HSBC

Video transcript

Asia Investor and Analyst Seminar
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Q&A by Noel Quinn, David Liao and Surendra Rosha

[Richard O'Connor, Global Head Of Investor Relations] All right who wants to go first? Martin.

[Martin Leitgeb, Goldman Sachs] Good afternoon, I just wanted to ask on the broader competitive landscape across HSBC 's Asian footprint, I was just wondering if you could comment, if you see either opportunities or threats in particular pockets of your Asian footprint? There are a number of competitors retrenching or could sort of put every opportunity for market share gains or do you see areas of increased competition?

[Noel Quinn, Group Chief Executive] I think there's opportunity particularly in the wealth space because I do think some of our global competitors are pulling back, either voluntarily or involuntarily. So I do think there is opportunity there – we're picking up business and clients and people in that space.

I think on the middle-market corporate space, I think many of our global peers realise the strong growth opportunities and profitability of banking middle-market corporates in Asia. We've done that globally for since the day we were started – 158 years. Many of our global peers tend to stop at the very large corporates and only take them globally. So you know if I think of Citi, JP Morgan and others, they see the merit in middle-market corporate banking in Asia and they're trying to probably enter that space. That's been cyclical. They've been in, and they've been out, and they've been in again. I know some of you are from those competitors here today. We're conscious about it being a very competitive marketplace at the moment. But it's hard to build. And if you're in and out, it's hard to re-enter.

And then always here in Hong Kong, you get waves of strong competition from the Chinese banks. We've not been afraid in the past and I've not been afraid in the past to say it's a street fight every now and again. You keep the customers, you take on some of the competition and you defend your position and then they go away a little bit because they've done a lot of low margin business and then they pull back their balance sheet and there's a little bit of that happening at the moment. I think some of the capital that came in from the Chinese banks into Hong Kong, chasing volume doing business or what we thought was low rate, low margin. Some of that capital is gone back to mainland China to restore the capital back into the Chinese banking system, so I think we've seen some pullback on that competition.

The simple answer is when you operate in 60+ markets, I work on the philosophy there's a strong competitor in every one of those markets – at least one or two. They're domestic, typically. Our biggest USP is mid-market international corporate banking. Our peers – the global banking peers – we compete for global banking type clients around the world. JP Morgan, Citi, Deutsche – we're all there – BNP – and we're all very good at it. Nobody competes with us on international mid-market corporate banking globally – nobody. A few of them come in and come out every now and again, and then we have regional competitors in mid-market international corporate banking, but I'll honestly say there isn't a global peer who does mid-market corporate banking the way we do.

[Richard O'Connor] Raul, and then Nick.

[Raul Sinha, JP Morgan] If I could just follow up on the $6 billion investment – that target was set in 2021 at a time when perhaps rates weren't supposed to go up as high or as quickly as they have gone, so I guess the one difference which HSBC has over all the other names you mentioned is a very attractive deposit franchise that throws off a lot of revenue when rates go up, and you have a very big tailwind in terms of profitability. You probably have a lot more room to invest than you thought in 2021. So I guess the question really is – is it a matter of capacity and pace at which you can invest? Or is it that you feel pressurised – you know you already admit to high teens ROTE ...

[Noel Quinn] They're standing right next to me. I feel the pressure all the time.

[David Liao, Co-CEO, Asia Pacific] We're going to buy you a drink after this. The whole day you've been doing this...

[Raul Sinha] ...but if I listen to what other banks are talking about, they're all really aggressively talking about investing. I think Deutsche just bought a bank in another country. So everybody is thinking about how to capitalise in this market. And you've done SVB UK, but when we think about Asia, organic is probably the best way to grow here and to invest. Are you thinking about that at the board level? Are you thinking about accelerating investment? Where would you invest?

[Noel Quinn] It came as a theme from a number of people. Should you be investing more than you are? Are you constraining cost grow too much? Are you missing an opportunity for growth? So there's that generic theme I think on a number of your minds, and clearly it's on our minds as well. Let me give you a bit of backdrop to it. Well firstly, I'm pleased are in the middle of Covid we still committed to spending $6 billion on investment in Asia. $3 billion here in in Hong Kong, mainland China, $3 billion elsewhere. So, all credit to the board and frankly the management team to say even in the middle of Covid when the P&L was depressed and revenue was hurting because of Covid, that we decided to take on an investment programme of $6 billion, and we're broadly on track with it. So I think take that as a positive.

The next thing – if I think about the context of this – for too long we haven't earned the right to invest because our returns have been too low. There haven't been enough years when we've been above cost of capital on ROTE, so we as a management team – not just me – we as a management team turned round and said in this three-year transformation programme, we've got to get our returns back above cost of capital to earn the right to continue to invest in the business. And it can't be a one-off, and it can't be purely rates-based. It's got to be sustainable, and be able to sustain through a rates cycle. Now, I don't mean a rates cycle that gets you down to zero again, because nobody thinks that's the normal rates cycle. And we needed to regain credibility as a group, being blunt, so we've kept cost tight over the last three years whilst investing, so saving money through digitisation, organisational change, de-bureaucratisation, reinvest, and start to grow revenue back up through fee income and NII and we've done that. Last year [RoTE] was 11.6% before sig items. Q1[23] 19.3%.

I think we've got to continue to deliver performance and we as a management team know we've got to prove to you, quarter after quarter, and to our investors, that actually we are a dependable high returning business, with growth potential. Not just potential – growth – with growth. And then I can take on a much more positive stance to investment. Now your question is, well you've got really positive revenue this year, you've got positive momentum – can you feed more investment in this year, and that is a debate we're having. But listen we've had one really stellar quarter. We've had a good year last year. I don't want to rush like HSBC has done in the past – get the first sniff of high rates and go blow the cost base to smithereens. And then rates come off and you've got a cost problem and you got to go back into restructuring. I don't want that. I want a sustainable, long-term strategy.

And the final comment is this year we'll spend around about $4 billion of IT spend on changing systems, processes. We have a total IT spend out of $30 billion of around about, John, $7.5 billion – our total IT spend. So about $3.5 billion keeping the lights on, running the boxes, running the network, resilience and everything else, and about $4 billion of changing the bank. These guys collectively every year – last year, when they asked about the IT spend for this year, the ask was about $5.5 to $6 billion. So on a $4 billion change programme, the demand was about $5.5 to $6 billion. I haven't been in this cycle any year when it hasn't been less than $1 billion over. You always get asked for at least $1 billion more than the envelope to spend. We are thinking about how we feed in continued digitisation and IT investment and growth over the subsequent years as the business model sustains.

So I think the answer is I'm not against investment. I just want to prove to you that we've got sustainability and returns, we've got sustainability and growth, and will feed in more investment. You would rather spend more money in a sense. We know there is opportunity.

[Surendra Rosha, Co-CEO, Asia Pacific] From my perspective, I think customer acquisition in Southeast Asia and India would be key, and digitising our processes. So some of this will flow through from the investments that are already being made. But one other aspect that perhaps we haven't touched on enough today. I think it's important. $3 billion has been invested already. We do need to monetise the investments that have been made. I think that is quite critical – and that will feed into the performance that Noel's been talking about.

[David Liao] We've got to subscribe to this cost rigour, because I mean we've went through cycles that you've all experienced. We just had Hang Sang presenting – as an entity you would have wanted more – the point about the red / green brand needs the investments. That tempo comes with how technology comes through. You're asking about HKD, ECNY. We have to be front-footed in our key market to drive relevance to client behaviour. So it's not exactly you know always immediately a model but we have to be in place. And China multiple-fold from wealth, Pinnacle, custody, institution, CFIBC sector leadership in

recovering capital markets here. So that's where we would put investments, in that we have space, but again on the basis of that rigour and I think we're running at a reasonable tempo – we just need a few more quarters of strong ...

[Noel Quinn] We're doing a lot – ECNY, there was a question on that. I spoke to the regulators in China about ECNY and they said, look we're working with the technology, we're working with the business models, we haven't quite worked out what we want to do with ECNY yet. They were quite honest about it. They said, if you can help us with some business models that would be really great. Because they're looking at ECNY as a domestic digitisation strategy, rather than an international digitisation strategy, and most other CBDC's are looking at international remittances for people, and remittances for small businesses – take out the inefficiency of the international payment system for migrant workers and for small businesses.

China on the other hand is looking at ECNY more as a domestic digitisation strategy. And I said if you're looking at that, you've got to look at programmable money, because digitising CNY in itself doesn't add a lot of value. We can move CNY digitally like that domestically through faster payments. We can do it here in Hong Kong, we can do it in most markets. Programmable money where you can direct money towards social causes or social initiatives – a very different proposition. And I think that's where you look at some of the architecture that's being built in India – it has that capacity to create programmable money where you can as a government distribute money and stimulus into the economy in a very targeted manner, and you can get that stimulus hitting the population you wanted to hit. If you're going to go ECNY, it's programmable money. And the question for China is do they want to put that in the hands of the fintechs or the techs? Or they want to put it in the hand of the central payments architecture? And their chosen they want to put it in the hands of the central payments architecture. Clearly they should. And that's what India is doing – they haven't allowed the techies to build it as an architecture. They built it and then allow the techies to build business models on top. What else?

[Richard O'Connor] Nick...

[Nick Lord, Morgan Stanley] A couple of structural questions. One hopefully quite short. Just BoCom – where that fits into your thinking? And then the second one is just on insurance – I mean you've obviously got a big insurance business which is part of a bank. A lot of insurers in this part of the world, or a lot of banks in this part of the world, decided not to own insurers but distribute. You're going the opposite direction – so I'd just love to understand some of the thinking behind that?

[Noel Quinn] Let me deal with BoCom. Listen BoCom for a long time has been very accretive to the bank. Our investment in BoCom – because the bank return was so low – BoCom was accretive. We've now got a situation where BoCom throws off good profit for us – it's a good access to a domestic profit pool in China – it's hard to get access to a domestic profit pool in China through a managed business of that size, so it's good. Ironically now, because the group return is going up, BoCom is probably slightly – as a return – is dilutive to the return of the bank, but listen – you go through the cycle – it's been accretive for a long time, it's a decent return, it's above cost of capital, and so we still see it as access to a profit stream. We're trying to monetise the relationship as much as we can – so it isn't just the passive investment, that there are some synergies coming out of it, and I think David and/or Mark covered that earlier, so we're in a status quo position, with BoCom.

On insurance manufacturing – look – your point's a great one – we're in this situation where we own the best insurance business in Hong Kong. It's both a distributor and manufacturer. The profitability out of both on an economic basis is very very good, but nobody values it, because it's a one-market captive insurance business – even though it's very profitable – I think the market doesn't really look through and give that business the value it would have if it was a standalone listed business. Particularly manufacturing bit. The problem is you can't list a stand a captive single-market business. So even if you wanted to list it and give it its own identity, technically you can't – it's not listable as its current business. But it's a good business economically – I don't wake up in the morning thinking we're keep in a business that isn't earning good returns, but I do wake up in the morning thinking I wish I could get a better valuation on it than I currently do.

Now, we're building out – we're trying to make it less than one market. We're trying to make our insurance business in Asia – more than just a captive. So with the work we're doing in Pinnacle, we've got both the manufacturing and distribution capability. We're building up a good business there. Our business in Singapore – we've got both the manufacturing and distributor. China is definitely not a captive. It's more of a direct-to-market than it is a captive. Hong Kong – we're really a captive because we have such a big market share on banking, so no matter what you call it, it's a captive. In Singapore we're building up both direct-to-market ... a more of a direct-to-market business than a captive. And in India we own 26% of the joint venture. And I'd be happy to go up – there are three partners in it – and if we could – we would be happy to become a two-partner joint venture if we can get to that position.

Now, roll that forward – it becomes a much more interesting strategic proposition at the end of that journey as you get through the maturity of that journey. And I think what I'm doing is building strategic optionality. But I don't think the strategic optionality is here today, because I don't think you get enough value for that single market captive business. And I think we've got to work on over – in the interim period – is how do we explain that strategy much more fully, so that you can at least attribute some credit and value to that business activity.

And I'm not saying we will list, we won't list, we will sell, we won't, we'll hold. I'm not making any of those decisions. I just know that the strategic optionality down the path would be better on value creation opportunities than trying to just run for that value creation today. But that's a call.

[Richard O'Connor] Other questions? Andrew.

[Andy Coombs, Citi] Just actually a couple of follow-ups, I guess. You talked about BoCom. I think the words you used were "it's been a good investment". If you rewind back say 2009, it was a joint venture on cards. You were talking up the synergy prospects. Has that ship sailed now? Is there anything else you could do?

[Noel Quinn] I think to be honest we've changed radically or strategy in China on WPB. We were built – and listen, I'm not a WPB person, as I said, I'm not a wealth person – but I think we were rolling out a strategy in the Greater Bay Area which was principally around retail banking – mortgages, credit cards, branches. With the benefit of hindsight, I'm not sure that was the right strategy to pursue. What we're doing now is a wealth-based strategy. Less capital intensive, faster payback. I mean a cards business has very slow payback on it as you building it. It's just a long payback curve, because you've got a provision on day one for what could be revenue in five years from there, or three to five years. So I think we've retrenched on that, and we shouldn't lead with retail banking per se. We should lead with wealth, and international wealth management is our strategy to enter the Greater Bay Area, not retail banking. My simplification of the strategy that was and the strategy that is.

[Andy Coombs] And then at a broad-based question, in part relating to answer on insurance, but you have talked a lot about organic expansion plans today. Are there any areas where you look at and think – a bolt-on acquisition here will accelerate our expansion plans meaningfully

– and how do you weigh that up against dividends and buybacks in this market?

[Noel Quinn] Listen we can do bolt-ons – probably – it depends on your definition of bolt-on – but the bolt-ons we've done so far – John – have probably added up to just under $2 billion is it? About $1.7 billion if I remember correctly? $1.6, 1.7 billion?

[Richard O'Connor] Yes, it's about that number.

[Noel Quinn] And we can do that within our dividend strategy of 50% plus some buybacks plus some growth. So I think the bolt-ons have been manageable so far within our existing capital plans. If you go for a bigger definition of bolt-ons then we keep looking for additional capabilities – the capabilities I would be happy to really look at are anything that can enhance our product and distribution capability in wealth. I'm also keen to look at opportunities that could enhance our ability to, in particular in commercial banking, platform plays, where you can take our trade capability and our payments and FX capability to a group of clients that aren't our banking clients. You're taking our product – if there's one constraint that we've had as a bank in wholesale banking – we acquire customers and then we cross sell products. So one of your constraints on growth is you could have the best product in the world, but our current model is sell that product to a bank customer who wants a relationship. What I think we're looking at more, and Barry's looking at is – is there a way to take our product capability to customers who bank with other banks, and essentially enter that transaction via a platform play, an ecosystem, rather than just winning the client. It's not instead of our current model – it's a new avenue for growth. So if we can see platform or ecosystems that could give us that capability – either to partner with them or to buy them – then we're looking would be interested in looking at things like that.

And then longer-term – we're very fortunate and I'm going to digress a little bit. If you think about what HSBC is. Two very strong pillars of foundation, Universal bank Hong Kong, universal bank UK. Across the top is a bridge – the bridge is international wholesale banking. I'm going to dissect that into two components. One – international wholesale coverage, with a USP in mid-market global wholesale banking. The other part of the bridge is international transaction banking – trade, FX, payments. So you imagine it – two pillars – very deep liquidity pools – Hong Kong, UK. And inherently high returns – mid-single digit returns. Across the top – two planks across the top – international wholesale coverage, with a USP in mid-market. International transaction banking comprising three principal product lines all of which were in the top three in the world. That's the essence of HSBC. You used to say to us – we thought that was profitable – but it always got masked by things underneath the bridge, where you were going deeper into retail banking and SME banking in markets you could never get scale. And we pulled that back up we pulled some of those tentacles that we're trying to create universal banks in many markets. We pulled those tentacles back up to be the de minimis necessary to support the bridge. And now you're seeing the true returns come through from the domestic markets, and the two planks. So for me we've got a "2+2" strategy. Two domestic pools of liquidity supporting two global capabilities.

I'm going to modify it and say we've actually got $2^1/_2$. The third plank of the bridge – and it's a half – is wealth management Asia. I love wealth management Asia to be wealth management international, global – broader. A broader spread of wealth management. I'd like to widen that part of the bridge or deepen it – whatever you want to call it – build more product capability and distribution. And I'd like that bridge to span more than just Asia. Now that doesn't mean I'm going to become a domestic wealth manager in America so don't worry about that. But I'd like my Asian clients to access some of the wealth management capabilities and products of Europe and America. But I'm not going to build a retail bank, I'm not going to buy a wealth manager there. I'm not going to try and re-enter the US so don't worry about that. But I'd like my Asia Middle East clients to have access to western product, and I'd like some of the western clients to have access to Asia wealth opportunity. So I think we haven't got a fully developed wealth business yet, and that's what Nuno's working on – to take wealth management into a deeper and more international component of our bridge. You didn't ask that question, but I thought I'd answer anyway.

[Richard O'Connor] Mid-teens RoTE. James.

[James Invine, Societe Generale] Thank you very much for a great day today. We've heard from divisional heads, regional heads, country heads, divisional country heads I think, and of course you the CEO. So within those different layers of management, who is it who's really driving the strategy in terms of how much investment is enough? And given that you've got quite a few different players, how do you avoid turf wars? You know people not wanting investment on their P&L?

[Noel Quinn] You don't avoid them – they're part of being a large organisation – that's part of the skill and discipline of running a global bank – for all of us – not just me – that's part and parcel of it. So structurally, I have three global businesses, and then we have the geographies, and then the functions. And on the geographies Asia, Middle East, the Americas, continental Europe, UK. I haven't missed anyone have I? And principally the three global businesses should be setting the global strategy for WPB, CMB and GBM, and they've got to negotiate and have dialogue with the five regions.

And the honest answer is – and I've looked at this for 36 years – it's a fact of life – if you want to be an international bank you've got a matrix. You don't want the matrix to be over-complicated, you don't want to go too deep, but I pick people on the ExCo and I put people into major geography roles who I think can not only run their businesses, but they can have an ability to manage a matrix. If you put people in there that want to run their own fiefdom and their own isolated business, you're doomed to failure because their protectionists – they don't see the bigger picture – so picking the people to run those senior roles – the CEO of Hong Kong, the CEO of Singapore – they have to be able to have the personal behavioural attributes and culture that is capable of having sensible grown-up discussions about trade-offs, because there are always trade-offs to be made.

People have said to me 'flip the organisation round – don't have a matrix, just have a geography-based – well then you don't get the global collaboration, the global systems, the global product.

Nuno is unwinding years of legacy of that. We had 15, 20 internet banking platforms around the world for personal banking. He's built it once here in Hong Kong, and he's now rolling it around the world. But, every CEO wants their version of it now. So the UK wants it before Hong Kong and Singapore wants it before the UK.

That's why you need people who are capable of having that dialogue in a grown-up matrix management. There is no simple answer to that, as part and parcel. If you don't want that as a leader in this organisation, you should go and work for a domestic bank. I'll let these two now give their version.

[David Liao] Speaking as a geography, having been in functions, I mean that that has to be the most efficient way. I think in Noel's GEC you drive the business primacy on controlling costs, controlling controls, we have our say in the planning stage and we do that together with the countries. Many people have asked earlier in the day about, what if China wants to move faster? or Hang Seng? – let's do that, and a snapshot moment by our experience you might get a sort of a quicker local resolve, but you don't get the centre of excellence, you don't get the economies of scale, you don't get the involvement of the matrix working together.

It's very hard, I would even argue on matrix you actually do need primacy on function rather than geography. You can't even flip the primacy because it's much harder to then drive a common denominator. Yes there are tensions, because apart from having the CEOs really playing Group, the CEOs are also key to call out – so Australia and China and Singapore need to be able to kind of through us make that voice and say hey that's too shallow a common denominator – you're not hitting China deep enough or India deep enough – so that's really how we play it.

[Surendra Rosha] Just two points I think. One is that but we look at our market CEOs they're playing a significant role in the execution of that strategy. So as Barry, Nuno and Greg set the strategy and you get into the market, it's really these CEOs who are working with the regulators. Mark talked about getting the licences etc for example to set that strategy into execution. And the second piece is the corridors connect, with more of the CEOs travelling, meeting, taking clients across. So again Mark talked about going to Dubai, going to Saudi that's a great example of what. So it's not just that everyone's debating cost or investment – there's an execution element that we need to get on with and do as well.

[Noel Quinn] So let's take an example. Nuno has the ultimate say on if a country is allowed to write their own internet banking platform. And the answer now is 'no you can't' – you've got to take the internet banking platform we're writing globally – write it once, deploy many times. Barry has the same – you can't write your own trade platform in Malaysia separate from the one in Singapore. It's a global product line, it's a global capability you write the system once you deploy it many times, because you need that consistency of customer experience because we're a global bank. So they have decision rights on that and these guys as geography heads would never turn round to me and say that's bloody stupid – allow me to write my own trade platform. You know that's a trade-off analysis you'd never have in this Group.

There are other things where you've got to do some localisation. So the local wealth proposition and product capability here in Hong Kong will be different to the UK because the market's different. But wherever possible you try and standardise the IT architecture and that's the trade-off.

Now I said we had demand of about $5.5 to 6 billion for $4 billion of IT development spend. I didn't actually prioritise that – the guys spent about a month to six weeks – maybe eight weeks – the ExCo – prioritising that spend. They were having their trade-offs amongst themselves between different business lines in different geographies. What I had to do was set the envelope. And there was a debate about the size of the envelope for spend – is it $4 billion? is it $4.5 billion? is it $5 billion? but the actual prioritisation comes from a series of dialogues that take place in the summer of the year, so that everyone enters their FRP process with the clarity on investment direction and investment spent. That's just the reality of being a global business.

[David Liao] Just to share some stress points – I mean – I guess one of the points that's hardest to balance is regulatory and compliance, and having you know 60 countries and then 19 markets in Asia where you are clearly having data privacy issues, data integrity issues, you have a core systems drive in China where you have much more uniformity amongst the Chinese banks, of the regulators giving pressure there. We have to work out those and they're not as easily and clearly planned right from day one, two.

[Noel Quinn] OK next question.

[Richard O'Connor] ...and you'll hear more from Nuno and WPB wealth on Wednesday. More questions? Perlie.

[Perlie Mong, KBW] Can I just ask you about the AGM – so I guess the resolution very much passed in recommendation with the Board. I just wondered in your conversations with your shareholders before the event – is there anything that may have been said that was useful to you? Did you learn something because in those conversations people would have come up with different recommendations or different thoughts, so just wondered if you felt like you learned something from that process?

[Noel Quinn] Well let me compartmentalise it – the conversation we had with Ping An versus the conversations we had with other shareholders. Let me deal with the other shareholders first. The one thing that I keep getting asked by the other shareholders is – look – more and more as the time went on – they used to say look you don't have to explain the business case to us – we understand this doesn't make sense splitting Asia from the rest of the bank – we understand the diseconomies. Because if you think about it, what Ping An were proposing – I have these two pillars that are domestic banks, and I have the bridge across the top with the international wholesale banking and they were saying split the bridge. And you saw stats today that evidence how interconnected that bridge is – the reinforcing bars are that bridge are quite strong because you heard 60% of revenue, 45% of revenue internationally connected. So most shareholders that I spoke to said, you don't need to explain that to me. The two questions they asked were governance, and political considerations.

So – what level of governance have you gone through in reaching your analysis and conclusion? Have you done good governance? And to that answer we gave them was – we as management produced financial models of what we thought the breakage costs would be, the opportunity for upside, the execution issue – so we produce a detailed analysis of each of the separation proposals that Ping An put forward. We then got Goldmans in and they did a fantastic job and Simon Robey from Robey Warshaw – they did a great job. They weren't hired as defence advisors – we hired them to challenge our model. The one learning is – after their challenge, our model was more negative than our own model. So the assumptions that they came up with, and the modelling that they came up with – the quantity of value destruction was more penal than our own internal model. And then we got a big four audit firm in to do an assurance review on their models. And we said – is the model that we've run comprehensive? it includes all the attributes? Upside? Downside? Everything. And the second question we put to the audit firm was – where we made assumptions on future break costs – is that founded upon an information base that seems reasonable? They're assumptions so you can't audit them, but you assess – is the information base reasonable? i.e. is the more than just Noel's opinion or Barry's opinion? is there a database underpinning it of record? And their conclusion was – yes it was a reasonable model.

So when I explained that to the investors, they said OK so you've done good governance, you've involved the Board, you've reached conclusions, so when we came out last summer with a definitive recommendation not to proceed with the separation, we did it after six months of detailed due diligence.

The next question was then – so what's the rationale here? is there a political hand behind Ping An? Is this politics rather than economics? Because clearly the economics don't work, and you've done governance on that. And for that reason as you would expect, myself and Mark over the period of last year, and the early part of this year, and with David and Peter and Mark Wang and others, have stayed in regular dialogue with Beijing and with Hong Kong.

And listen I can't say this as a PLC director and know something different to what I'm about to say. There is absolutely no evidence in any of those dialogues with any stakeholder we've had conversations that there is a political hand. And quite the contrary, when I was in Beijing recently, the conversation was – you been an international bank for 158 years, you've helped Hong Kong become an international financial centre as an international bank, you've helped China open up its economy to the international community – we need you as an international bank to continue to do that – help Hong Kong reboot as an IFC after Covid, help China stay connected to the international market. So I have absolutely no evidence, from all of the conversations we have, that there is in any way shape or form a political hand behind this – quite the contrary – it's the opposite. So that's why I can feel comfortable and I've said that publicly I'm not saying anything today I haven't said in previous quarters, and I couldn't say that if I had contrary evidence, because I'd be breaching the law so I couldn't say that.

So that's why I think it's as simple as we have a difference of opinion either commercially or philosophically. We're an international bank – two pillars in a bridge – and Ping An originally thought they'd prefer just one pillar – a regional bank – just become a regional bank. They then modified that proposal in the first quarter of this year and said, OK we understand the breakage costs of the bridge – just do a partial listing – keep majority control. We assessed that in detail and modelled it, and the answer is still hugely negative, because nobody in this room would believe that was the end game. Your customers wouldn't believe it, and I'm guaranteed my global peers won't believe it either – they'd be ringing every one of my customers the minute we announced that strategy, trying to pinch the clients and the people from that global model. So the breakage costs even come into play on a partial listing. And at no point did Ping An ever share with us a detailed financial model of their proposal.

[Perlie Mong] I agree, very much so, it was just a broader question because obviously some of the developments like, it's allocating more equity to Asia, or the cost discipline – a lot of it was – you were sort of in line with...

[Noel Quinn] We were doing that anyway...

[Perlie Mong] ... anyway so I just wonder if there's any suggestion that came out that you found?

[Noel Quinn] No I don't think so, and that's not being arrogant – it's not being arrogant, it's not being defensive – if anything it's reinforced the global strategy and that's one of the things I've said all along. You look at what Stuart Gulliver did – he pulled a lot of those tentacles that were going down to become small universal banks in many markets – he pulled them back up – I continue to do the same – we exited $128 billion of RWAs that were largely domestic low-return RWAs – so we're pulling those tentacles back up. We're even more international bank today than we were five years ago, so therefore the breakage cost is even a higher percentage of your business model than it would have been five years ago, or 20 years ago, or 10, so it intellectually it didn't make sense. Next?

[Richard O'Connor] Katherine.

[Katherine Lei, JP Morgan] OK I will take a different angle. On the banking events, we all know that banking crisis is never linear right, and following the risk events in the US regional bank markets, like when you are doing your own counterparty risk review for your major markets, particularly in Asia, have you learned anything or do you think that there will be some potential hidden SVBs in Asia or in your other markets that you need to pay attention to? And also that will that type of thought have impact on your capital management, i.e. you may be a bit more prudent when announcing type of like a buyback or return to shareholders? And also that when there is banking crisis that is challenger opportunities, the opportunities that they may be M&A activities right? Potential targets coming up. So how do all these events impact your overall view, in terms of risk management and capital management? Thank you.

[Noel Quinn] Do you want to talk about – do you see any replicas here in Asia?

[Surendra Rosha] Sure, sure. So yeah, so we spent a lot of time with Martin and others in the team reviewing the exposures we have to banks in Asia, particularly the larger banks in each of the domestic markets we trade with, where we have a global relationship with many of them, and what we really found is that by and large in Asia, the banks are well-capitalised, highly liquid. There continues to be a significant amount of support from the central banks into the banking system and I think importantly, Asia is not dealing with an inflationary situation of the nature that's all the western markets are.

The only other point I'd make is there are a couple of markets where there are stress points, and Sri Lanka is the most obvious one – and we've taken a – over the last three years actually – the team is taking a significant amount of action to reduce our exposures there. So, it's an ongoing process as far as bank exposures are concerned. Where do we see stress points? I think you will have to continue to watch how will the FX flows and order flows from the west coming to the east.

So as you see decline in certain retail sales, in ready-made garments, for example, as a sector, electronics, what does that mean in second order in Asia? I think that's really what we're looking at – and liquidity in certain markets – again getting impacted by FX. So multiple factors that we're looking at, but banking as a sector less of a concern. David – I don't know if you want to add anything?

[David Liao] I think that's it, and then even with the US banks, at the top segments there seems to be a resilient point. We've looked at the exposure is appropriate. But the point is, to your question, we were surprised by the opacity of the lower-level regional banks in the US and how they managed the treasury and balance sheet and should there be more and how that trickles into the broader US financial system. That's unknown but I think the rhetoric seems like that at the moment it's relatively contained.

[Noel Quinn] I think we all have to see what happens with regulation and deposit protection insurance, and if it increases. I mean I got asked the question a few times recently by journalists and by actually a regulator. I said, look the first responsibility's on the management to make sure you run your balance sheet wisely, the second responsibility is on the regulator – not for deposit protection – but to actually regulate wisely. I think generally the global financial system gets both of those right. And then the third backstop is deposit protection insurance when things break down.

But I think the recourse should be first to management to actually improve their quality management, and I think there are some banks, particularly in the US regional banks, that some action be taken there. And then second on the regulation. And then fine, if you've then got to do something to enhance deposit protection, then you might need to do that as well.

But equally I had a very blunt conversation with the regulator recently, where I said look, and it wasn't in the US, but I said we've done number one and you've done number two, so you know we've incurred an insurance cost – an insurance premium – by running a very liquid balance sheet. That insurance premium is forgone earnings because of not chasing yield. If you now turn round to me and say, I'm going to get you to pay for the failures of other management teams that didn't run a safe balance sheet, then I won't be very happy, because I've already incurred the insurance premium on behalf of my shareholders – so don't double dip on the safe balance sheets. We'll see what happens.

[Noel Quinn] So just a closing comment, I was sitting – the reason I was sitting on the back the back most of the day actually was not because I wanted to constrain what people were saying on costs and investment – it was actually to listen to what your questions were, and also to listen to the presentations. And Richard there's one observation I got out of it today. I think we've given you a lot of information. We've given you – and possibly and a lot of positive sentiment – we're giving you positive sentiment on potential for growth. The question I had when sitting at the back was, I don't know how you're going to model it overall.

So I think what we need to do is think – some of the information we gave you today – how do you factor that some of that information into future models – how do you get a sense of what the GBA revenue opportunity is – and how much of that should appear in Hong Kong and how much of that should appear in mainland China? What is the revenue growth potential for us in a – because I do think there's muted loan demand at the moment, particularly term loan in corporate banking, because I don't see a lot of companies wanting to do a lot of capital investment at the moment, because they're waiting for the economy to become more predictable. I do see short-term working capital possibly coming back, if the economy performs better. So I think that will be a re-emerging part of the balance sheet first, with term lending later. But there's also inherent growth opportunity in that cross-sell of corporate clients to another country, or that cross- sell of corporate clients into another product, and how much of that should be there relative to economic-led growth. And I think we need to probably debrief after this and think – and you could give us some feedback – on the areas that without us writing your models for you – what else we could provide or should provide to decipher some of what we said today – to help you factor that into future thinking. So maybe there's an action on us on that.

And then I think the way I – there's one message I think was Maggie summed it up well that I had on my list I wanted to say as a close. If there's one thing I was particularly proud of, was our team here in Hong Kong. And when Hong Kong went through its worse closedown – its real bad lockdown – the team here performed heroics for our clients, and they strengthen that red hexagon even more because of what they did in my view.

But there's one thing they did as well – they were investing in digital, account opening, particularly for wealth and insurance sales, particularly insurance, prior to that lockdown. They launched a new onboarding and online completion capability for insurance about four months before the lockdown in the red brand. As a consequence they continued to sell insurance from home through that four-month lockdown period. And we ended up regaining #1 market position. We were the only bank in Hong Kong that sold insurance all the way through the Covid lockdown. I was here at that time – towards the end of it – it was devastating. That for me was the power of digitisation, because it allowed you to meet market needs even if you couldn't see people. And what Nuno and the team are now doing is trying to bring that level of digitisation into our international Premier and our international wealth proposition in more than just Hong Kong. And the contrast was Hang Seng didn't actually have that digital capability at that time, therefore their insurance sales suffered. But Hang Seng will get that now. So I suppose what I'm trying to say the message is – even during the transformation phase – which was all about reengineering costs – we have been getting ready for an economic pickup post-Covid. So we're digitising as much as we possibly can, so that when the economy picks back up and the real economy starts to rebound and grow, we can ride that growth curve.

It’s all in – none of us can predict exactly when that’s going to be – but my plan is to change the nature of the revenue stream to be more less dependent on NII, more driven, but to pick up on the growth in the economy, and to shift more of the revenue into fee-based type revenue and wealth management. So that’s why when I talk about “2+2” or “2+2$\frac{1}{2}$”, I really want to grow the wealth opportunities, because that counterbalances the dependency on NII.

It gives us less dependency on balance sheet, more fee-income based. That’s why we still want to invest in transaction banking because it’s fee-income based. So we’ve been putting the building blocks in place to change the nature of the revenue, and to be ready for economic pickup. That’s what we’re trying to do, and have been doing over the last three years, so that we not as sensitive on rates – we’ll always be sensitive – but not as sensitive on rates, and that’s it.

My final comment is thank you for coming – it’s a big investment of your time – I hope you enjoy tomorrow but not as much as you’ve enjoyed today. Thank you very much.