

## Post-results Sell Equity Analyst Meeting

25 February 2022, 09.00am GMT

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Hi everyone and thanks for those of you who've come down today. I was planning not to do a bunch of introductory remarks, and move pretty quickly into questions, but in addition to me, Carlo Pellerani as Group Treasurer, Kathleen Gan is in town for the first time in a couple years as our Director of Finance, normally based in Hong Kong. I've also got Ming Lau, our CFO in Hong Kong, Jon Bingham, our Group Financial Controller and the IR team here, so hopefully we've got you all covered in terms of whatever questions you may have coming.

RICHARD O'CONNOR, GLOBAL HEAD OF INVESTOR RELATIONS: We'll start with questions on the floor, but although we all know you, please do give your name and institution for the script and then after four or five from here we'll go to the line and then back to the floor, and we'll look to wrap up in just over an hour. With that, who wants to take the first question?

ALASTAIR RYAN, BANK OF AMERICA: Thank you. I'll start with a stupid analyst question, but this is what we get asked all the time. So – rates going up is good, but at some point, rates going up, people imagine, starts to become bad. There's credit sensitivity in the business. My sense is that the good rates can go up a long way before you'd be in a position where you felt that the credit risk or the market risk or the growth implications were likely to outweigh the benefits from that massive deposit base, but can I invite you to comment?

EWEN STEVENSON: That's our working assumption too. I think, as we said the other day, we do expect ECLs to normalise at some point this year. I think the only two near-term things that we're focused on are, one, we've got the \$600 million or so of stage one and two provisions that we've put on during Covid still remaining, which is about 15% of the stock we had, and in the China real estate market, the market unwind is now going on there. I think it will just take some time to come through the sector.

So there could be a few bumps on the road over the next couple of quarters on that, but, as we said the other day, going into results we felt consensus for 2022 was probably a tad low. We think it will be probably high 20s this year, if you want a working assumption, but we thought where consensus was sitting at 2023 was fine. We're coming off 300-year lows in interest rates in the UK, so we're assuming it takes some time before you have any meaningful impact and we don't actually see that. When you look at the forward rate curves, they're not implying levels of interest rates that we think would cause undue distress.

OMAR KEENAN, CREDIT SUISSE: I had a question about rate sensitivity and the return on tangible equity target. I went back and looked last year at the >10% figure and the rates assumptions it was based on. I won't bore you with my maths, but roughly for the start of 2024 relative to that plan there looks to be about five extra Fed hikes and a bit more than that in the UK. And if I work through the rate sensitivity, the >10 probably looks more like >12. So I appreciate the 10 is being achieved a year earlier, but could you help us describe your thinking as to why you didn't fully load, looking forward a little bit? Is it conservatism or are you seeing headwinds elsewhere in the business that we're not aware of?

EWEN STEVENSON: I guess we're not going to get into a debate of >10 is above some other number or above some other number. So the commitment was to get back above cost to capital returns, so that's why we've anchored on 10. In context, the group hasn't achieved a return on tangible equity >10 since 2013, so I wouldn't underrate the achievement for us, but the other way to do it, as I said the other day, was just go back to what's happened in the last couple of years.

We went from a NIM, I think, of 158 basis points in 2019 down to 120 last year. If you think about the path back, sterling rates are going to be higher than where they would have been in 2019, but we do think over the next couple of years you'll see a very rapid recovery in NIM and a further boost into 2024 as well, given the annualisation effect and if you look at our interest rate sensitivity tables. But effectively, as we think about the plan, what we had thought was happening probably three to six months ago in 2024, 2025, 2026 – is now going to happen two years earlier than that and we get to the same end point. We're not going to go through detailed interest rate assumptions by market and tell you what's in our current modelling.

RICHARD O'CONNOR: Can I just add, we thought given we haven't achieved >10 for 10 years. Let's get there first. And we note that the market doesn't really value quite long-term dated targets. Let's get something done in the next couple of years and then we can talk to the market about what we do after that. That's our thinking behind this.

OMAR KEENAN: Can I just ask a quick follow-up? Clearly, as you said, the impact from rates is quite positive on net interest income and we're a long way off asset quality being a concern. Are you thinking that perhaps there's a risk that revenues elsewhere in the business normalise from high levels? If I look at Global Banking and Markets revenues, they don't look particularly stretched next to what they were in 2019 or in Wealth Management, but I understand in GBM there's been de-leveraging. So do you think there's anywhere in the business where revenues are supranormal at the moment?

RICHARD O'CONNOR: Possibly trade, but we think world trade growth will be mid-single digits this year. It was high-single digits last year. The current situation is evolving quite fast, I'm afraid to say, in that supply chains will be further disrupted.

EWEN STEVENSON: We still think most revenue line items are quite depressed because of Covid, and at some point there should be a snapback in activity that we're not really yet seeing consistently.

RICHARD O'CONNOR: The only very short-term issue, which I'm sure we'll come on to, is Wealth, where we had very strong Wealth in Q1 last year; >\$1 billion in investment distribution income, which is part of Wealth, and our more normal level for the quarter is about \$800 million. In addition, we had positive market impacts last year of \$500 million, of \$70 million in the first quarter. So far this quarter it's probably negative \$200 million, so you've got a volume issue and the market impacts issue when you look at Q1, but that's only a very short-term issue. Ming is here to give you more granularity on that as we go through.

ALVARO SERRANO, MORGAN STANLEY: Thank you. I just had a question looking a bit beyond deposit betas. Just when you think about the next few quarters, at what point do you start remunerating deposits or the system starts remunerating deposits? Is it purely a liquidity decision? Are you looking at the competitive insurance segment? And when you look at the amount of liquidity in the system, a lot of current accounts are probably lazy money in low-rate environments that have just left the money there. What proportion do you think could transfer into term deposits or are more sensitive to remuneration?

EWEN STEVENSON: I don't think our deposit beta is purely a liquidity issue. Liquidity is not an issue for us generally. In the UK you can see what we've done on deposits. It's a matter of public record what we're doing with deposit products on 1 March, so you can back-solve if you want for estimates of deposit beta in the UK for the first couple of rate rises.

In Hong Kong, the other market that we're most exposed to, for the first hundred basis points or so, there is typically a low deposit beta and then at some point, because of the way the mortgage market works, you get deposit betas close to 100%, I guess.

CARLO PELLERANI, GROUP TREASURER: Three steps, right? It goes very little at the beginning, then it's about 50% and then it becomes close to 100%, so it's three steps.

EWEN STEVENSON: Do you want to talk about liquidity generally?

CARLO PELLERANI: I guess the deposit betas are a consequence of, firstly, objectives that we have in each of the markets with clients, second, the competitive dynamics and third is

the liquidity conditions. The liquidity conditions, which is ample in most markets, gives you a little bit of flexibility to hold back if you don't want to, but the reality is the competitive dynamics in the market are what drives most of it, and each of the markets is quite specific. As mentioned, in the Hong Kong market, if you look at the last cycle, it gives you a good sense of what happens with the different steps, but I would focus on those three pillars.

RICHARD O'CONNOR: Just to add, in Hong Kong, you can see it on the HKMA website, last time in 2018, the amount which went into term deposits was close to 50% of the system, but that wasn't HSBC. That was the system, but you did see a shift and HIBOR went up to over 200 basis points into term deposits. So you can have a look at that, but that's generally what happened over, say, 1.5%.

EWEN STEVENSON: The other thing in Hong Kong at the moment is there is a degree of uncertainty about the coupling of Hong Kong rates with US dollar rates and whether the current situation with Omicron there slows down a recovery in HIBOR relative to US dollar rates.

PERLIE MONG, KEEFE, BRUYETTE & WOODS: It feels like the world has completely changed since we last spoke three days ago, with the geopolitical risk. What sort of risks are you seeing? Is it inflation putting pressure on costs, the cost of living crisis, maybe impairments, or is it going to be capital markets activity dropping off? So just your sense of where you think the pressure points might be, given the geopolitical situation that unfolded in the last few days.

EWEN STEVENSON: Look, it's early days, but there will be a bit more inflation because energy prices are going to be higher. Markets are going to be dislocated for a while, which will impact market revenues, but equally, volatility sometimes can be good, depending on how you're positioned. So it's speculative to say at the moment, but in terms of direct meaningful impact on us at the moment, we're not really concerned about what's happening.

MARTIN LEITGEB, GOLDMAN SACHS: Yes, good morning. Could I ask on the UK, given it's an important element of your rate sensitivity for the broader group, the system overall and including HSBC UK has seen a significant step in liquidity, so excess deposits, essentially within the ringfence and I was just first wondering do you think this step up will normalise as we come out of Omicron or is there a risk that this excess liquidity stays in the system? And related to that, I was wondering how do you balance the profitability of deposits versus profitability on the assets side, I think primarily mortgages in the case of HSBC UK? Could there be a scenario that some of the economic shift – that you would be willing to accept maybe a lower hurdle in terms of the return aspects from – on the mortgage side? Thank you.

EWEN STEVENSON: I think some of the uplift we have seen in the UK – you're going into the mindset of consumers and their risk appetite, but I do think people will run longer cash buffers. Typically, our customer base is more affluent, so that customer base so far through Covid has done typically better – they're better off. They've been spending less money and have had a higher savings rate through Covid.

I think we're going into a period now, as we all know, in the UK, where inflation and tax rises are going to be higher than wage rises, which would suggest the savings balances will come down somewhat, but we do think some of that shift that we have seen through Covid will result in at least for a sustained period a higher degree of liquidity than what we had pre-Covid.

CARLO PELLERANI: I would complement with two things, Martin. The first one is, given the ringfencing, the UK is quite a closed circle, so some of the liquidity there is a function of what happens with money supply; so as long as money supply stays at these levels, it will normalise after QE, but it's pretty much a function of that. So we have done some analysis on the stability of the surge of those deposits and, speaking to a lot of peers and others, we collectively think that it's going to take a while, because of the money supply dynamics, for the surge deposits to fizzle out of the system, given ringfencing.

EWEN STEVENSON: Mortgage pricing – conditions at the moment are much more competitive than where they were a few months ago. Last quarter was the first quarter in a long time that front book margins were behind back book margins. We think we're still

comfortably pricing above cost to capital returns, but the market is competitive at the moment and I think the further we and other banks are earning a decent return on deposits, then, you would expect to see some further asset-side pricing I think.

FAHED KUNWAR, REDBURN: Hi everyone. Thanks for taking the question. Just one question, about understanding the sensitivity in terms of how much are exposed to base rates short-end going up and how much is the long-end of your sensitivity. The reason I ask is we're not really seeing a parallel shift. It looks like short-ends are going up and the long-end is not going up as much, and the yield curve is flattening quite quickly in the US and the UK. So I was wondering, if I look at your rate sensitivity, just rough proportions, how much of the structural hedge is longer dated to the shorter end of that rate sensitivity? Thank you.

CARLO PELLERANI: Yes, it is very dependent on each of the markets. In Hong Kong dollars, a lot of the sensitivity is really short term, because of the dynamics of the market. The asset side reprices quite quickly. In the other markets it's closer to what you would see in some of our peers, but on average it's much more sensitive to the short-term than the long-term curve, so I would focus on the front-end of the curve.

RICHARD O'CONNOR: And Fahed, you've got the disclosure. You've got the year one sensitivity all the way up to year five, including by currency, so you can see that. If you compare that to peers, we are more year one impacted positive and negative than peers are. So that's a reasonably easy piece of modelling you can look at.

CARLO PELLERANI: If you go into the detail, for 100 basis points, \$5.4 billion sensitivity in year one and that grows to \$8.4 billion in year five. That trip from \$5.4 billion to \$8.4 billion – a lot of that is away from Hong Kong dollars. The Hong Kong dollar sensitivity doesn't really change after year one and in the other currencies, in particular with sterling, you would have the growth in the outer years.

FAHED KUNWAR: That's very helpful. And just for my recollection, when you talked about 2022 consensus being a bit lower and 2023 being fine, you were using the forward curve as it currently stands. Did you factor in the fact that the long end of the curve in the UK is flattening on that guidance? I'm just trying to understand exactly what was in those comments.

RICHARD O'CONNOR: Those comments were made about ECLs, not interest income.

FAHED KUNWAR: Sorry, on the last conference call, linked to NII was a bit lower in 2022 and low in 2023. I think the \$36 billion number on the call was talked about – just a sense of what was in that assumption when you gave that guidance on the last conference call.

RICHARD O'CONNOR: We gave you the spot rates in the chart - those were the rates used to give the guidance and discuss the NII trend for 2022 and 2023.

TOM RAYNER, NUMIS SECURITIES: Thank you. Good morning, everyone. Ewen, your comments about the 2019 NIM and looking at that as a benchmark where the NIM could recover to – I'm thinking in terms of liquidity. I think the cash at central banks compared to 2019 is currently about – is it \$250 or even \$300 billion? It may be even more than that, but it's a massive increase in liquidity during that period. Are you assuming that the bulk of that excess liquidity sitting at central banks unwinds over the next two or three years as part of that comment? I'm thinking the asset mix, I would have thought, would suggest that your go-to margin would be a bit lower than maybe it was in 2019? Thanks.

CARLO PELLERANI: The balance of cash, including a central bank, is over \$400 billion at the moment, which is part of about \$880 billion of HQLA that we have, gross of the deductions we have in each of the sites. The amount is quite large. It has grown quite a bit over the last 18 months. That amount is not something we hold as an objective. It will be a function of what happens on the client side. We're trying to incentivise much more on the lending side, so hopefully a lot of that will be absorbed by client activity.

To the point that was made on the question earlier, it will influence a little bit as well our deposit betas. So through asset incentivisation and deposit betas, we should be able to absorb some of that. Obviously, we tend to be a defensive type of bank, so we tend to absorb much more of the deposit growth than other banks. So it is almost running to stand still

because, despite what we're trying to do with deployment, we continue to absorb more and more deposits from the client side.

MANUS COSTELLO, AUTONOMOUS: Hi and apologies for not being there in person. Can I ask a couple of questions I get from investors from time to time? One is about your NII experience in the last rate hiking cycle, where you didn't see to see the benefits that might have been expected or that you'd forecast back at the beginning of the cycle. I've had a stab at trying to answer that question. IR has helpfully pointed out the errors in my maths on that, but the fact that is that NII didn't go up by as much as people might have expected, so why is it different this time? What headwinds have gone away?

And the second question is a longer-term question. How concerned are you about the longer-term future for Hong Kong and the impact it could have on your business? I guess the things that people are concerned about are the ability to attract talent over the longer term internationally to Hong Kong. And what proportion of your customer base in Hong Kong is ex-pat or non-native Hong Kong would be a useful statistic for us to know. Thank you.

EWEN STEVENSON: Manus, thanks. On your first question about the interest income path from about 2015, 2016 through 2019, as I think we've taken you through, there are a number of one-offs that were impacting this. Firstly, we sold Brazil, which was about a \$2 billion impact. Secondly, we were still running through the run-off of Household, the sub-prime portfolio. In 2015 we still had over \$20 billion of sub-prime, earning a yield of about 8%. We had currency movements. We had customer redress. I think if we backed all that out, net interest income grew by about \$4.6 billion between 2015 and 2019.

There are also some other structural issues – ringfencing was set up at that time. That did two things. The ringfenced bank had a lot of trapped liquidity, which we weren't able to redeploy quickly. And secondly, it meant that we had to refinance a lot of the liquidity – the absence of liquidity in the non-ringfenced bank with quite expensive wholesale funding. And then we also had a lot of MREL financing over the time too. So I think we had to replace about \$55 billion of debt in that period with MREL and we had to, on top of that, issue about another \$25 billion of additional MREL. So I think when you do all those numbers together, Manus, I think you get to about \$7 billion or so of net interest income growth over that period rather than the flat that you see in the actual numbers.

MANUS COSTELLO: And just to be clear, it's different this time.

EWEN STEVENSON: Ming, given you've had a second, I don't know whether you want to talk about the ex-pat community and co.

MING LAU, CHIEF FINANCIAL OFFICER ASIA-PACIFIC: Thank you and thanks, Richard. In terms of Hong Kong, it still serves as a platform between China and the rest of the world. So if you look at whether it's the legal system or whether it is how developed the financial markets are in Hong Kong, from a longer-term perspective that still places Hong Kong well to serve that flow between China and the rest of the world. I think Hong Kong has clearly demonstrated it's been pretty resilient through the last couple of years, whether it's through the protests and Covid, so in terms of confidence for Hong Kong to serve as a platform for the rest of the world, we remain confident that that will remain in place.

Attracting talent – I think really in the short term there are some struggles that Hong Kong is going through, particularly on the Omicron and Covid situation. At some point, clearly, Hong Kong will work its way through this.

The question in terms of the international client portfolio and so forth – I think we're broadly priced slightly higher than the market in general. So I think the market is about 10%, so we would be slightly just above the 10% in terms of international products in our portfolio.

EWEN STEVENSON: And if those clients were to move, I think we would retain a decent share of them, given our international network, depending on where they chose to relocate to.

Just a couple of anecdotal comments on talent – we've just hired a new CFO for the Commercial Bank out of Australia, and she's moving to Hong Kong in the next couple of months. We've just hired a new CFO for Global Banking & Markets out of the US. He is

moving to Hong Kong when Greg moves down to Hong Kong later this year. So we are an employer of choice in Hong Kong. Do we think Singapore is going to benefit because of some of what's going on in the moment in Hong Kong? Yes. That's part of the reason why we've got to focus on building up our presence in Singapore, but it's no different to London post-Brexit. Will it have some impact on London? Yes. Will London remain a relevant and important financial centre? Yes.

RICHARD O'CONNOR: Let me add, in Hong Kong we have 28,000 employees, primarily Hong Kong Chinese, and we're recruiting thousands of people a year. Some of our peers, more western peers, would be disproportionately impacted by ex-pats, but we are viewed as an employer of choice, so we think – and, as Ewen said, we are still recruiting people and moving people into Hong Kong and investing in Hong Kong, so I think, as ever, you'll find HSBC to be relatively resilient during what will be quite a short-term period of disruption over the next few months.

EWEN STEVENSON: And I think undoubtedly the thing to remember about Hong Kong – if you see it in the context of broader China, you have 1 billion people sitting next to a city of 8 million people. Mainland China's ability to fill up Hong Kong is not an issue. I think what you're seeing is a lot of noise at the moment out of the ex-pat community, but you're not seeing that playing out on the ground.

MING LAU: The thing I would add to that is, there is a lot of noise from ex-pats and international businesses leaving Hong Kong, but what people don't talk about is the inflow of mainland Chinese and mainland Chinese corporates into Hong Kong, which is more than making up for the outflows.

EWEN STEVENSON: In terms of what we're trying to do for our staff, we allow staff to work 15 days in another tax jurisdiction each year, so I think for anyone who wants to leave Hong Kong and go see family, they can typically structure a five-week period outside of Hong Kong by going on vacation for two weeks and working for three weeks. So I think for most people we've been able to come up with accommodation to allow them to spend time away, if that's what they want to do.

JAMES INVINE, SOCIÉTÉ GÉNÉRALE: Hi, good morning. Ewen, you said that, if the benefits from rate rises are bigger than what's in the plan, then you'll let that drop to the bottom line rather than bumping up the cost line. Should we take that as a commentary on the marginal return for investment or is it just related to the fact that group returns are still below cost of equity? And, if that is the reason, is there a return on equity level beyond which you will feel a bit freer to invest more? Thanks.

EWEN STEVENSON: No, I think you should take it more as a commitment to keep costs under control. If you look at HSBC in the past, we could be rightly accused of spending the benefits of rate rises. The year I arrived, late 2018, we grew our cost base by about 5.5-5.6% that year. We don't want to go back to that period. I think what you should take is, effectively, we've committed to grow the cost base by no more than 2% over the next two years, which puts us, I think, in sharp contrast to a number of our peers. So I think it's more to do with that than – we don't think we are constrained on investment. We don't think we are constrained on capital to deploy or good organic growth opportunity, if we see it.

AMAN RAKKAR, BARCLAYS: Thanks, three questions, if I may. The first one's back on rates sensitivity. I think we've addressed some of these points, but I would just like your view. Are there any offsets to your rates sensitivity that you'd call out in terms of the asset side of the business? UK mortgages might be one in terms of a negative mortgage churn. Is there anything else that you'd encourage us to think about that might clip that quite strong rate-sensitivity?

The second would be about wealth management. You've got your double-digit revenue aspiration, your revenue CAGR aspiration. But I think that was pre the impact of IFRS 17. Sorry if I've missed it in the various updates, but I'm interested in your updated expectations for that, perhaps post the impact of IFRS 17. Presumably this year it is going to be hard to deliver on that double digit, but maybe some of that strategic investment comes through next year?

The last one was a question on ring-fencing. There were the preliminary findings of the ring-fencing review. I thought some of the conclusions were quite interesting – they rejected the idea that it had a distorting effect on operating conditions in the UK around liquidity and mortgage competition. I think that's something that you guys have talked about quite prominently for a long time. I'm interested in your thoughts on that.

EWEN STEVENSON: So we disagree with that conclusion, and I think most of the banks in the UK would disagree with that conclusion. I think ring-fencing has had a heavily distorting impact both in retail banking and wholesale banking. It's created trapped liquidity in the UK and it has undermined the profitability of UK wholesale banks by cutting them off from a natural source of liquidity that existed previously within the ring-fenced banks. So, we were quite strong in our submissions into that inquiry that we felt ring-fencing had net net – look, we understand the reasons why it was imposed, but we do think that all of the post-financial crisis additional measures that have been brought in to regulate banks mean that ring-fencing is not needed anymore, but it's here to stay.

On wealth, we didn't give any updates on IFRS 17. We are planning to have a session in the third quarter, but what we have disclosed today is data that we think it'll have about a two-thirds impact on reported profits, and so the year-one tangible net asset value will go down by about \$3 billion. Costs will be lower, but effectively that is a contra-revenue line item, but I would work with the IR team, if you want to check your numbers.

RICHARD O'CONNOR: We're clearly going to be rebasing to IFRS 17, but that 10% aspiration in Asia is still very much intact but you have to rebase downwards in year one, but certainly the volume growth and the asset-management growth and all those working assumptions behind it are absolutely unchanged in the medium to long term. Ming and Ewen can talk about near-term Wealth Management trends, but certainly the long-term aspiration or ambition, as we put on the slide, has not changed.

EWEN STEVENSON: I think you should see what's happening in Hong Kong at the moment as probably a three-month phenomenon, i.e. it started in February and will end at the end of April. But we've currently got over half, Ming, of our branch network shut?

MING LAU: Yes.

EWEN STEVENSON: And that may continue to grow depending on lockdown restrictions.

RICHARD O'CONNOR: Ming, what are we seeing on the ground in Hong Kong, please, just to help Aman and the team?

MING LAU: Roughly 50% of our branch network in Hong Kong is shut at this point. I think the other component which we need to recognise is the fact that a big part of our wealth revenue in Hong Kong is investment distribution. And if you look at what's happening now across the market – one, weak equity prices across the board through the start of the year. Secondly, when you look at Hong Kong, the stock exchange turnover is down nearly 50% year on year relative to the same period of last year. Then, lastly, the fact that 50% of our branch network is closed in Hong Kong and likely to last through the first quarter and at least into April – you should expect a weaker first quarter and first half.

And I think, lastly, the other component I would draw to is probably on insurance and the impact of falling equity prices on the market impacts. Richard mentioned, I think last year, in the same period it was positive \$70 million. Today, looking at where the markets are, that's probably negative \$200 million, so that would be a swing above \$270 million so far.

RICHARD O'CONNOR: And then on liquidity.

CARLO PELLERANI: So on your question on NII sensitivity, I think I would answer it by encouraging you to think about what is in that NII sensitivity and what isn't, and I would point you to three things. So the first one is that data sensitivity assumes static balances, so, to the extent that there are migrations of products then that would affect that number.

Second, to the point you were making, you may have some impact on margins on the asset side. The UK market is an important one, as discussed. If the market becomes very

competitive, potentially you could have some compression on the margins on the mortgage side.

And the third one is also – remember that NII sensitivity does not take into account trading assets, so to the extent that, in particular in dollars, we are, from a treasury perspective, lending to the trading desk in dollars, that lending increases as the sensitivity of rates moves is not reflected in that number. So there would be an increase in trading revenues that is not reflected in the NII line, so maybe look at what is NII in order to orient your calculations.

RICHARD O'CONNOR: I'll just say that our asset sensitivity – we assume, obviously, quite high pass-throughs on the asset side, but one of the answers to Manus' question on why you didn't see it in NII last time was because we did see very strong UK mortgage competition as we went into ring-fencing. Clearly, you are already seeing that, so it is up to you to model whether it gets any worse from here, but certainly that was one of the impacts last time around; we saw quite strong UK mortgage competition. We grew our mortgage business very successfully during that time period and continue to do so, but generally the asset pass-through sums are as you would expect them to be.

CARLO PELLERANI: And maybe one more – the assumptions on a parallel move. Of course, the assets are priced out of a swap rate, which is a long-dated rate in the UK for sure, whereas the moves we are seeing are particularly on the short end, so I think you need to look at those dynamics a little bit more, in more detail than the disclosure that we gave you.

MATTHEW CLARK, MEDIOBANCA: Could you talk us through a bit more of the data points that led you to take a more cautious view on Chinese commercial real estate in the fourth quarter? Is it that there were particular metrics that you monitor that were showing a deterioration there or was it a more qualitative view taken on policy news that led you to push up provisions there?

EWEN STEVENSON: Well, there was clearly a big structural market shift that happened around late Q3 last year, which led to much tighter liquidity and effectively a closing of the international financing markets for Chinese real estate developers. So that's both name by name and a general overview of the portfolio. But you should assume that we spent a lot of time reviewing that \$20 billion portfolio.

RICHARD O'CONNOR: And you can see in the disclosures and report and accounts the shift from stage 1 to stage 2 in that portfolio and indeed the CRE portfolio more generally, and associated provisions with that; that gets you to the number which Ewen mentioned before, which was the c.\$600 million in total, which we made.

EWEN STEVENSON: But if you just look at the bond pricing of Chinese real estate developers from about late October, you see this complete bifurcation of bond pricing, and you just look at the implied default rates on some of those bonds.

NICK LORD, MORGAN STANLEY: Thanks very much, and thanks for taking the question. A couple of questions from me. First of all, I just wondered whether you could talk about what you're seeing in terms of loan demand out of Hong Kong in particular this year and whether that's been impacted by what's happening at the moment, and also maybe the pace at which you might see that pick up later in the year.

And the second question is, you've got some experience now of Pinnacle and you've got an increasing number of relationship managers in place. I just wonder whether you could talk a bit about what the on-the-ground experience is in terms of competition and profitability of those relationship managers relative to what you thought when you set this up?

EWEN STEVENSON: Ming, there are sort of two questions there, one on what we're seeing on Hong Kong, on broadly Asia loan demand at the moment and, secondly, what the experience has been on Pinnacle to date.

MING LAU: On loan demand on the wholesale side, I would say term lending, similar to last year, has been relatively muted. The positive so far has really been on the trade side, so, when you look at trade volumes, trade financing, the recovery on that had picked up through 2021, and through January the trade-financing volumes are still at all-time highs.

On the residential side, we had seen some good volumes come through on residential mortgage originations, albeit, when you look at what's happening in the short term on Omicron and the lockdowns and so forth that are happening, clearly that is dampening some of the residential property sales volumes. So I'm expecting that first half residential sales volumes will likely be weak, but, hopefully, Omicron and the fifth wave is quick and we'll come out of this in the second half.

On Pinnacle, it's still early days. We've got up to about 700 personal wealth planners. Broadly, in terms of what we're expecting from sales activity, annual net premiums and so forth from the 700, it's slightly above where we expect to be in terms of sales, but it's early days. In terms of competition, I would say it's noticeable, but I would say the market in China is big enough that there's enough market share for us to grab - it looks on track, but extremely early days at this point.

RICHARD O'CONNOR: Just on term lending outside of Hong Kong, actually notably many of the sites in our network have seen slightly better term lending trends outside of the UK and Hong Kong. At the moment, UK is still pretty weak, as we've seen in all the UK banks' wholesale lending numbers. Hopefully that picks up during this year. Lots of bullish talk on how people need to spend more on capex all around the world, and globally let's see if that comes through, but certainly we're seeing notably in some other countries outside of UK and Hong Kong and Asia at the moment term lending.

TOM RAYNER, NUMIS SECURITIES: Could you just comment on the accounting treatment of BoCom in light of Standard Chartered, which increased its discount rate mainly because of Chinese CRE and took the impairment? Can you just update us on where you guys are, please?

EWEN STEVENSON: I can start and, if you want to get into more detail, we can go to Ming. We set out in the annual report, as you know, Tom, all of our assumptions on BoCom. BoCom doesn't have the same exposures, I understand, to the China commercial real estate market that Bohai did that led to the impairment of the value-in-use calculation of Bohai. We've set out all of the assumptions. If we were ever to need to mark to market BoCom because the value-in-use calculation dropped, the first \$10 billion or so of that impairment has a very negligible impact on capital.

RICHARD O'CONNOR: No, minimal would be what I'd say at this stage.

EDWARD FIRTH, KEEFE, BRUYETTE & WOODS: I'm struggling to see how in actual terms Hong Kong opens up, because it seems that the mainland Chinese authorities in particular, not so much the Hong Kong authorities, more the mainland Chinese, are still very strongly pursuing this zero-Covid approach, which I guess is quite markedly different from what we're seeing everywhere else in the world. I'm just trying to think about how we can think through that actually happening, because as soon as you open up then you're just going to get Covid back again and then it seems to me there's going to be a lockdown all over again. So I guess that's my first question.

And then, sort of related to that, last year we were all talking about the border opening and how this was going to be a big jump-up, but it seems to me that your Wealth Management - you had a very good year last year and now we're having a less good year and the border has been closed throughout all that. So do you think that people have started to work around now some of these hurdles with Covid? Should we still be thinking about the border opening as being a big jump-up? Have people actually found other ways now of managing their money and getting around some of the lockdown restrictions? Thanks very much.

EWEN STEVENSON: For Hong Kong, the issue that I think the Hong Kong authorities - I wouldn't say 'every place in the world' or, 'they're on their own'. My home country, New Zealand, I think, has tried for the longest possible time to approach a zero-Covid strategy, much to my detriment, because I haven't been able to get home.

You know, the issue that they've been grappling with in Hong Kong - my understanding is - and Ming can correct me - a significant portion of the over 80 year olds haven't been vaccinated. It's not an anti-vax thing; they're just believers in traditional Chinese medicine.

And, you know, as of a month or so ago the vaccination rate was something like 20% amongst the over 80 year-olds. We've had a similar issue in Singapore as well.

So, at the moment, what you're seeing in Hong Kong is a very rapid increase in that vaccination rate, but the last numbers I heard a few days ago – it was still only up to just over 50%. So I think you need to get that population vaccinated. I think the issue in mainland China might go beyond that into the efficacy of vaccines and maybe needing to get another round of vaccination done in mainland China. So the issues are different, I think, but I definitely think you will have – it will take some time for the Hong Kong international border to reopen. I think what's more complex is, if you've got high vaccination rates and high efficacy of vaccine in Hong Kong and lower efficacy of vaccinations in mainland China, how that mainland China border plays out.

MING LAU: If I look at Hong Kong and the situation, up until recently the number of Covid infections has been pretty low. So, from a general-population perspective there isn't really a carrot for the senior population to really go out there and get jabbed. That's the reality, given some of the risks around the vaccines, but clearly now, with Omicron and the spike in the infection rate, it has really now sparked an acceleration of the vaccination programmes. So, yeah, even in the 80-year-old-plus population now, the vaccination rates are going up pretty quickly.

In terms of mainland China, what I would say in terms of when that opens up, I think, clearly, China's working on developing a mRNA vaccine programme which is more effective globally from what we have seen. And, secondly, at some point the development of a Covid pill will also help contain the severity of Covid itself, so I would point to those to this in terms of development on-shore on the mainland from a reopening perspective.

EWEN STEVENSON: And then, Ming, in terms of Wealth sales, 40% of our insurance sales pre-Covid were through mainland Chinese into Hong Kong. That's gone close to zero.

MING LAU: I would peg the number just south of that, Ewen, but if you look at the insurance sales to mainland Chinese, that's pretty much gone to near zero at this point just because the borders are closed. Having said that, for 2021 we were able to make up some of that by an increase in the domestic sales, but, clearly, now for the first quarter and first half, with 50% of our branch network in Hong Kong closed, that's going to have an impact in the near term.

RICHARD O'CONNOR: Okay, thanks everyone.

EWEN STEVENSON: Thanks a lot to everyone who came in today. Really good to be actually in a room seeing people again for the first time in a couple of years. Hopefully, Ming, there is light at the end of the tunnel in Hong Kong and we'll be able to have you all down to Hong Kong at some point in the next year. But thanks a lot for coming along. If you've got any follow-up questions, obviously Richard and the team are here to help. It's an interesting time that we're continuing to operate in. Thank you.