, to energise for growth and to lead the transition to net zero. I will return to these in a moment, but first I'll run through some highlights before Ewen takes you through our financial performance.

We've had a good start to the year. I've seen excellent energy within the business, strong collaboration and a determination to get things done for our customers. I'm very grateful to all of my colleagues for the way they've managed growing demand since the turn of the year and for the single-minded way they've helped our customers to capture both present and future opportunities. There are many parts of the world where the pandemic remains a very real part of people's lives. Our thoughts are with the people of India in particular and we're working hard to support our colleagues and customers in India through this very tough time.

In terms of our financial performance, our good performance, supported by a net release of expected credit losses, delivered reported pre-tax profits of $5.8 billion, which were up 79% on last year's first quarter. We strengthened our lending pipelines across our Personal and Commercial Banking businesses, which bodes well for our future revenue. Our cost and RWA programmes remain on track, with $443 million of quarterly cost-programme savings, and $9 billion of gross RWA savings in the quarter. We retained a strong capital ratio of 15.9%, with further growth in both deposits and lending.

Pointing out a few highlights on slide 3, a combination of our digital campaigns and growing customer confidence saw strong credit card sales growth in Hong Kong. We saw good mortgage growth, with drawdowns up 60% in the UK and 37% in Hong Kong. Our wealth strategy got off to a strong start, with 23% growth in overall wealth balances. We attracted $13 billion of net new money into Private Banking in the quarter and $11 billion of net new money into Asset Management. We saw good loan-volume growth in Commercial Banking and month-by-month increases in lending approvals, with nearly double the approvals in March of any one month in 2020. Global Banking and Markets had a good quarter, supported by strong customer activity in capital markets. We led more than $567 billion of capital markets financing across global debt and equity markets and syndicated loans, including around $40 billion of social and Covid-19 response bonds, which is around 29% of the total market. This was a global performance, with good profitability in all regions, and growth of $3.2 billion in profits booked outside of Asia compared with last year's first quarter.

Moving to slide 4, I said in February that our growth and transformation plans were already in motion, and you can see the evidence of that here. Under Focusing on our Strengths, we've already grown Wealth balances in Asia by 18% year on year. We've grown our Asia Wealth FTEs by more than 600, including around 100 new client-facing wealth planners in mainland China, and we've grown trade-finance lending in Asia by around $3 billion, mainly in China and Hong Kong.

Under Digitise at Scale, we started to integrate our market-leading PayMe app in Hong Kong into merchant checkouts, and officially launched HSBC Kinetic for SMEs in the UK, with around 6,000 customers already signed up.

Under Energise for Growth, we're applying all that we've learned through lockdown, combined with our digital investment, to improve the way we work. We're moving to a hybrid model wherever possible, giving our people the flexibility to work in a way that suits both them and their customers. We will need less office space as a result and we have a plan to reduce our global office footprint by more than 3.6 million square feet, or around 20%, by the end of 2021. We're also relocating three of our global business CEOs to Asia on a permanent basis, taking them closer to our customers and to the core of our business.

On the transition to net zero, we've published details of the climate resolution that we'll put to shareholders at our AGM in May. We are one of the founder members of the Global Net Zero Banking Alliance that launched last week. We maintained our leadership position in sustainable finance, following a record quarter for global ESG bond issuance, and we're piloting a new tool in the UK to help SMEs better understand their ESG performance and to prepare to take action.

It's early days, but we're carrying good momentum into the second quarter. Ewen will now take you through our results.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel, and good morning or afternoon, all. We had a good quarter against a backdrop of ultra-low rates; reported post-tax profits of $4.6 billion – that's up 82% on last year's first quarter; and an annualised return on tangible equity of 10.2%. Adjusted revenues were down 3% on last year's first quarter, largely due to the impact of ultra-low interest rates, but there were notably good performances in some segments, including Asia Wealth in Wealth and Personal Banking, Asia Trade Finance in Commercial Banking, and Capital Markets and Advisory, Global Debt Markets, and Equities in Global Banking and Markets. Relative to the first quarter of 2020, adjusted revenues also benefited from the reversal of negative insurance market impacts and Global Banking and Markets valuation adjustments.

Expected credit losses had a $435 million net release. This reflects both an improved economic outlook for our central scenarios and, in the UK and the US, lower probabilities attached to downside scenarios. Operating expenses were up 3%. This was due to a shift in variable pay accruals to reflect quarterly profitability. We remain on track to deliver our target of broadly stable costs for the year ex the bank levy, subject to final decisions on the variable pay pool later in the year. Lending and deposit balances were both up 1%, with confidence in higher loan growth in the remainder of the year. Our common equity tier 1 ratio remains stable at 15.9%, and our tangible net asset value per share of $7.78 was up three cents on the fourth quarter, with retained profits more than offsetting negative reserve movements.

Turning to slide 6 and looking at first-quarter adjusted revenues across the three global businesses, in Wealth and Personal Banking revenues were down 1% on a year ago, Wealth Management revenues grew by just under $1 billion due to the turnaround in insurance market impacts from a big loss last year, and a good performance in equity and mutual fund sales in Hong Kong. Personal Banking revenues fell by $890 million, due to the impact of low interest rates on deposit margins. Commercial Banking revenues were 14% lower, due mainly to the impact of low interest rates on Global Liquidity and Cash Management, but with a good bounce-back in trade balances in the quarter and growing confidence in the lending pipeline for the coming quarters. In Global Banking and Markets, revenues were up 10%, with strong performances in Global Debt Markets and Equities, up 52% and 55% respectively, and Capital Markets and Advisory, up more than 100%. Just to remind you, we've no significant exposure to SPACs, where some peer banks benefited from exceptionally high activity levels in the first quarter.

On slide 7, net interest income was $6.5 billion, down 14% against the first quarter of 2020 on a reported basis. On rates, the net interest margin was 121 basis points, down one basis point on the fourth quarter, primarily reflecting the fall in HIBOR during the first quarter. On volumes, we saw continued good volume growth in mortgages in both Hong Kong and the UK, and strong commercial applications that we expect to translate into volumes in the coming quarters. Looking forward to the remainder of the year, despite some continuing rolling impact of last year's shift in interest rates, we expect volume growth to support net interest income at levels broadly in line with the first quarter.

On the next slide, non interest income was $6.8 billion, up 15% against last year's first quarter, but noting last year was negatively impacted by volatile items due to Covid-19. Overall, non-interest income stabilised in the quarter compared with falls over the previous three quarters. Wealth and Personal Banking, and Global Banking and Markets benefited from higher volumes, better equity and mutual fund sales and stronger capital market activity. FX revenues were down year on year, but this was still a good performance against an exceptional first quarter of 2020. Commercial Banking was down slightly, reflecting lower trade and payment volumes, due to the continuing impact of Covid-19 on activity levels. Looking forward, we expect customer activity and fee income to continue to recover as economic activity recovers, although this remains subject to the impact of new Covid-19 variants and the continuing success we've seen to date in the rollout of a global vaccination programme.

On the next slide, we had a net release of $435 million of expected credit losses in the quarter. This compares with a £3.1 billion charge in the first quarter of 2020. The net release was across all global businesses and reflected an improvement in the economic outlook, notably in the UK, including the reduction in downside probabilities. Last year's first quarter included a large charge related to one single-name corporate exposure in Singapore, but this year's first quarter was still very benign for stage 3 charges, particularly on the wholesale side. We're retained ECL uncertainty overlays of $1.5 billion, broadly the same as the fourth quarter, recognising the risks that still exist from the pandemic. But based on the current economic outlook, we now expect the ECL charge for the full year to be below our medium-term through-the-cycle planning range of 30-40 basis points.

Turning to slide 10, first-quarter adjusted operating costs were $220 million higher than the same period last year. This was driven by higher performance-related pay accrual of $474 million, primarily due to a shift in accruing a higher percentage of variable pay this quarter relative to the first quarter of 2020. We made a further $443 million of cost programme savings in the quarter, with an associated cost-to-achieve of $319 million. To date, our cost programmes have achieved annualised saves of some $2.2 billion against our target of $5-5.5 billion, with cumulative cost-to-achieve spend of $2.2 billion. We're not softening our vigorous approach on costs. We continue to expect our 2021 costs to be broadly in line with 2020, excluding the benefit from a reduced bank levy. This is subject to final decisions on our variable pay pool later in the year, which will be primarily driven by the pre-tax profitability of the Group.

Turning to capital on slide 11, the impact of profit generation in the quarter was offset by fair value movements and other deductions, including around 10 basis points for foreseeable dividends. As a result, our common equity tier 1 ratio was unchanged at 15.9%. In line with our shift to a payout-ratio approach going forward, the deduction for foreseeable dividends was based on one quarter of the 2020 15-cent dividend. We expect to make the same capital deduction in the next two quarters, based on the same trailing-dividend assumption. But to be clear, we're not signalling with this our 2021 dividend intentions. Excluding FX movements, risk-weighted assets fell by $6 billion in the first quarter, due to changes to our portfolio mix, and methodology and model updates. To remind you, we do expect some common equity tier 1 headwinds going forward from regulatory changes. These haven't changed from the full year.

So in summary, against the backdrop of ultra-low interest rates, this was a strong quarter for us, our best in reported profits since the onset of Covid-19, and an annualised return on tangible equity of 10.2%. While the results were flattered by a net release of ECLs, we saw strong performances across various parts of the bank, with continued strength in Asia, despite the impact of a very low HIBOR, and a material recovery in profitability outside of Asia. As we look out, there remain heightened levels of uncertainty, particularly driven by the continuing emergence of Covid-19 variants, so expect us to retain a conservative position on capital funding and liquidity for the time being. However, based on the first-quarter performance and the strengthened economic outlook, Noel and I are more optimistic about this year, albeit cautiously, than we were at our full-year results in mid-February. With that, we will open up for questions.

ED FIRTH, KBW: Good morning, everybody. I just had two questions. The first was on capital. I was surprised that the capital ratio wasn't stronger, given the earnings beat and risk-weighted assets falling. I just wondered if you could give us some more colour around 'Other' movements – I think it was a minus-40-basis-point hit in the chart – exactly what's driving that and how we might expect that to progress going forward.

And then the second question was restructuring charges seem to be running some way lower than you were perhaps informally guiding to at the full year. Should we expect those to pick up during the rest of the year, and can you give us any colour on how that might end up?

EWEN STEVENSON: On restructuring charges, we're not changing our full-year guidance we gave at full-year results. You're right: Q1 was unusually low, so yes, you should expect those to pick up as the year progresses. On capital, a few things: there were deductions for fair value reserve movements on cash flow and negative FX movements. There was a higher deduction for BoCom as its profits increased and, again, note that we talk about a 10-basis-point deduction for the foreseeable dividend, which is new for us, but represents a change in policy because we've shifted to a payout-ratio policy.

ED FIRTH: Based on what we can see, the bulk of those sound to me like they're peculiar to this quarter?

EWEN STEVENSON: Yes, they are peculiar to this quarter.

FAHED KUNWAR, REDBURN: Morning. Just a couple of questions. The first one is on margins. You gave colour on this, Ewen, during the call, but they're down in all your major regions. Just to understand, how much of that is lower rates feeding through – previously lower rates and slightly lower HIBOR? And is there anything on competitive pressure that's pushing those margins down or is it all about the background yield curve and rates?

The second question is just on the writeback. It does look like a lot of the writebacks were in the UK, particularly UK commercial – a) Is that right? Were they mainly UK commercial? And b) what did you see that was driving that? Was it an outlook on the vaccine rollout or was it specific data points that you were seeing on the UK corporates or UK personal, if that was the case? Thank you.

EWEN STEVENSON: On NIM, it was, I think, almost exclusively driven by the shift in yield curves. We've broadly repriced all of our liabilities now. And on the asset side, we're seeing some opportunity for margin expansion. So for example, in the UK, we increased margins to try and slow down some of the inflow that we were seeing, and we have, for several quarters, seen some opportunity to reprice in Asia on the commercial side, so we do think that we are now close to troughing on NIM. HIBOR clipped it a little bit further in Q1, but as you know that translates very rapidly into the books, given the short-dated nature of assets of liabilities in Hong Kong. And for net interest income, loan growth in Q1 was mid-twos percent, and we're signalling that we expect mid-single-digit growth over the full year, so that does imply much higher growth rates and lending volumes in the remaining three quarters, which we've got confidence in, given the pipelines that we can see, which should help support net interest income over the remainder of the year, even if there is still some residual NIM pressure coming from the roll-off of books as a result of last year's interest-rate shift.

On writebacks, you're right. There was a larger writeback in commercial, particularly in UK commercial. I think. In part, that reflected the very large reserve build-up that we had last year. Overall, there were various things going on which made this an unusual quarter for us. Firstly, we had very low stage 3 losses of around about $300 million or so in the quarter, which was unusually low, we think, And secondly, on stage 1 and stage 2, two things, really: an improvement in our economic forecast for central scenarios in most places that we do business, coupled with, as you know, we went into the full year with very large probabilities, particularly in the UK, against downside scenarios, which we have reduced on the back of a very successful vaccination programme here. We're also seeing that in the US and we would expect to see that in other markets as the vaccine programmes ramp up elsewhere.

OMAR KEENAN, CREDIT SUISSE: Good morning. Thank you for the questions. My question is that, with the Wealth and Personal Banking rationalisation in France and the US, I was just wondering what the appetite might be to use released risk-weighted assets to potentially exit capital to add portfolios in your other markets where it might make sense. I'm noting here that a large global bank has put up consumer balances for sale in about 13 markets. So I was just wondering what your view is of where markets might overlap in those geographies and where HSBC might think it makes sense to be bigger rather than smaller. Thank you.

NOEL QUINN: Omar, thank you. As you know, our primary focus in the WPB business is to grow our Wealth part of that business and, therefore, we are looking at opportunities for both organic and bolt-on, inorganic opportunities, but it's primarily focused on wealth businesses, either acquiring product or distribution capability in wealth management, in insurance, in private banking. That's the primary focus, rather than just a geographic expansion of retail banking capability. So we're more focused on that for opportunity. And it will be Asia-based, largely.

OMAR KEENAN: So essentially, the way that we should read that is that there's going to be no balance-sheet bolt-on M&A that would consume any excess capital. It's really just you're focused on an organic strategy –

NOEL QUINN: Well, we would use capital to do an M&A deal, but what we're buying is less retail banking assets and more wealth management capabilities. So we will use freed-up capital if we see bolt-on-acquisition opportunities. But as I say, it's more around wealth management capabilities than it is retail banking capabilities. We will look at opportunities as they emerge.

EWEN STEVENSON: Make sure you listen to the word 'bolt-on.' We're not planning anything substantive. So will it eat into some of the excess capital? Yes, but it will be relatively modest, if we choose to do anything.

OMAR KEENAN: Could I maybe just ask a follow-up on that? So having said that, and just bearing in mind your comments from last quarter around not to expect buybacks this year, could you perhaps paint the path for us towards returning excess capital which HSBC is clearly building?

EWEN STEVENSON: So I think we've been clear on our distribution policy and certainly our dividend policy. We said we're going to shift to a 40-55% payout ratio from next year. That's going to be all cash. This year, we're going to transition towards that. We were close to an 80% payout ratio last year. We do expect, subject to seeing how the second quarter goes, to be in a position to pay an interim dividend in the middle of the year and then re-evaluate whether or not we'll shift the quarterly dividends at the end of this year.

On buybacks, we continue to have no current intention to do buybacks this year. You know that we've used buybacks in the past, so they're certainly something that we do actively consider as a tool of capital management, and we are committed to active capital management. We do think at the moment that, when we look at consensus versus where we are, we do see RWA growth probably being a tad higher than is in most people's models. We see loan growth being fuller than I think all of you currently are modelling. That's on the back, I think, of very strong growth what we continue see in mortgages across the UK and Hong Kong, a commercial pipeline that is building nicely. And just in context, in one of the slides, you'll see that our commercial pipeline is running close to 50% higher than it was in Q4 in Q1. And we do think other segments like consumer credit will bounce back as we recover out of Covid.

There are about $20 billion of regulatory headwinds that we see this year. Offsetting that is the $30 billion or so of RWA rundown that we expect. We're making good progress on that. We did about $9 billion in the first quarter. And the last thing is we're still cautious on credit-rating migration, particularly as some of the government support packages roll off here in the UK, for example, as furlough rolls off and what impact that has on credit later in the year. So yes, we are probably slightly more cautious on capital and excess capital than would be in your numbers at the moment.

TOM RAYNER, NUMIS: Good morning, both. Just two questions, please. First, on credit quality, you released $0.7 billion from stage 1 and 2 reserves in Q1. I think you flagged $6.8 billion still left on balance sheet. Your guidance, if I take the bottom of your range of 30 basis points, below would suggest a full-year charge of somewhere around $3 billion or lower. I just wondered: that guidance in itself, what does that imply in terms of further stage 1 and 2 releases for the rest of 2021? Then I know you've already touched on this – I was going to ask you to then expand on your thoughts about when the government programmes actually do end. What are your thoughts on releases over a two-to-three-year period? That was the first question and I have a second one on costs, please.

EWEN STEVENSON: On ECLs, I said in my opening remarks that we've retained uncertainty overlays of about $1.5 billion, so we think we're retaining currently about 70% of the reserve build-up in stage 1 and stage 2. If we were to stick to the central economic scenario, I would think you would see some of that get released this year, maybe some of it get released in the first half of next year. I think we're going to continue to be pretty cautious about how we do release. We're not expecting a repeat of Q1 in terms of further ECL performance during the remainder of the year. And there still is a pretty broad array of outcomes, I think, depending on how we progress out of Covid. And there are a few risks on the horizon, particularly around new variants and whether any of those become vaccine-resistant. So where we land below 30 basis points, we'll see, but you should assume that, within that, we're confident that we will end up below 30 basis points.

NOEL QUINN: You know as well that it's important that we adopt a cautiously optimistic approach to reserves and the way the economy will develop. We're optimistic, we're seeing good signs, but it's still relatively early days for the vaccination programme, and that's why we've wanted to retain around 70% of the provisions that we created last year. We've had a very good stage 3 quarter in Q1, with only $300 million of stage 3 charges. That's below the normal trend line that one would expect. So I think it's right to be cautiously optimistic and continue to position the balance sheet cautiously.

TOM RAYNER: I think I was possibly leaning to 'Are you being too cautious now?' but I completely get the point about the uncertainty over government programmes and vaccines.

NOEL QUINN: As the year develops, we'll adjust on a quarterly basis our view of what the future holds.

TOM RAYNER: Just on costs, your comments on 'broadly stable for the full year barring further performance-related issues', if I looked at last year and I just took Q1, it was a very neat 25% of the full-year total ex the levy. If I annualise Q1 this year, I'm looking at 3% growth. I'm just trying to get a feel for where your confidence is coming from. Is this just incremental cost savings or are you really building in an expectation that this performance-related pay is going to push us away from that broadly stable? If it is performance-related, that's not a bad thing either, necessarily, but I'm just trying to get a feel for how confident you are, really, on that broadly stable target.

EWEN STEVENSON: So in the first quarter, there was about a £300-400 million adjustment due to us taking a higher accrual for variable pay compared to Q1 last year. So I think, if you back that number out, what you'll see is that we were broadly flat costs in the quarter, and you would expect the variable-pay accrual, other things being equal, to be a few hundred million dollars lower for the remaining quarters of the year, which I think gives you confidence in that statement.

All we're signalling on the variable-pay accrual – I think, what we saw as part of the full-year results, as you will all know, there was a very different approach across the sector in terms of performance pay. We took our pool down by close to 20% for the full year, but we saw some peers, particularly US peers and particularly some European peers who were concentrated on the wealth and investment banking space, pay in very different places. So we're just cognisant of the fact that, for competitive reasons, we may need to top up our current pool assumptions as the year progresses, but that would only be done in the context of improved profitability. But absent that change – and, again, in context, we paid about $2.8 billion in variable pay last year, so you can do your own maths and size what that risk is, but absent that, we're very confident that we're on track to deliver broadly flat costs this year. And I would stress there's no change at all in the internal management focus on the cost programme.

GUY STEBBINGS, EXANE: Morning, afternoon, everyone. Thanks for taking the questions. I have two. Firstly, on RWAs, and then just briefly to come back on costs. I just want to check on the RWAS and your commentary that you see RWAs being higher than consensus. Is that a reference beyond 2021? As we look at Q1, quite an encouraging quarter, if you take the FX and gross saves, so given where we start Q2, further gross saves to come, it didn't strike me that consensus looked particularly higher in 2021, but perhaps you're more cautious in terms of credit migration and the volume growth. I just want to check if it's a 2021 or beyond story there.

And then the second question, just on costs, coming back to your commentary on performance, I think initially you said it would be driven by PBT, so I was interested: was that more weighted to pre-provision profit or to impairments materially low but below medium-term cost of risk? Could that be a factor or is it more competitive pressures that you just talked to that would drive that? Thank you.

EWEN STEVENSION: Variable pay is set largely on bottom-line profitability, for example, last year, I think profits fell by around a third and we took the variable pay pool down by 20%. If we saw the reverse go this year and it was largely driven by ECL outperformance, I don't think we would take all of that outperformance into a change in variable pay.

NOEL QUINN: And you've got to remember what we're managing to do is, leaving VP to one side, we're on track and confident of our ability to deliver the transformation cost savings that we talked about in February and the February before that. So the underlying cost position of the bank is well-positioned and on track to meet those expectations. We've had a strong profit performance in Q1 and, therefore, we've topped up the VP for the Q1 performance. We'll have to see what happens in Q2, Q3 and Q4, but the most important message for you is we're on track for our underlying transformation cost savings.

EWEN STEVENSON: And on the question on RWAs, just in terms of 2022, again I think we would be confident of achieving mid-single-digit loan growth. We've probably got another $20 billion or so to go in our RWA reduction programme next year, but then you will have Basel III reform coming through, which will probably lead to a 4-5% uplift in RWAs next year. I don't know how that compares with consensus, but broadly that's what's in our head at the moment.

MANUS COSTELLO, AUTONOMOUS: Good morning. I just wanted to come back on the point on cost, please. I just wanted to understand more how it will evolve going forward, because, from what you're saying, it sounds as if, to the extent that revenues are being led by areas like Wealth and Markets, that will drive potentially higher variable compensation and, therefore, higher expenses than you'd been guiding for. But am I right to say, if revenue growth hands off to more balance-sheet-led-type NII in Commercial Banking, we wouldn't see that?

EWEN STEVENSON: It's always going to be a mix of our internal metrics of what we think we can afford, based on the profitability of the Group, but we can never be incognisant of what's going on in the market. So if we are seeing competitive pressure in areas like Asia Wealth and investment banking more broadly, we have to be in a position to respond to those competitive pressures. But I think your statement is right to the extent that what we see is a rebalancing of profitability being driven out of the Commercial Bank and the Retail Bank that won't necessarily drive the same competitive pressure on performance pay.

NOEL QUINN: The only other thing I'd say is, when we talked about our future growth plans in February, we assumed a growth in revenue coming – in tracking back to 10% RoTE plus, we had a rebound in ECLs, we had further performance on cost takeout, and we had a reboot of revenue from a reboot of the economy and incremental activity that we're investing in. So we had assumed revenue growth going forward in 2021 and 2022 and beyond and, therefore we had assumed a growth in profit and, therefore, we had assumed a growth in variable pay to match that path. And that was all inherent in the cost statements we made back in February. So we have put into our future forecast a growth in VP to match the growth in the P&L that we expect to see.

What I think you saw in Q1 is a particularly strong performance in Q1 that was over and above that underlying curve that gets us to that 10% RoTE. Now, if that over-performance continues in future quarters, then maybe that assumed growth in VP will be higher in the future than was in that original assumption, but so too would be the PBT and so too would be the revenue. So don't assume there isn't a growth in VP inherent in the plans that underpinned the journey to a 10% RoTE. Does that make sense?

MANUS COSTELLO: It does, yes, thank you. That's clear. Thank you very much.

YAFEI TIAN, CITI: Thank you for taking the question. I have a question related to the top line, really trying to understand the beat of non-interest income. Wealth is particularly strong and, on slide 4, you mentioned that net new money for Private Banking, you see very strong growth in this quarter as well. I'm just trying to separate some of the internal changes as well as growth that you have done from a sustainable basis from these more volatile market trends. Would you be able to give us some more detailed guidance in terms of how much Wealth-related revenue growth you are expecting for this year and probably for the coming years, based on your internal planning? Thank you.

NOEL QUINN: It was hard to hear you, but I think what you're looking for was more of an indication of where the growth in Wealth is coming from. Let me also be clear: we started that journey of investing in our Wealth businesses last year. And that was investing in a buildout of our product capability to make sure we had good product capability on the shelf in Asia, and an investment in distribution. So we launched the Pinnacle initiative in China as an example. But we were also investing in Private Banking, in our Insurance business. We were investing in both physical manpower to drive that growth in wealth managers, but we were also investing in digital infrastructure. So our Insurance business in Hong Kong particularly launched a lot of new initiatives last year, new products, digital-based, supported by extra salespeople, and that's what's been driving the growth of our Wealth revenues in Asia. It's not just market sentiment or market valuations that are driving that growth; underlying growth is coming through.

Now, we still have more to do. We recruited an extra 600 wealth managers in Asia in the first quarter alone, 100 of those in China as part of an expansion of our Pinnacle opportunities. Where are we getting the business? How are we sourcing the Wealth opportunity? Well, I'm pleased to say we're sourcing a lot of it from our existing client base. Around about 60% of the net new money that goes into our Private Bank comes from Commercial Banking clients and Global Banking clients. The owners of those businesses are putting their personal wealth with us. The same is true of Asset Management. Around 75% of the net new money for Asset Management is coming from internal HSBC clients. So it's true organic growth at an underlying level, not just growth in assets as a consequence of market revaluation of those assets. There is an element of that in Q1 as markets revalued, but there's a lot of it coming from underlying growth.

YAFEI TIAN: Thank you. Would be it be possible to give us some guidance in terms of the Wealth revenue-growth outlook?

NOEL QUINN: We talked about our revenue-growth outlook in February. For Asia Wealth, we're assuming close to double-digit growth in assets, as we said in February, and mid-single-digit growth in other regions outside of Asia. And that would result in probably Asia Wealth revenues to grow at around about 10% CAGR over the next few years. And if I remember correctly, I think, if you look at market sentiment and market stats, you're probably looking at the underlying market in Asia probably growing 6%, 7%, 8%, so we're trying to outperform the market via the organic investment programme that we're putting in place.

RAUL SINHA, JP MORGAN: Good morning, all. Thanks very much for taking my questions. The first one is just on loan book, loan demand. I was trying to understand a couple of points. Firstly, how sustainable do you think this current activity spike in the UK mortgage market is? You and all the UK banks have benefited from very strong mortgage pipelines and pricing, so I'm just wondering, tying that into your overall comments on loan demand, as to what you're assuming happens to that for the rest of the year. And then, just related to that, I suspect there's an element of pent-up demand in other areas of loans in the UK as well as probably across your footprint as well, so to balance that, if you could you talk a little bit about where you see pent-up demand in loan growth. Thanks.

NOEL QUINN: Let me deal with the retail banking business first. I think, in the UK, it's true that there is strong activity at the moment. There'll undoubtedly be an element of that which is driven by the stamp duty holidays that were put in place and that are likely to come to an end shortly. But I also believe there are some structural changes taking place in the UK, in that the housing market in the UK, I think, will remain active for quite a period of time, as the housing stock is continuing to be built out. So I think there's an underlying growth curve there and there's a potential temporary growth curve as a consequence of the stamp duty holiday.

I think we'll see a pickup in activity of consumer lending – unsecured lending and credit card activity – in the second half of the year, not just in the UK but across the world. If you just take our own balance sheet, we grew our deposit balances by around about $170 billion last year. Now, an element of that $170 billion will turn into cash spend by consumers and businesses in the second half of this year – or already started but will continue to pick up. So I think you're going to see traditional unsecured lending and credit card activity increase in the second half of this year.

Hong Kong remains strong demand on mortgage growth, and we're pleased on that. More broadly into the wholesale business, what I saw at the end of last year, particularly in Q4, was a lot of activity from corporate borrowers seeking facility renewals or facility extensions to get their balance sheet ready for the upturn in the economy as they started to see vaccines come on stream, but I didn't see that translate into loan drawdowns in Q4 of last year. I have started to see that take place in Q1 of this year. So for example, the trade balance sheet in Asia grew by $3 billion in the first quarter of this year. That's an indication of underlying economic growth and, if the vaccine programmes continue as they currently are, you could assume that that trend will continue and could well pick up. And then, more generally, there was a starting to see a drawdown in those facilities that were negotiated at the end of last year taking place in Q1, so overall, our Commercial Banking balance sheet grew by $2 billion in Q1 of this year, and our Personal Banking loan book grew as well. So I think it's early stage of growth and I could expect the trend to pick up over the next three quarters.

RAUL SINHA: Thanks very much. That's really helpful. I was wondering if I could have one more on capital, just a very quick clarification. I was wondering if you have any further thoughts on the stress-testing timeline this year and if there's any scope for regulatory restrictions in the UK to come off earlier for yourselves.

EWEN STEVENSON: I think you know that there's a current mini stress test being done by the Bank of England and the PRA, and that was in the absence of them having done an Annual Cyclical Scenario at the back end of last year. As we sit here today, I guess we're not expecting any surprises out of that, given we've been extensively stress-testing our books through the pandemic. And in recent months, outlook has improved, so we're expecting us to be the driver of our distribution policy, I guess is the better way of describing it.

MARTIN LEITGEB, GOLDMAN SACHS: Thank you for taking my question. I just had a follow-up on your earlier comments on margin outlook from year-end. I was just wondering if you could shed a bit of light on how we should think of NIM progression here for the main business lines – Hongkong and Shanghai Banking Corporation, and in particular the UK ring-fenced bank. I was just wondering if it's fair to assume that the bulk of rate-cut impacts has by now fed through in Hong Kong and if, from here, we should see stability and, if anything, at some point, some gradual growth and that, if anything, some of the remaining margin pressures coming through from structural hedge rollover, in particular in the UK. And I was just wondering: should we assume margins to remain broadly flat in terms of 1Q level, what we have seen, or is your guidance of – I think you said earlier that 1Q NII is broadly representative of the full year, if I understand right – that that implied that, combined with loan growth, you would expect some further margin compression heading into 2021?

And then just a follow-up on capital. I was just wondering if you could update us on how much progress you have made in addressing capital inefficiencies within the Group, whether you could let us know how big the Principal Investments book is at this stage and what portion of transfers into Asia has occurred so far. Thank you.

EWEN STEVENSON: On the NIM question, you know, Martin, that not all of our interest rate sensitivity is in the first year. We talked previously about $1 billion of interest-rate pressure coming from lower rates into 2021, and then HIBOR did drop meaningfully in the first quarter; it has remained broadly stable in the second quarter at the levels of the first quarter so far, so we do think we are getting towards the trough of NIM pressure. But it would be a big call to say that Q1 was the trough. I still think there will be an element of pressure into the second quarter. And then volume growth then provides us confidence that the impact on net interest income is negligible.

The other thing I would say about the growth is it will be back-end-loaded as we go progressively through the year and as confidence builds during the year and, therefore, you won't get as much of that benefit into 2021, but you will get all of that benefit into 2022. So I talked about earlier assuming that the Q1 net interest income was a good guide to the annualised net interest income for the full year, but you should take away from that, therefore, that we're also confident about decent net interest-income growth into 2022.

On Hong Kong, most of the impact of lower HIBOR gets translated into our books within three months, so equally the reverse is true. If we were to get back to a better short-term HIBOR curve, we would see that very rapidly translate into improved net interest income in Hong Kong.

And sorry, I didn't quite catch the second question?

MARTIN LEITGEB: I was just wondering on capital inefficiencies.

EWEN STEVENSON: I think you should assume that that is a multi-year programme of work. We've got, for example, probably $5 billion plus of excess capital in the US. That will come out, we expect, over several CCAR cycles. There's various capital-optimisation opportunities that we're working on in Asia, which will take a few years to effect. So I would say it's a multi-year programme of work. We know what that programme of work is and we're just progressively working on it. And some of it is driven by ongoing discussions with regulators, and I think the confidence in regulators to see capital release coming out of places will improve as we see a stronger path out of Covid.

NOEL QUINN: To summarise, we've had a good start to the year, with good business growth and an improved lending pipeline moving into the rest of 2021. We're making good progress on our growth and transformation plans and we remain on track to deliver what we promised in February. We remain absolutely committed to our cost-transformation plans. We're feeling more optimistic about the rest of the year than we did in February, but we remain cautious around the uncertainties that remain. If you have any further questions, please do pick them up with Richard and the team. Thank you once again for joining us today.