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Transcript

Investor and Analyst Call
Q2 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'll hand over to him shortly to go through the detail of our Q2 performance. First, though, I'll start with a summary of the key highlights, our progress against our transformation plans, and in particular what we're seeing with respect to growth. For the second quarter a good operating performance, supported by a net release of expected credit losses, delivered reported pre-tax profits of $5.1 billion, up $4 billion on last year's second quarter. We saw a return to profitability in all regions in the first half, including good performances in both Europe and the US. Our UK business performed well, with a record quarter for mortgages in Q2. We've generated good momentum behind our growth and transformation plans, and made important decisions on exiting our mass-market retail business in the US and our retail business in France. Our RWA and cost reduction programmes are both on track. Our Asia Wealth strategy is gaining traction, with strong growth in Wealth Balances. We're seeing promising signs of early growth in both lending volumes and fee income, particularly in Asia, and we've retained a strong capital ratio of 15.6%, which enables us to declare an interim dividend of 7 cents per share for the first half of the year.

The next two slides look at the growth we're starting to see, particularly in Asia. In Wealth and Personal Banking we've already seen strong traction in our Asia Wealth business, with Global Wealth balances up more than $250 billion – or 18% – in the last 12 months. This was driven chiefly by growth in assets under management rather than deposits. We've expanded our Asia Wealth franchise, recruiting around 600 new frontline colleagues, and growing affluent and high-net-worth customers in Asia by 7%. While it's early days, we're seeing promising productivity data from our Pinnacle Wealth planners in mainland China, with exciting momentum within the business. Because of that, we're accelerating our rollout of Pinnacle to five new cities in mainland China, and planning to hire 100 more wealth planners this year than we had originally planned.

In Commercial Banking, pipeline growth is starting to translate into lending, with $8 billion of loan volume growth since the start of the year. Our approved lending limits in Asia are up 100% on last year's second half, and 70% on pre-pandemic levels. These include renewals, refinancing, and new facilities. There are also signs of a recovery in Asia Trade, with $6.7 billion of trade finance lending growth in the first half. In Global Banking and Markets, we've made good progress repositioning the franchise for growth. The proportion of RWAs allocated to Asia in GBM is now 6% higher than the same point last year, with around a third of non-Asia RWAs supporting revenue booked in Asia. Collaboration with other businesses is a big part of the GBM growth story, with collaboration revenue up 6% against last year's first half. This was supported by investment in new digital market platforms, which are helping to support our Asia Wealth strategy.

Slide 4 goes deeper on the lending growth we're starting to see. We're seeing strong mortgage growth globally, with Hong Kong drawdowns up 56% year-on-year, and a record quarter for UK mortgages. Card balances are starting to recover in Hong Kong, the UK and elsewhere, up around $1 billion quarter-on-quarter. In Commercial Banking we're seeing approved lending limit growth translating into term lending, with loans up 2% versus the first quarter. Trade balances are up 9%, and we continue to capture market share in both Hong Kong and Singapore. We're also continuing to grow our lending pipeline in Hong Kong and Asia, which bodes well for future quarters.

Moving to slide 5, both our US and European business saw a rebound in profits, and both are now well advanced in their transformations. The US made around $500 million of pre-tax

profits, up from around $100 million in last year's first half. Risk-weighted assets in the US are now 16% lower than at the same point last year, and costs are down around $100 million year-on-year. We've announced the sale of our US mass market retail business, which is an important milestone in the reshaping of our US portfolio, and we've also now completed the migration of fixed income derivatives trading book from New York to London.

In Europe we've delivered $1.4 billion of pre-tax profits after recording a loss in last year's first half. Compared with a year ago we've reduced RWAs by 16% and costs by 3%, which includes a $149 million increase in variable pay. We've also signed a Memorandum of Understanding to sell our French retail business. Both our US and European business are much better positioned to grow than at the start of the year.

Slide 6 looks at our second pillar, Digitise at Scale. Our technology spending is now 18% higher than the same period in 2018, and 4% higher than last year's first half. This is making us a better and stronger bank, both operationally and in terms of the customer experience, and providing material operating leverage as we grow the business. The proportion of payments that go straight through without manual intervention now stands at 96.7%. We're reducing account opening times, for example, including first direct, where it now takes 10 minutes to open an account instead of 10 days, and we've introduced e-signature for over 200 processes in Hong Kong, substantially reducing both processing time and the use of physical forms.

When launching and scaling new digital products, our multi-currency Global Money account launched last year in the US, and is now live in both Singapore and the UAE. We've launched Kinetic in the UK, which already has more than 10,000 users, and a 4.8 App Store rating. We're simplifying and automating trade finance. By 2023 our digital trade transformation aims to reduce 60 bespoke systems down to just five. Clients and counterparties can already agree the wording of guarantees digitally, which is then fulfilled seamlessly in our back office, significantly reducing both time and effort. In supply chain finance we can now digitally on-board suppliers in two days rather than eight, helping clients to support their suppliers and increase the resilience of their supply chains. These are big innovations, with a real-world impact for our customers.

Slide 7 looks at Energise for Growth, our third pillar. Our move to hybrid working is now well underway, with a 10% reduction in our global office footprint since the start of 2020. Three of our Global Business CEOs are in the process of relocating to Asia, and we made a number of key leadership appointments in Asia in the first half of the year. We're aiming to build a more diverse business. We've signed up to the WEF's Partnering for Racial Justice in Business, and the UN LGBTI Standards of Conduct for Business. We've also increased the proportion of female leaders to more than 31%, but we've still much more to do. We've hired more than 650 new graduates from 48 different countries, more than half of whom are female.

Slide 8 looks at our final pillar, the Transition to Net Zero. I was delighted and grateful that 99.7% of our shareholders backed our special resolution on climate change at our AGM in May. That was a strong endorsement of our climate strategy, which has, at its core, a commitment to support our customers on their transition to low carbon. We're continuing to provide strong support to our customers on their transition journeys, taking part in more sustainable financing in the first half of 2021 than in the whole of 2020. We're working closely with our own suppliers to help them improve their climate reporting, so that we can become net zero in our operations and supply chain by 2030. We're building partnerships to unlock new climate solutions and make them investable, joining forces with WWF and the World Resources Institute to bring new projects and technologies into commercial scale.

Overall, it's still relatively early in the life of our growth and transformation plans, but I'm pleased with our progress so far. Ewen will now take you through our results and update you on our targets.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel, and good morning or afternoon, all. We had another solid quarter, reported pre-tax profits of $5.1 billion. That's up almost five-fold on last year's second quarter, with an annualised return on tangible equity of 9.4% for the first half. Adjusted revenues were down 10% on last year's second quarter, due largely to the impact of the current rate environment, together with the comparison against a very strong Global Markets second quarter last year. Importantly, we think we're now

close to the trough in year-on-year revenues, with volume growth in our lending businesses and our Wealth franchises driving our recovery in the coming quarters.

Expected credit losses were a $284 million net release, second quarter in a row of net releases. This reflects a continued improvement in the economic outlook for our central scenarios, less extreme downside scenarios, given the progress in global vaccinations, and exceptionally low stage three charges in both the first and second quarters. We still retain $2.4 billion of the stage one and two ECL reserve build-up we made in 2020.

Operating expenses were up 4%. This was due to both higher performance-related pay accrual and higher technology spend. Despite this, we remain on track to deliver our target of broadly stable operating costs for the year ex the bank levy, subject, of course, to final decisions on the variable pay pool later in the year. Lending and deposit balances were up 2% and 1% respectively, as lending growth spread for us beyond mortgages and Retail Banking and trade finance into Commercial Banking, with increased confidence in higher loan growth in the second half of the year. Our common equity tier one ratio was down nearly 30 basis points at 15.6%, due primarily to our dividend accrual. Our tangible net asset value per share of $7.81 was up three cents on the first quarter, and we've declared an interim dividend of seven cents per share for the first half of the year. We remain on track to deliver all of our medium-term targets, including rebuilding to a return on tangible equity of at least 10%.

Turning to slide 10, we're continuing to shift the balance of the group's focus towards Asia through capital reallocation and the build-up of capabilities and people. However, as other regions start to recover from Covid-19 lows, we're also seeing much improved earnings diversity, with profitability in all regions during the half. Europe has gone from loss-making in last year's first half to generating 22% of group profits in the first half of this year. This included a strong contribution from our UK ring-fenced bank, which saw revenue growth of 12% in Wealth and Personal Banking and 7% in Commercial Banking. There were also good signs of recovery elsewhere, including the Middle East, the US and Mexico. We're also now seeing more balanced profitability across our global businesses. Each business is now generating roughly a third of group profits in the first half, with a particularly strong recovery in Commercial Banking.

Turning to slide 11 and looking at the second quarter, adjusted revenues across the three Global Businesses, in Wealth and Personal Banking revenues were down 4% on a year ago. Wealth Management revenues grew by $187 million, due mainly to an increase in the value of new business written in insurance and mutual fund sales growth in Hong Kong. Personal Banking revenues fell by $161 million due to the impact of low interest rates on deposit margins. Commercial Banking revenues were 4% lower, due mainly to the impact of low interest rates on Global Liquidity and Cash Management, but with good growth in trade balances in the quarter and early signs of growth across other Commercial lending. In Global Banking and Markets, revenues were down 23%. This was largely due to slower customer activity and lower volatility in the fixed income markets, as compared with a particularly strong Global Markets performance in the same period last year.

On slide 12, net interest income was $6.6 billion, down 5% against the second quarter of 2020 on a reported basis, but stable compared with the first quarter of 2021. On rates, the net interest margin was 120 basis points, down one basis point on the first quarter, primarily reflecting lower asset yields, which more than offset lower funding costs. On volumes, we saw continued good loan growth and mortgages in Hong Kong and the UK, and strong Commercial applications that have started to translate into drawdowns. For the remainder of the year we're seeing signs that net interest income has now stabilised, and we expect loan growth to support net interest income in the second half.

On the next slide, non-interest income was $5.9 billion, down 11% against last year's second quarter due to the exceptionally strong Global Markets performance in the second quarter last year, However, we saw good fee income progression in all our businesses against last year's second quarter, with strong performances in Wealth, Global Liquidity and Cash Management, and Capital Markets and Advisory. We expect customer activity and fee income to continue to strengthen as economic activity recovers, although the recovery path obviously remains uncertain as a result of Covid-19 variance.

On the next slide, we've reported a net release of $284 million of expected credit losses in the quarter, compared with a $4.2 billion charge in the second quarter of 2020. The net release was across all Global Businesses. This reflected an improved economic outlook, together with stage three charges that remained very low in the quarter. Recognising the risks that still exist from the pandemic, we're continuing to hold around $2.4 billion of our 2020 Covid-19 uplift to stage one and two ECL reserves. Based on the current economic outlook we now expect the ECL charge for the full year to be materially lower than our medium term through-the-cycle planning range of 30 to 40 basis points, with the potential, even, for a net release for full-year 2021, and further stage one and two releases in the first half of 2022.

Turning to slide 15, second quarter adjusted operating costs were $297 million higher than the same period last year. This was driven by a higher performance-related pay accrual of $367 million, and a $204 million increase in technology investment. We made a further $484 million of cost programme savings compared with the prior year, with an associated cost to achieve of $499 million. To date, our cost programmes have achieved savings of $2 billion relative to our year-end 2022 target of $5 billion to $5.5 billion, with cumulative costs-to-achieve spend of $2.7 billion. Despite higher second quarter costs we continue to expect our 2021 adjusted operating costs, excluding the benefit from a reduced bank levy, to be broadly in line with 2020.

Turning to capital on slide 16, our common equity tier one ratio was 15.6%, down 27 basis points in the quarter. This reflected an increase in RWAs from lending growth, including a short-term increase of around $10 billion from IPO loans in Hong Kong, together with a decrease in capital, including a $3.5 billion accrual for dividends. As signalled at the time of our first quarter results, we will include a deduction each quarter for dividend accruals. For the half year that deduction was 17 cents, based on 47.5% of our first half EPS of 36 cents, which is the midpoint of our 40% to 55% target payout ratio. To reiterate my comments from last quarter, this shouldn't be read as a signal or a forecast of our 2021 dividend intentions. The dividend accrual is purely a formulaic calculation that will true up at the full-year based on the results and outlook at the time.

Reflecting the current improved economic outlook and improved operating environment in many of our markets, we now expect to move to our target payout range in 2021. We retain the flexibility to adjust earnings per share for non-cash significant items, and in 2022 we also intend to exclude the losses on the sale of our French retail banking operations. When thinking about the payout ratio for 2021, we'll attach a lower weight to unusually low ECL charges or credits as part of this year's earnings per share, together with a desire to see further progress from 2021 and dividends per share in 2022 and beyond. Excluding FX movements, risk-weighted assets rose by $13.5 billion in the second quarter, driven by growth in Asia and the IPO loans already mentioned. We now expect low single-digit percentage growth in risk-weighted assets for the full year.

On the next slide, due to changes in the underlying calculation methodology we've updated our risk-weighted assets targets on a like-for-like basis from $100 billion to $110 billion. So far, we've made around $85 billion of transformation saves and remain fully on track to meet our target.

On slide 18, it's still early days in terms of our 2022 targets, but we've made good progress so far. We're on track to meet our cost and risk-weighted assets savings targets, and we remain confident that we're on track for a return on tangible equity at or above 10% over the medium term. The shift to higher return areas is underway, and we're starting to see results from the growth opportunities we've identified. As mentioned, we now intend to move to our target payout ratio in 2021. As a reminder, our dividend policy aims to deliver sustainable cash dividends while retaining the flexibility to invest and grow in the business in the future, supplemented by additional shareholder distributions if appropriate.

In summary, this was another solid quarter for us. A near fivefold increase in pre-tax profits on the same period last year, with good earnings diversity across the group and evidence of strong execution in all areas of strategy. While the results were materially flattered by net release of ECLs, we can see early signs of a broadening recovery in lending, with volume growth translating into revenue growth as our net interest margin stabilises, and growth in fee income across our businesses. Despite uncertainty on the pace of recovery from here we remain on track with all of our medium-term targets, and, with that, our ability to achieve cost of capital

returns and to fund attractive growth. With that, Sharon, if we could please open up for questions.

MARTIN LEITGEB, GOLDMAN SACHS: Good morning, and thank you for the presentation and for taking my question. If I can just start with comments you made on the risk cost outlook in particular as we head into 2022, given the current economic outlook, could there be a scenario that risk costs could also undershoot the 30 to 40 basis points through-the-cycle range as we head into 2022, just considering the management overlays still in place?

Related to that, one thing in terms of how we should think of scope for capital return. I know there are comments in the presentation about the potential for a step up in capital return. I think the dividend guidance is clear. How should we think about the scope for potential buybacks? Is that becoming increasingly a possibility, particularly as we head into 2022, and is that a key instrument in terms of how we should think about getting that common equity tier one ratio back to a level of 14 to 14.5, which is the target range? Thank you.

EWEN STEVENSON: Thanks, Martin. So on ECLs in 2022, I talked about earlier of having $2.4 billion of stage one and stage two reserves that we built up from last year still in place. That's around 60% of the reserve built up we put in place last year. We do think that that will unwind, or – to the extent that that unwinds it will unwind over probably the following four quarters, so there will be some benefit into the first half of 2022. I don't think that we'll begin to normalise on expected credit losses at this point until the second half of 2022.

On capital distributions – and I'll give a slightly fuller answer, given that I'm sure that there will be several questions around this – relative to the comments I made at the start of the year around our capital position and capital distributions, I think sitting today we are in a stronger position relative to what we thought. We've seen a much improved credit outlook. It's our second quarter of reserve releases and an expectation that we're going to continue to see additional releases over the coming four quarters. We've also had much lower credit rating migration than what we thought, leading to lower risk-weighted asset growth relative to what we thought a few months ago, so our common equity tier one ratio today is stronger than where we thought we'd be and the outlook is better.

We know that we've got some known knowns in terms of capital headwinds. Software intangibles, which is around 25 basis points of benefit, we expect to get removed from the beginning of 2022. If you look in combination, I think there's around about 10 basis points of aggregate hit from the sales of our French and US Retail Banking franchises that will impact us into 2022 and 2023 and we've got various regulatory-driven uplifts of around about $40 billion uplift in risk weighted assets over the next 18 months.

But equally, we know that we've just accrued under our accrual policy 17 cents of dividend versus the 7 cents that we've just declared and we've still got at least $25 billion of RWA reductions in our RWA run-down programme. We are committed to paying a sustainable and healthy dividend while continuing to progressively normalise our common equity tier one capital position over the next 18 months. Buybacks will be one way for us to think about normalising and using our surplus capital and we'll continue to keep buybacks under review in the coming quarters. And I would note that that tonality is different to what we said in previous quarters. As you'll recall, at full year we said that we wouldn't contemplate buybacks this year. We're now saying that we'll keep it under review.

MARTIN LEITGEB: Very clear. Thank you very much.

RAUL SINHA, JP MORGAN: Hi. Good morning everybody. A couple of questions from my side as well. Perhaps one just to follow up, Ewen, on your comment. How would you define surplus capital for HSBC? I'm conscious you're talking about potential for growth opportunity, after a very long period of time, coming back onto the table and obviously you do have a very strong capital positions with writebacks to come, but also potential to deploy that capital. So it's quite difficult from the outside to understand how much might be structurally excess surplus capital, so any thoughts on how we could go about doing that – that would be helpful.

The second one is just to come back to the comment around NII stabilisation. If I look at some of the moving parts within that – the HBAP NIM down three basis points in the quarter, again the UK NIM is down three basis points and quite a few of your UK peers are talking about NIM

pressure to come. And there's 9 billion-odd of IPO funding here in Q2 as well. So I was just trying to understand what gives you the confidence that NII has finally stabilised. Is that more driven by the fact that you're seeing this card balance pickup and you think that's probably likely to be NIM accretive loan book coming down the pipe or is there something in these Q2 trends that's perhaps overstating the pressures? Thanks.

EWEN STEVENSON: So on use of capital, firstly, obviously we've got organic growth. I think we're still sticking to our target of mid-single digit loan growth over the next coming quarters into 2022 and I'll come back to that in terms of where we're seeing that growth. We also have been public about the fact that we are thinking about a number of small bolt-on acquisitions, which are almost exclusively centred on the Asian wealth space and I would use the word 'bolt-on' quite carefully. We are not looking at anything material, but in aggregate we are looking at three or four opportunities in the wealth space across Asia at the moment.

I think our distribution policy as it relates to dividends is very clear. The 40% to 55% payout range – as I said, for this year I think you should expect us to be at the lower end of that range because of the unusual benefit that we will have had from the ECLs this year and then buybacks on top of that. So I think you can do the maths and know what we're solving for. The only thing that you won't have on that is the bolt-on acquisitions, but if you think of three or four smaller bolt-on acquisitions of, say, $0.5 billion each – will help in relation to that maths.

On net interest income stabilisation, I think we've seen HIBOR now broadly stabilise. If I look at second quarter of this year, the average one-month HIBOR rate was nine basis points. I think in Q3 so far it's been around eight basis points, so we are troughing now.

I think if you look at the underlying growth, we had $16 billion of loan growth in the second quarter. You can take about 9 billion of that away for the Hong Kong IPO loans. You can add back three because we shifted the US portfolio that we're selling into held for sale and there was probably up to 5 billion of GBM run-off – Global Banking and Markets run-off in the loan portfolio, particularly in the non-ring-fenced bank. So we think we grew the underlying loan portfolio by about $10-15 billion, which is about 1% to 1.5% growth in the quarter, which is 4% to 6% growth for the full year, which is very much in that run rate that I talked about.

You're right that there may be some modest income pressure in the UK, but I think you saw this quarter in the UK lending growth more than offset any decline in net interest margin and we continue to remain confident about our ability to grow faster than peers in the UK, particularly in mortgages.

RAUL SINHA: Thanks, yes. Thanks very much for that.

TOM RAYNER, NUMIS: Yes, morning. Morning, Ewen. Morning, Noel. I was really going to push you a bit more on the dividend policy. I think you've explained it fairly well now that, obviously, if we see a big increase in – I see the consensus payout I think this year is 50%, but it sounds like you're going to see earnings beat because of the very low impairment number and, therefore, you're going to let the payout ratio drift down towards the bottom and, I guess as things normalise, the payout drifts back up again.

This is just not really just saying you've got a progressive dividend policy. I'm just wondering do you actually need this target payout range. What purpose does that serve now? Should we just be thinking you're looking to maintain a progressive dividend, which you can increase each year?

And secondly, I was going to also focus a little bit onto the NII guidance and whether the fact that you're not specifically talking about NIM is indicative that you are expecting now more NIM pressure and it sounds like you are, but again, I wonder if you could talk to that relating to signs of maybe slower growth in Asia. Maybe it's going to take longer for interest rates to normalise than we thought only a month or two ago. I wonder if you could just talk to that as well please. Thanks.

EWEN STEVENSON: Firstly, on dividend policy, I don't think we've said that we have a progressive dividend policy. We've said that we've got a 40% to 55% payout. I think obviously we're conscious of the market's desire to have a progressive dividend policy, but it's not an official part of our policy. So we would expect, having said that, that we would ideally like 2022

dividends to be higher than 2021 dividends. So in the first half of this year, again, we accrued 17 cents versus the 7 cents we declared. We had an EPS of 36 cents in the first six months and we paid out 7, so we've paid out just under 20% of our earnings in the first half. So mathematically we do expect a more substantial payout in the second half of this year and we would anticipate that 2022 dividends should be higher than 2021 dividends without committing to a progressive dividend policy.

On net interest income, I don't think we're going to see in aggregate much NIM pressure from here. Equally, I'm loath to call the bottoming out of NIM and you know I hate forecasting it for you, but I do think the combination of any relevant NIM pressure from here coupled with stronger loan growth means that we are close to getting back into a cycle now of seeing net interest income grow – and I think certainly by the time we get into 2022 we'll definitely see net interest income grow, given NIM will definitely have I think stabilised by then.

And on rates, again, relative to where we were six months ago where our planning position was that we were unlikely to see any policy rate rises probably until the very back end of 2023 or more certainly 2024, I think we're much more enthusiastic now that we may begin to see policy rates rising led by the UK from mid-2022 onwards and certainly 2023 benefiting materially from higher policy rates.

NOEL QUINN: And Tom, if I could just add a couple of comments on the NIM, generally we're seeing the volume growth, the new deal activity being transacted at good NIMs, good margins. We're not having to trade margin to get that volume growth. There is one area where there is a lot of activity and that's UK mortgages, but even there the margins we're generating on UK mortgages are above the back book margins, albeit they're slightly lower today than they would have been three or six months ago. But they're still well above the back book margins. So we're not seeing a trade-off on margin for new business relative to volume in any significant degree.

And then on dividend policy, I just want to remind you we put the dividend payout ratio at 40% to 55% because we wanted to get the balance right between distributing capital to generate a decent return for our investors, but also retaining sufficient capital to fund future growth and future opportunities and to the extent that those future growth opportunities are not there, either organically or inorganically, then we'll consider buybacks or capital return. But if we do see growth, then we have the ability to fund that growth through retention of capital and our previous policy probably didn't get that balance right. We were too much into distribution and not enough into funding future growth.

TOM RAYNER: Okay. Thank you. That's very interesting. Thanks a lot.

OMAR KEENAN, CREDIT SUISSE: Good morning. Thank you very much for taking my questions. So I just have a question on the Asia Wealth Management strategy. Just bearing in mind that you're looking at a couple of bolt-on opportunities, when you look at the HSBC Wealth Management offering in Asia, where do you think might be particular geographic or product gaps that you might be looking to fill in? And secondly, I just had a question on the UK business and mortgage growth, which strategically is looking to take market share. I was wondering if there's ever been any thoughts around perhaps pursuing inorganic strategies there as well. Thank you.

NOEL QUINN: Thanks Omar. I'll take that or certainly the first one. On Wealth bolt-ons, we're clearly looking at pan-Asia. We believe we have good organic growth opportunities with the platform we have in Hong Kong and, therefore, Hong Kong would be primarily organic growth. We're organically investing in China to grow our Wealth business there and we've given you the plans for that – recruiting an additional 3,000 people over the medium term with already 600 done in the first – up until the first half this year.

If you're looking at, therefore, where the bolt-ons are likely to be, they're likely to be rest of Asia. In terms of capabilities, we're looking at both product and distribution capabilities to accelerate our organic growth plans there. We're willing to invest organically in the rest of Asia, but if we can find some bolt-on acquisitions that can accelerate those organic investment plans, that would be helpful. We are looking at three to four as we speak and they are a combination of product and distribution capabilities being acquired in areas such as insurance, high net worth wealth management and asset management, so those would be the primary areas of focus.

On mortgage growth, Ewen can fill you in a bit more on that, but just for clarity, our share of mortgages in the UK was below our natural footprint share of customers in the UK and what we're doing is rebuilding to a more natural mortgage market share to match the market share of customers we have in the UK and the banking market. So yes, we're taking market share from others, but it's to rebuild to where we believe we should be more naturally positioned.

EWEN STEVENSON: Maybe just to add a few more comments to what Noel said. If you look at our current account market share by value – and we've got a more affluent customer base – we have about a 13% to 14% share of current accounts. Our stock share is currently 7.4% of mortgages. We are and have been consistently growing our flow share in excess of our stock share. We grew flow share around 8.5%, 8.6% in the quarter – about 100 basis points higher than our stock share. And why are we able to do that? Partly, it's because if you went back a few years, we didn't have established broker distribution, which as you know, is around 70% of the market in terms of distribution. Over the last few years we've fully built out broker distribution and we're sitting on a lot of excess liquidity in the UK business, which went up even further during Covid. We think the returns on new business are highly attractive, so I think you should expect us to continue to target higher growth in the mortgage market if we can continue to take share of the type of margins that we are currently seeing.

OMAR KEENAN: Thank you very much.

EWEN STEVENSON: And, sorry, you should read into that too that given that we have, we think, substantial organic growth opportunity, we do not see the need to go out and invest inorganically in the UK mortgage market.

OMAR KEENAN: Thank you.

AMAN RAKKAR, BARCLAYS: Good morning, Noel. Morning, Ewen. Yeah, just one quick follow-up on mortgages if I may, just around your ROTE. Is there any chance that you could give us an indication of what kind of ROE you're booking on mortgages as you currently observe it now? And then just around GBM, if I could ask around your expectations for the full year in that business and I note FICC was down a decent chunk in Q2. How much of that do you think is down to normalising markets versus restructuring? Do you think we can continue to expect any kind of revenue attrition from restructuring this year in that business?

EWEN STEVENSON: On mortgages, we're not going to go into the detail, but we're earning returns on capital materially above our cost of capital, partly because, as you know, the UK mortgage risk weights are very low and we've got plenty of excess funding. So that is very accretive business for us.

On Global Banking and Markets, I think we've said previously that we expect 2021 to be down on 2020, but above 2019. I think that continues to be our position. As you know, the whole street had a particularly weak quarter in Fixed Income, partly because of the strength of Fixed Income a year ago. And we do think that there are some lines in that Fixed Income business that are important to us, like FX, that will naturally recover as customer activity recovers, both on the Commercial side and the Retail side out of Covid.

Equities for us actually had a really good quarter – outperformed peers, but is a relatively small part of our overall Global Banking and Markets franchise. And Capital Markets and Advisory – remember, we are weaker than some peers in the US and we have stayed out of SPAC financings, which has been a big driver of some of the profitability of some of the peers, but overall when we've done the comparison versus peers we didn't see anything in there, other than in the pack for Fixed Income and outperforming in Equities.

AMAN RAKKAR: Thanks. Can I just ask one quick follow-up on the mortgages? There is set to be quite a lot of regulatory RWA inflation coming down the pipes in the next 12 to 18 months. Do you have any sense as to whether that might provide a floor to any of the pricing at a system level or do you think the system is already pricing basically adjusting for this RWA inflation?

EWEN STEVENSON: Well, we are certainly thinking about that RWA uplift. I think in aggregate I think the 10% floor at the portfolio level adds about $3 billion of RWA uplift for us, which is not

material in the overall context of our UK mortgage business, but inevitably if RWA floors bite or output floors bite way down the track, then pricing will adjust accordingly I think.

AMAN RAKKAR: Okay. Thank you.

ANDREW COOMBS, CITI: Good morning. One on costs and then one on Wealth please. Just firstly on costs, you flagged the step up in variable pay this quarter, but your full-year cost guidance is unchanged, so I'm just trying to understand if that's just a timing issue in the variable pay or whether the mix of the costs in your full-year guidance is perhaps slightly different to what you first thought. That would be the first question.

Second question on Wealth – if I look at life insurance manufacturing, investment distribution, the life insurance manufacturing number obviously has some benefit from market movements. That makes up quite a big chunk of the revenue contribution this quarter. If we were to strip that out, do you think that's a more normalised base level this quarter? Obviously, you've still got the offshore sales to come back, but perhaps you could just comment both on whether investment distribution and life insurance manufacturing adjusted is a more normalised quarter and a fair base to run from from here. Thanks.

EWEN STEVENSON: On costs for this year, I think there is a mix change going on of a few hundred million. Not all of that increase in variable pay is a timing issue. Some of it is an increase in the variable pay accrual relative to what we thought, but yeah, the mix shift I think, Andy, is because we had anticipated in the second half that there were various line items that we would begin to see a return to normalisation from Covid that we think is going to be much slower than what we previously anticipated. So, generally costs associated with running the bank, like travel, printing, office premises and the like I think are going to run a few hundred million lower than what we previously anticipated for this year, which offsets a slightly higher accrual into the variable pay pool, so that's why we're still confident and committing to the flat cost target.

On Wealth, I think, you have to bifurcate between the domestic Hong Kong business and what you see there is actually the Hong Kong business is doing okay and better than in previous quarters. And effectively, the international business, particularly the mainland China business, which continues to be significantly impacted because of the closure of the border – we don't expect that border to reopen until Q4 at the earliest, so I wouldn't describe this quarter as a normalised quarter for insurance. I would describe it as normalised probably for the Hong Kong business and continuing to be abnormally low for the China business.

ANDREW COOMBS: And just on the costs – if you're saying the T&E has basically been delayed and that's the offset, presumably you do expect the T&E to come back in 2022, so is the hope that that variable comp may also reverse slightly at that point?

EWEN STEVENSON: I think I would describe it as our margin for error in 2022 has tightened because of that pay pressure that we're seeing relative to what we previously thought. You're right that those Covid-related savings should get back to more normal levels or what we describe as more normal levels in 2022 onwards, but also I think, embedded in that is new normal versus old normal, for example we've reduced our travel budget. If you looked in 2019, we were spending about $400 million a year. We have taken that down to a run rate $200 million a year for planning purposes going forward from 2022 onwards.

We've talked about the big savings that we see in head office expenses – getting out of 40% of our own real estate ex-branches over the next few years, which will reduce that part of our cost structure by just over 20%, but you're right that those numbers were already embedded into our full-year 2022 cost target. So the other thing, again just for all of you, our cost target was based on constant FX, so what was $31 billion today is about $31.5 billion of cost for 2022.

ANDREW COOMBS: Thanks very much.

GUY STEBBINGS, BNP PARIBAS: Hi. Good morning or afternoon. Thanks for taking the question. Just a couple of follow-ups – the first one was on margin. Mix has been dilutive to NIM given the strength in secured. I just wondered when you think about your loan growth and the 1% and 1.5% quarterly underlying and that being consistent with your expectations going forward, within that we should be assuming it's still going to be tilted slightly more towards

secured. We can then obviously keep an eye on rates and other factors to come to a judgement on NIM, but just helpful to think about how much of that loan growth just to flow through into NI growth.

And then just going back to distributions and timing, you're at 15.6% now; RWA growth in the second half looks like $10 to 20 billion, so 20, 30 basis points of capital drag. Dividend, of course, should be much lower in the second half unless earnings surprise to the upside, so it feels like capital shouldn't move an awful lot in the second half, even pro forma for the accrual. And if that's broadly correct and you're sat there with 100 to 150 basis points of headwind to the target come the end of the year, can we take your comments around buybacks as being applicable in the next six months, dependent on bolt-ons? Is that fair? Thank you.

NOEL QUINN: If I could just quickly take the new business comment, we're not expecting a significant change in our mix between secured and unsecured. I think we see the portfolio having a similar balance to history, so we're not re-weighting that portfolio mix, and, as you know, we tend to be more of a secured book than a non-secured book. We do have a credit card business. We do have unsecured lending, but in our Wealth business we have a strong mortgage book and in our Commercial Bank and Wholesale business it tends to be secured, so we don't see a significant change. Do you want to take the second question, Ewen?

EWEN STEVENSON: I'm not going to comment on your maths in terms of where our common equity tier one ratio may be at the end of the year, but I think we would be slightly more cautious than you in saying that we expect it to be in line with where we currently are, partly I think because we are anticipating decent RWA growth in the second half of the year. But the main comment in relation to buybacks is – if you recall at the full-year results back in February, I said, 'Definitely no buybacks this year'. We softened that language slightly at Q1. We're softening it again and we will definitely keep it under review. And we're no longer calling out that there's an absolute ban on buybacks this year, so we'll keep it under review.

GUY STEBBINGS: Okay. Thank you.

MANUS COSTELLO, AUTONOMOUS: Morning everyone. I wanted to follow up on the comments on insurance, please. You were talking about the offshore sales coming back hopefully from Q4 onwards. Previously offshore insurance sales in Hong Kong made up about 40% of total sales for that business. Do you think we can get back to that kind of level quite quickly one the border reopens? Indeed, do you think there might even be a catch-up of lost business from the last couple of years coming through, setting you up for a very strong 2022 if the border reopens?

And secondly and somewhat related, I wondered if you could give us any indication of how you think IFRS 17 will impact the business or if you can't indicate how it will impact the business, can you tell us when you will give us some indication of how it impacts the business? Thank you.

NOEL QUINN: I think on the insurance, it's very hard to predict life after Covid relative to life before Covid because there are so many things that are changing, but we would expect a rebound. But also, you've got to be cognisant of the fact we're investing in the Greater Bay Area, we're investing in Pinnacle, we're investing in our insurance capabilities and Wealth Management capabilities onshore, so we believe we'll be well positioned. Whether it comes back into Hong Kong or it stays in the Greater Bay Area, we'll have the ability to serve both markets.

EWEN STEVENSON: The question on IFRS 17, Manus – we're conscious of the fact that we owe the market an answer on this and some guidance around this. I think certainly in the next couple of quarters – no later than full-year results – we'll give a teach-in on what we think the impact of IFRS 17 is, but broadly, as you know, reported earnings will be materially lower than current reported earnings for the insurance business.

MANUS COSTELLO: Okay. That's something to look forward to. Thank you very much.

NOEL QUINN: So to wrap up, a good operating performance supported by a net release of expected credit losses, good earnings diversity both by geography and by business, good momentum behind our growth in transformation plans with good delivery in all four pillars of

our strategy, traction in our Asia Wealth strategy with strong growth in Wealth Balances, early growth in both lending volumes and fee income, particularly in Asia, and we're on track in both our RWA and cost reduction programmes and confident in delivering our ROTE at or above 10% over the medium term. Thank you for joining today. If you have any further questions, do pick them up with Richard and the rest of the Investor Relations team. Thank you and have a good summer.