

## **Investor and Analyst Call Q1 2022 Results**

**26 April 2022, 7.30am BST**

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks and good morning in London and good afternoon in Hong Kong. Thanks for joining today for our first-quarter results. I'll run quickly through the presentation and then open up for questions.

At our full-year results, Noel and I set out a path back to double-digit returns, strong revenue growth driven by volumes and rising rates, and tight cost discipline. Our strategy to get there is on track. All of these building blocks were reflected in our first-quarter results: strong underlying volume growth across most of our businesses, with \$21 billion of lending growth, and lending up in every global business and region. The benefit of rate rises is now being reflected in our net interest margin. Our net interest margin was up seven basis points in the quarter – our highest quarterly NIM since the second quarter of 2020. And implied consensus policy rates have further strengthened since full-year results, with further positive implications for our net interest margin and net interest income in 2022 and 2023. We maintain good cost discipline, with adjusted costs down 2% versus first quarter last year, in line with our target of keeping costs flat this year and within a 0-2% growth range for 2023.

Despite more challenged macro conditions this quarter, we remain firmly on track at this point to deliver double-digit returns in 2023. While reported profits before tax were down on last year's first quarter, this mainly reflected a weaker quarter for Wealth, driven by a combination of weak markets and Hong Kong COVID restrictions, together with a turnaround towards a more normalised level of expected credit losses from net writebacks in first quarter last year.

On capital, with a 14.1% core tier 1 ratio, we're now back within our 14-14.5% target range. We've completed the \$2 billion buyback we announced at our third-quarter results, and we expect to launch our next \$1 billion buyback in early May, following our Annual General Meeting later this week. And with the now expected benefit of higher net interest income in 2023, this should strengthen our returns outlook and our capacity to fund attractive growth in distributions.

On the next slide, we're seeing good momentum across most parts of our franchise, reflecting our focus back to areas of competitive strength. In Wealth and Personal Banking, our underlying insurance business performed well, with new business levels equivalent to pre-pandemic sales, and that's despite the closure of the Hong Kong-mainland China border and the impact of COVID restrictions on Hong Kong branch openings. And our mortgage franchise continues to underpin good growth in Personal Banking.

In Commercial Banking, we saw strong lending growth of \$9 billion, or 3%, versus the fourth quarter, with Credit and Lending up \$6 billion and trade balances up \$3 billion. Commercial Banking fees were also up 13% – the seventh straight quarter of increased fee income in Commercial Banking. We were profitable in all regions, including strong performances in the UK ring-fenced bank and the Middle East.

You will have already seen our sustainability announcements, which we're now working hard to implement, and we made further progress in reducing our real estate footprint. With a further seven buildings closed in the first quarter, our footprint is now down 25% since the end of 2019.

On the next slide, we've provided an update on our business in Hong Kong and mainland China in light of the material COVID restrictions that have been in place in both markets. In Hong Kong, branch closures in soft markets clearly impacted revenue, but we continue to see

good sales activity in the quarter, underpinned by the increasing shift to digital sales and the investment we've made over recent years to support this. Our remote sales capability particularly benefited insurance, which delivered pre-pandemic levels of sales volumes, despite the branch closures and the continued closure of the mainland China border. As we've seen globally, with the short cycle of Omicron, Hong Kong is now starting to reopen. Our branches are operating normally again as of last week and we expect client activity to begin to normalise as a result. In mainland China, we had another solid performance, despite the impact of COVID restrictions on our own team and more widely. Revenues were up 9% on last year's first quarter. Lending grew by \$6 billion, or 11%, with a strong Commercial Banking performance as the standout.

Turning to slide 5, I've touched on most of this already. Adjusted net interest income was up 10%, at \$7 billion in the quarter, reflecting both rate rises and balance sheet growth, but non-net interest income was down 16%, mainly due to insurance market impacts and the effects of COVID restrictions on Asia Wealth. Our tangible net asset value per share was \$7.80, down eight cents, with profit generation more than offset by fair value movements and the impact of FX.

Turning to revenue on the next slide, while Wealth and Personal Banking revenue was down 6%, the bulk of this was due to insurance market impacts. We had a good Personal Banking performance, revenues up 7% on first quarter last year, benefiting from rate rises and balance sheet growth. This was offset, however, by a weaker quarter in Wealth, with revenues down 19%, driven by the impact of weaker markets and Hong Kong COVID restrictions. Commercial Banking revenue was up 9%, spread across all our main products, with continued good fee-income growth. GLCM and Trade were the standout performers – GLCM up 21%, reflecting both higher balances and higher interest rates, and Trade reflecting continued balance growth.

While Global Banking and Markets revenue was down 4%, this was mainly from lower revaluation gains in Principal Investments. Markets and Securities Services revenues were down 2% against a strong first quarter last year, underpinned by good performance in FX, up 15%. Global Banking was up 4%, reflecting our different business mix to many peers, with GLCM revenues up 21% from higher rates and volumes.

On slide 7, net interest income was \$7 billion, up \$483 million versus last year's first quarter. This was mainly driven by higher rates and volumes, particularly in Wealth and Personal Banking and Commercial Banking. On rates, the net interest margin was 126 basis points. That's up seven basis points on the fourth quarter. Implied consensus policy rates have further strengthened since full-year results, with further positive implications for net interest income in 2022 and 2023, giving us even greater confidence in achieving double-digit returns in 2023.

On the next slide, on credit performance, we've reported a net charge of \$642 million of ECLs in the quarter, some 25 basis points of average loans. The overall quality of our loan book remains good. Stage 3 loans as a percentage of total loans are stable, at 1.8%. The ECL charge includes around \$250 million relating to Russia exposures and around \$160 million relating to China commercial real estate. We've released most of our remaining COVID-19 provisions – some \$600 million in the quarter. This was largely offset by additional reserves of \$525 million, comprising \$275 million of forward economic guidance-driven, additional expected credit losses, and a \$250 million central management provision, reflecting a cautious approach, given the increased economic uncertainty. We continue to expect ECLs to normalise towards 30 basis points of average loans for the year.

Turning to slide 9, first-quarter adjusted operating costs were down 2% on the same period last year, driven by continued cost control and a lower performance-related pay accrual relative to last year's first quarter. As in previous quarters, we are continuing to invest in technology while reducing other BAU costs. We've made a further \$600 million of cost programme savings during the first quarter, with costs-to-achieve spend of around \$400 million. We've remained on track to achieve the higher end of our \$5-5.5 billion of cost savings over the three years to the end of this year, with at least a further half a billion dollars of cost savings from this programme now expected in 2023.

To reiterate, despite a low run-rate cost to achieve in the quarter, we continue to expect to have total costs-to-achieve spend of around \$3.4 billion this year, which will complete our combined costs-to-achieve spend of \$7 billion when the three-year programme ends in the fourth quarter of this year. We remain on track to achieve stable costs this year compared with 2021, and we remain committed to keeping underlying cost growth in 2023 within a 0-2% growth range.

Turning to capital on slide 10, our CET1 ratio was 14.1%, down 170 basis points on the fourth quarter, and back to being within our 14-14.5% target range. We flagged the impact of regulatory changes and the unwind of software-capitalisation benefits at our full-year results. Together, these reduced our CET1 ratio by around 80 basis points in the quarter. And the dividend accrual and the announced additional \$1 billion buyback accounted for another 30 basis points. In addition, the steepening of the yield curves on financial assets designated as hold-to-collect-and-sell reflected a negative after-tax reserve movement of \$3.1 billion, or around 40 basis points, which was reflected in other comprehensive income and our CET1.

Reported RWAs were up \$24 billion on the fourth quarter, due largely to regulatory changes and lending growth, partly offset by ongoing risk-weighted assets saves and FX movements. Our cumulative RWA saves are now \$112 billion. We're firmly on track to achieve our new ambition of at least \$120 billion of cumulative RWA saves by this year-end. Just as a reminder, later this year we expect an impact of around 35 basis points of CET1 from the sale of our French retail business, which we expect to contribute to us falling below our 14-14.5% target range during the coming quarters, but as I said at our full-year results, our intention is to manage within the 14-14.5% range over time.

We've now completed our \$2 billion buyback announced in October and we expect to launch our next \$1 billion buyback in early May, following our AGM later this week. As we're now at the bottom of our target range due to the impact of fair-value market losses, and that we're continuing to see good, expected growth in the business, we're now unlikely to announce further buybacks during 2022. However, buybacks remain an integral part of our capital management toolkit going forward.

So, to conclude, despite a tougher set of operating conditions this quarter, we remain very focused on getting back to double-digit returns in 2023. To achieve this, we need to see good volume growth, rising rates and cost discipline. All of these attributes were there in these results. Underlying volumes grew in most parts of our business, underpinned by lending growth of \$21 billion, our net interest margin rose seven basis points for our highest quarterly net interest margin since the second quarter of 2020, and costs declined by 2%. So despite the macro environment impacting Wealth revenues and expected credit losses this quarter, the fundamentals of the benefit of rising rates have only strengthened since our full-year results, increasing our confidence in delivering double-digit returns in 2023 and our capacity to fund attractive growth in distributions.

With that, Martin, if we could please open up for questions.

JOSEPH DICKERSON, JEFFERIES: Hi. Thank you for taking my question. Just on the Q1 non-interest income, how much of this is backward-looking? Given you've got a lot of market impacts, etc, and it sounds like, from your commentary, things are starting to pick up in Hong Kong, are you able to recoup some of the 'lost' revenue from things like Wealth sales? Markets will do what they will, but it seems like, if most of this is backward-looking, you're set for quite a rebound in non-interest income over the coming quarters. I just would like your commentary on that, please. Thank you very much.

EWEN STEVENSON: Joseph, thanks. I think it's a mix. So there'll be insurance market impacts. That will depend on the performance of markets in the second quarter, but we're not anticipating the same extent of negative market adjustment that we saw in Q1. There are some line items like equity brokerage, the flow business - equity brokerage volumes for us in Hong Kong were down almost 50% in the quarter. We do expect that to normalise back. Q1 is normally our strongest quarter but we don't think we'll recoup the flow business that we lost in Q1.

If you look at something like mutual-fund sales, which, in Hong Kong, were down around 30%, I think it'll be a mix. I do think part of that we should recoup in the coming quarters. So

overall, I think you'll see a decent recovery in Q2, Q3, Q4. Some of what happened in Q1, I think, is lost. And just remember that Q1 is our strongest quarter normally, so you have to seasonalise my comments that I've just made.

AMAN RAKKAR, BARCLAYS: Good morning, Ewen. Two questions, if I may. One on revenue. You're flagging a firmer net interest income outlook, but note that you retain the mid-single-digit revenue growth aspiration for this year, so I just wanted to be exactly clear on to what extent there was an offset in non-interest income. Is this simply because of the activity impact in Hong Kong and China? What kind of assumption are you making about a reopening on your thinking about mid-single-digit revenue growth in 2022?

The second was around FX. I think this is something that, typically, consensus struggles to model very well for HSBC, and I note that there is a pretty meaningful revenue headwind from FX of about \$1.4 billion based on March, offset by \$900 million lower costs, based on the average FX in March. If I was to look at spot FX rates, they're probably even a touch weaker here. Particularly for revenues, if I was to rebase your 2021 revenue for the updated FX and factor in your mid-single-digit revenue guide, it probably is pointing to 2022 revenues around \$51 billion. Consensus is around \$53 billion. Does that sound about right to you? Is there any additional colour that you'd add to that? Thank you.

EWEN STEVENSON: We do think that we'll see net interest income growth comfortably in excess of mid-single digits, offset by slower non-net-interest-income growth, particularly given the impacts that we've seen in the first quarter on Asia Wealth, which will impact non-interest income for the remainder of the year. But yes, there will be an FX impact. Yes, I do think your estimate around \$1.4-1.5 billion is a reasonable estimate of that FX impact, roughly split, I guess, across non-interest income and net interest income. Your forecast feels a bit light to me, actually, despite everything I've said about the impact of FX. That's probably all I'm going to say on your own forecast.

RAUL SINHA, JP MORGAN: Good morning, Ewen. Thanks very much for taking my questions. Maybe the first one, just focusing a little bit on the NIM trajectory. On slide 18, you're again showing your very helpful breakdown, and what is interesting here is the UK bank NIM improved quite significantly quarter on quarter, whereas, clearly, everything else is picking up very nicely as we go along. So I guess my question is: is there anything specific in terms of repricing you're seeing in the UK to explain that movement?

And related to Hong Kong, how should we think about the gap between HIBOR and LIBOR? It's about 50 basis points now. HIBOR is lagging the move up in US interest rates. How should we think about that impacting the NII trajectory?

And then, unrelated, just another follow-up question, if I can, on RWAs: you've had positive credit migration again from asset quality this quarter. I was just wondering what you think about the moving parts in RWAs for the rest of the year. Thank you.

EWEN STEVENSON: On the NIM trajectory in the UK, I think there's nothing really to call out on the assets side. Continuing pressure, as you all know, in the UK mortgage market, but the main thing you're seeing is the benefit of the two rate rises that had already come through in the quarter and, as we've talked about, deposit betas being below 50% for the first few rate rises. So yes, we continue to think that we will see very material net interest income growth in the UK as policy rates continue to rise over the remainder of the year, as we expect.

In Hong Kong, with HIBOR – current consensus and our own forecasts at HSBC, I think, are for a 50 basis point rise in Fed funds next month and another 50 basis points in June. If we get that 100 basis point rate rise coming through, it's very difficult to see how HIBOR doesn't react. So if you had asked me at full-year results, I would have said we could have envisaged a six-month lag between HIBOR and US dollar rates. Given the shape of US dollar rate rises that we're now likely to see being much more front-end-loaded, I think it's hard to see that gap being more than one quarter.

On risk-weighted assets, for the remainder of the year, in terms of things to call out, you've got FX. I don't think there's any material regulatory movements from here to call out. You've got the impact of M&A to factor through, including the French retail bank exit and a few smaller acquisitions that we've made, but Q1 was definitely the quarter that we expected to

see most of the activity that we've now seen, so it will be a much more normalised trajectory, I think, in the coming quarters.

RAUL SINHA; Thank you, that's really helpful. I don't know if I can follow up, but on regulatory changes, last quarter you'd called out about a 5% RWA inflation guide for the medium term on regulatory changes. How much of that is remaining, just thinking more medium-term about RWA moves?

EWEN STEVENSON: I think, at the moment, we're through most of it. Yes, you then roll forward to the introduction of Basel, 1 January 2025 maybe, we're thinking that will be a small net benefit to us. Even further forward, by the time we're out to 2030, we may see the impact of output floors at that point, which unless we adjusted our business model, would be a negative at that point, but certainly, over the next few years, I think we're through the bulk of it. And as I say, on 1 January 2025, as we currently model, we think Basel will be a net positive for us.

JASON NAPIER, UBS: Good morning, Ewen. Thank you for taking my questions. Two, please, both on net interest income. The first is: if we take the 4% volume growth over the year and just run it into 2023, and then give you about 150 basis points of yield-curve moves, I'm getting \$37-38 billion of net interest income. Consensus is in the 33s. I take what you're saying about FX, but I guess we've all got our opinions on using a 50% deposit beta in the maths. Is there anything wrong with volumes plus 150 basis points that we should know about structurally as far as the walk forward into next year is concerned? And then I've got a second question.

EWEN STEVENSON: No. Well, you know I don't like talking about NIM and net interest income forecasts, Jason, but look, I think, reflecting on what's happened over the last couple of months, I think the average consensus model was probably updated following our full-year results in late February. Since then, we've seen very material rate rises coming through in March and April, which I don't think is reflected in consensus. Our internal forecasts are materially ahead of consensus as they currently sit for net interest income in 2023, without commenting on your numbers.

JASON NAPIER: Sure, thank you. And then the second one, perhaps a more useful one from your perspective, just in terms of the mechanics of the way the sensitivity works. I've never quite been able to square the \$5 billion number, even if you are using a 50% deposit beta, and today I find myself even less capable of doing that, and I'll tell you why. The unwind of FVOCI is a sort of a \$5 billion tailwind, but of course that only relates to \$350 billion in bonds, and you've got \$1 trillion in loans and deposits that match one another. I just wonder why the rate gearing isn't substantially more than that of the bond tailwind on its own, given what's happened to rates is about \$5 billion. Is there something fundamental that I'm getting wrong there that you can spot?

EWEN STEVENSON: I'm not sure your bond tail is a bond tail. The way I think about it is we have a gross and net interest rate exposure. We hedge about 20% of our overall net interest income exposure through that bond portfolio that you're referring to, which we've just taken the fair market value losses on. That doesn't provide us with that incremental \$4-5 billion of unwind over the next five quarters. We see that benefit in the other 80% of the portfolio, and the interest rate sensitivity that we show you is the net interest rate sensitivity, not the gross interest rate sensitivity. If we didn't have that portfolio and hedging in place, that \$5.4 billion is probably closer to \$7 billion.

The benefit of higher rates that we've seen coming through that has created the fair market value losses, the benefit of that higher net interest income we won't see in that portfolio; we'll see in the unhedged 80% of the portfolio that we've give you interest rate sensitivity for. I don't know whether that helps or hinders your understanding, Jason.

JASON NAPIER: It does, thank you. That's very helpful, thank you. That's why your year one uplift is \$5 billion and your year three, four, five gets to the reversal of that hedge. Okay, got it. Thank you.

YAFEI TIAN, CITIGROUP: Hi. Good morning. I have two questions. The first one is around the Capital Markets side of the business. A very resilient quarter because of market volatility.

I just wanted to get a bit of flavour, with April volatility coming down a bit, how you are thinking about the Fixed Income and Capital Markets side of the revenue for second quarter? And then secondly is to look at slide 25 where you give quite a lot of colour on the impact through OCI, but just wanted to have a better understanding how should we be modelling the coming few quarters, at least the potential OCI impact that is going to come from the higher rates that we're seeing. Thank you.

EWEN STEVENSON: On Global Banking and Markets and the outlook, there's nothing really to call out that's surprised us so far in April. Very much tracking according to underlying plans at the moment. We haven't seen any material slowdown going on in our Markets franchise month to date. Global Banking, I don't know whether it's us but our pipeline continues to look pretty robust and has been pretty resilient. Probably in part we are less exposed to the US M&A and IPO markets, and some of the other markets that we are exposed to, like the Middle East, have been outperforming for us. The other thing I would note in our Global Banking and Markets franchise is a lot of the revenue line items are interest rate sensitive, so Securities Services, GLCM, GTRF, they should outperform on the back of this better rates environment, which will help cushion if there was any weakness that we saw in some of the more traditional investment banking lines and markets lines that you would compare with peers, and I do think we're continuing to operate in an environment with higher levels of FX volatility, which again should benefit our FX franchise.

On OCI, I think the only thing to call out is if you take the month-to-date adjustment on the Treasury portfolio, there's about an addition \$1 billion pre-tax of fair value losses, which would obviously run through OCI in April.

YAFEI TIAN: Would there be anything additional to that \$1 billion or will we think about it –

EWEN STEVENSON: That very much depends on the forward curve of interest rates from here over the remainder of the quarter. If they didn't move it would be about \$1 billion. If they do move it will adjust up and down. Just to give you some sense of sensitivity – and please take this as a very broad and basic sensitivity, but every approximately 25 basis points of higher rates across the curve adds about \$1 billion of additional fair value losses, and the reverse of that also being true, i.e. if they were 25 basis points lower, that fair value loss would come in by about \$1 billion. So I think that will give you enough to model over the quarter, depending on where interest rates are relative to today.

YAFEI TIAN: Got it. How many quarters does that last? Let's say if rate curves stabilise and, I guess, from that point onwards, would there be any benefits that we should be thinking about once interest rates stabilise at a certain level from higher Treasury returns, or should we just take that into account from the net interest income sensitivity you have provided?

EWEN STEVENSON: No, there'll be no latent one-off gain or loss at that point. And then effectively you'll see the benefit of wherever those rates stabilise come through in net interest income and the net interest margin over time.

YAFEI TIAN: Got it. Thank you so much.

OMAR KEENAN, CREDIT SUISSE: Good morning, everybody. Thank you very much for taking the questions. As was commented earlier, market expectations of policy rates have moved up since the full-year, so appreciate the sensitivity that's been given on – for the year one and year five. Can I perhaps just ask about how you're thinking about things in terms of the net interest margin? If we think about 2019, I think the Fed funds rate peaked out at about 2.5% and NIMs were quite close to 1.6%. I think they were 1.59% over the year. Has anything changed in terms of the balance sheet structure that would mean that, just in terms of sense checking, that wouldn't be achievable again or is that a good target to think about?

Just on a related question to rates, could I ask if you're thinking more over the medium term, how comfortable are you that the through-the-cycle 30 basis point loan loss guidance is right for a world where policy rates are close to 3%? I guess the crux of the question there is to try and understand where the negatives from higher rates might offset the positives if that inflection rate is substantially higher above 3%? Thank you.

EWEN STEVENSON: What's changed since 2019? Firstly, the balance sheet is materially bigger, so our average interest-earning assets have gone up materially, so on a rate-by-volume basis we should be earning higher net interest income if we return to previous NIM levels. The other thing is I think the market implied rates, particularly in some markets, are actually higher than 2019, so we certainly expect to see a very strong recovery back in NIM. As you model it through it may be in some markets that gets you back to higher levels of NIM in different currencies than you had previously, and the balance sheet's larger.

On the negative impacts of higher rates, there's a few things. Firstly on costs, higher rates reflect higher inflation. If you looked at our fixed pay increases this year they were more than double the fixed pay increases that we put through in 2020 or the year before, so we do think we're managing to offset that inflation at the moment by additional cost saves, and we've committed, and continue to commit to flat costs this year, and keeping cost growth within a 0-2% range next year. The higher end of that range reflects very much the impact that we're seeing of inflation.

On ECLs, I think rates need to go up materially higher than what are currently seeing in forward rate curves. Remember, we're starting from decades or century lows in terms of the start of this rate cycle, so we do think they would have to go up materially further than what we currently see implied. Just as a reminder, we said 30-40 basis points during the cycle, not 30. We continue to be comfortable with that guidance.

OMAR KEENAN: Thank you very much.

TOM RAYNER, NUMIS: Could you maybe sort of talk us through in a bit more detail the impact of these OCI movements on the capital ratio, and how you might expect the impact to reverse over the next four to six quarters? I guess my concern is that consensus forecasts may have already factored in the benefits of higher interest rates based on your sensitivity disclosures and the forward curve, but not factored in the negative impacts that you're now flagging on the capital ratio, so there's a danger that consensus CET1 ratio versus consensus NIM might be somehow out of line. If you could talk us through that, please.

EWEN STEVENSON: On OCI movements, yeah, as we talked about today, there would be about another \$1 billion pre-tax movement in April based on how rates were strengthened further in April. There is a multiplicative effect on our threshold deductions. As CET1 declines then I think you'll see in the numbers there's also a meaningful chunk of CET1 impairment that's come through as a result of the reduction in CET1 and the impact that has on threshold deductions together with the increases we've seen in BoCom and now the acquisition of AXA Singapore.

Rolling forward it's not the unwind of the fair value losses that benefits net interest income and capital. It's the impact of those higher rates on the 80% of the book, roughly, that's not hedged, and therefore we expect it will take about five quarters for that higher net interest income to get us back to the same place. We don't think, as I said earlier, that the implied rate rises that we've seen coming through in March and April are reflected in consensus. If we look at our internal numbers, they're materially ahead of consensus for 2023 based on the latest rate curves.

I think what you will see, therefore, as that translates into CET1, is you should get back to the same point on CET1 sometime next year, but in the near term we've had the 40-basis-point impact from the fair value losses we've had through first quarter. We've got another 10 basis points if you adjust for fair value losses in April, or just under 10 basis points. We will recoup that through higher net interest income over the following five quarters. So there'll be a timing mismatch on capital. It's that timing mismatch on capital which causes us to say today that we think it is now unlikely that we will do further buybacks in the second half of this year, but the reverse of that should be much higher net interest income, much higher returns, much higher distribution capacity in 2023 and beyond.

TOM RAYNER: Okay. Net-net, though, if you are putting through net interest income based on future rate movements, we have to consider the capital implications of those rate movements as well. Is that fair?

EWEN STEVENSON: I think if I look at consensus today, what hasn't it reflected? It hadn't reflected the impact of the fair value losses on capital. Equally, it hadn't reflected the benefit of those interest rate rises on net interest income over time.

TOM RAYNER: Can I just ask a second just very quick one, just on Q1 ECL numbers, because obviously there's lots of moving parts here, and I guess the provisions you've taken for Russia and for China CRE reflect everything that you expect at this moment in time, so you won't expect, I guess, to be taking similar provisions for those issues, and with the economic uncertainty as well there was a change in there – I think maybe that's just a change in assumptions – but are these all things which we can look at as Q1 noise and really, going forward, we should think more about the underlying run-rate charge that you've flagged that you expect this year?

EWEN STEVENSON: Well, for Russia I would say we've obviously spent a lot of time on our Russia exposure. We've been able to do a pretty good estimate of where we think losses will come through. We think that \$250 million charge we've taken for Russia is a good estimate of what we can see today. Something dramatic would have to change in relation to the Russia-Ukraine war, or our position on our Russian subsidiary, to get to a different outcome to what we've announced today.

On the \$160 million-odd of China commercial real estate, I would not make the same statement. You've got a very fluid situation in the China commercial real estate sector. There's been two big factors going on. One has been policy tightening that we saw at the back end of last year that started to get unwound at the beginning part of this year. That created a liquidity squeeze that has now eased substantially, but the underlying credit conditions of the China commercial real estate markets continue to be weak. We did see a number of small names go into default this quarter. The \$160 million charge was a mix of stage 1, 2 and 3. It's down materially from the \$0.5 billion or so that we took in Q4, but it would be a big call to say that was in relation to the remaining provisions required from the China commercial real estate market, but we're not anticipating it will be a material number and it is contained within the guidance that we've given for full-year provisions. That statement is that we expect to trend towards 30 basis points of ECL provisions this year. Q1 was 25 basis points.

TOM RAYNER: Thanks a lot.

ED FIRTH, KBW: Good morning, everyone. I just have two questions, both on costs. One was back to the costs to achieve charge. You're obviously running well below that, and – or the annualised rate, I guess. I get what you're saying that the expectation is to pick up in the rest of the year, but in the past if you haven't spent the money you then roll it forward into the next year, so should we be expecting that as the core scenario? Is that the way we should be thinking about it as we look over the rest of this year?

And then the second point is, if I look at your cost guidance, you're flat this year and flat to 2% next year. That is quite markedly different from a number of other global banks who are talking about the need for additional investment, particularly digital, payments, etc. I'm just wondering why that is so. Do you feel that you were over-investing in the past and therefore you now – you can bring it back a bit, or are they doing stuff that you're not doing? Why is that difference in terms of the cost?

EWEN STEVENSON: On the first one you shouldn't think of the programme drifting into 2023. We have a Board-approved programme that expires at the end of this year. We will spend the remaining \$2.9 billion between now and the end of the year, and if we don't we lose it. Our intention is to spend that money. We think it is sensible to spend the money because we can drive out incremental cost savings, and that thinking has factored into our confidence in keeping cost growth to 0-2% next year. Our current intention is that we will run very close to spending that \$2.9 billion for the remainder of the year. If you don't see it coming in next quarter, just assume I'm making exactly the same comment when we get to interim results about the flow through into the second half.

On the cost programme, maybe I should say thanks. I run the cost programme. I can't comment on other banks, but I think what's clear here is that Noel, top-down, is very committed to delivering on the targets that we've announced to the market. We've got very

detailed plans in relation to achieving the flat costs for this year. I would say for next year we need to find about – an incremental cost savings of about \$1 billion. We are working hard on that at the moment. We expect to have that solutioned by the time that we get to interim results at the beginning of August.

That sort of cost gap is not unusual relative to previous guidance that we've given for future years at this time of the year. We're well-developed across a number of work streams and identifying areas that we can strip out incremental cost. I would say the cost management here has been transformed over recent years, and you can see that in terms of the overall cost trajectory that we've had from 2019 onwards where we've broadly kept costs flat now 2019 through 2022.

ED FIRTH: Given the inflationary environment, you're obviously improving your cost savings rather than holding it flat.

EWEN STEVENSON: We understand that and that's why we've got a range for next year consistent with that.

ED FIRTH: Great. Thanks very much.

GUY STEBBINGS, BNP PARIBAS: Hi. Morning, Ewen. Most of my questions have been asked and answered, so just a couple on the capital then. Could you expand on the hit from the threshold deductions in Q1? I recognise some of it will simply reflect the move in the equity base itself, but how much is residual stuff, and was it a particularly odd quarter for BoCom treatment? Should we worry about a similar move in the future, or actually might we see a partial reversal if BoCom dividends come through?

And then on capital and longer term, I don't suppose you'd be able to quantify the helpful commentary on Basel 3.1, expected to be a net positive now pre the output floor, or very broadly are we talking low single-digit percentage drop in RWAs or something of that sort of magnitude? Any additional colour there very helpful. Thanks.

EWEN STEVENSON: In terms of the increase in threshold deductions, about \$1.3 billion of it comes from the growth in the value of investments in AXA, which is about \$600 million, and BoCom, which is about \$700 million. And then there's about \$800 million that's due to the threshold being lower because we've got a lower CET1 ratio, which is as a result of the fair value losses, the loss of CET1 treatment for software intangibles, the dividend accrual and the \$1 billion share buy-back.

I would take it from all the comments we've been saying today, we think we're back into a cycle of much higher returns, which should drive continued CET1 improvement, and therefore help mitigate some of the impacts that we've seen this quarter.

On the second question, we think in 2025 we'll see a modest benefit from the introduction of Basel reform, almost entirely driven by the fact that we've taken most of the impacts upfront, including in this quarter. I do think that over the next couple of years you'll see a much cleaner RWA trajectory for us, with the only thing to pay attention to, which we'll need to give you colour on, is the impact of M&A, both buy-side and sell-side.

GUY STEBBINGS: Okay, thank you.

MANUS COSTELLO, AUTONOMOUS: I wanted to ask about the macro situation, please, because there's some negative macro signals coming out of China. We've got lockdowns, the FX is volatile, the yield premium to the US has disappeared now. You seem to remain quite confident in the outlook and haven't really tempered that enthusiasm much. I just wondered if you could give us more colour on why you aren't more worried about the way China is developing at the moment, or whether I've misread what your comments were.

EWEN STEVENSON: As you know, as we think about China, the impact on Hong Kong is a far more dominant driver of what happens to us, and we are confident that a combination in Hong Kong, a combination of the market reopening as lockdown restrictions get lifted together and importantly the likelihood that we're seeing material movements in HIBOR in the coming quarters will mean that we'll see a strong recovery in Hong Kong earnings.

In mainland China itself, I think it reflects a few things. Firstly just an observation that despite being the biggest foreign bank in China, we have less than a 0.2% market share. If you look last year, we grew the loan book by 11%, which was far in excess of underlying GDP growth, so our ability to grow the loan book is not as correlated to underlying economic growth than if we were a big lender as we are in Hong Kong. We are somewhat insulated to some extent.

I think with Pinnacle, our life insurance venture, we're continuing to see very good traction in that business and seeing nothing in relation to what's happening that would cause us to slow down the plans for that business. We also have a lot of revenue connected with trade in China and, somewhat perversely, if there's a disruption in supply lines it means people are going to run bigger trade balances with us, as we've seen in our overall trade franchise with the disruption in supply lines.

In the UK, in Hong Kong, we very much track macro. In a market like China it's much more micro.

MANUS COSTELLO: Okay, that makes sense. Thank you. Can I just ask a very quick follow up on NII as well, just because you commented that you're expecting rate hikes to come through more quickly in HIBOR, to therefore rise more quickly than previously? At what point do the mortgage caps in Hong Kong kick in, and how material might that be? If the rate hikes were coming sooner and larger, does that mean that we hit the cap sooner and therefore NII benefits flatten out quicker?

EWEN STEVENSON: Yeah, I'll get our Investor Relations team to follow up, Manus, but I think it's around 160 basis points is where it starts to have an impact on NII growth.

MANUS COSTELLO: Okay, thank you very much.

MARTIN LEITGEB, GOLDMAN SACHS: Thank you for taking my question. Just two questions, please, one on UK NIM and a follow-up on capital. The reporting on HSBC UK Bank Plc shows that NIM increased by 15 basis points to 163, and I was just wondering if you could share your thinking on the phasing of rate benefits coming through in the UK? To what extent does hedging delay the impact, because it seems like, from the increase you had in the first quarter, that hedging is comparatively a smaller part of the rate sensitivity, if you like, and that actually a good part of the rate sensitivity comes through quite quickly. Would you be able to share how big the structural hedge is in the UK ring-fence, so to get a better sense on phasing of any further rate hikes on the P&L?

And on capital I was just wondering, the leverage ratio is up meaningfully in the quarter following obviously the changes. Does that impact how you see certain businesses which have a low risk weighting, a comparatively high asset weight, say Trade Finance, Repo? Is there more opportunity to engage stronger in some of these business lines? Thank you.

EWEN STEVENSON: On the second one, Martin, I think that's a very complex question that you need to drive down into the individual legal entities, because we're relatively unique in that we don't have a single balance sheet. If you look at the average peer, probably 70% plus of their assets are within a single balance sheet where, for us, I don't think a single balance sheet's more than about 30% of our total balance sheet, where leverage constraints, capitals constraints, stress constraints impact is an entity-by-entity discussion. But I don't think, fundamentally, anything's changed our strategy in any of those legal entities over the last one to two quarters.

On UK NIM, I think we are hedged lower to much lower than some other banks. We also have, I think, higher levels of liquidity in short-dated liquid assets, so I do think we probably have more interest rate sensitivity than peers, but without commenting on their interest rate sensitivity. As you saw in our disclosures at full year, sterling is our most sensitive currency, and we do think what we're seeing in terms of rate rises therefore should correspond to very material net interest income growth, not only in the ring-fenced bank but also in the non-ring-fenced bank that has exposure to sterling interest rate sensitivity.

MARTIN LEITGEB: Very clear. Thank you very much.

EWEN STEVENSON: Thank you, everyone, for joining. Appreciated the discussion and look forward to catching up with you in our interim results. If you do have any immediate follow-up, our Investor Relations team is here to help. Thank you all for joining.